



# The State and Development of Social Entrepreneurship in the Slovak Republic

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**Abstract:** A social enterprise, which is part of the social economy, provides goods and services to the market in an entrepreneurial and innovative way and uses its profits primarily to achieve its social objectives. Social enterprises are also important for the national economy in terms of regional development. Through social enterprises and other social economy actors, the employment of disadvantaged and vulnerable people is promoted, thereby strengthening social, economic and territorial cohesion. The paper is devoted to a quantitative assessment of the state and development of social entrepreneurship in the Slovak Republic. It also focuses on the analysis of the development of a number of indicators in the field of unemployment, which reinforce the importance and need for social enterprises in the economy. Then, the paper deals with SWOT analysis, which allows for identifying the basic prerequisites for further development of social entrepreneurship in the Slovak Republic.

## 1. INTRODUCTION

Social enterprises and social entrepreneurship have received increasing attention over the past two decades. The growing interest in social enterprises and social entrepreneurship is mainly due to the increasing attention to the problems of the contemporary world, both environmental and social (Nicholls, 2008). Social enterprises are becoming an attractive alternative for potential entrepreneurs seeking to respond to problems in their environment, but also for the public who are demanding business activities with environmental and social objectives and a responsible approach to the environment (Bosma et al., 2016). The primary idea of social entrepreneurship is to operate socially beneficial activities with the help of economic instruments. This means that it is still business first and foremost, but the elementary goal is to achieve positive social impacts, which makes the business activity meaningful not only for society, but often also for the workers of the enterprise and the entrepreneur himself. The creation of social value and change in society is seen as the primary goal of social enterprises, but the economic activity of the enterprise is also very much linked to the ability of the social enterprise to create social value and impact on society. It is through this creation of economic value (profit) that a social enterprise ensures its sustainability and independence. Thus, it is the generation of profit that is the key to growth, but also to the ability of the social enterprise to achieve its goals, vision and mission (Neck et al., 2009, Abu-Saifan, 2012). We can conclude that social entrepreneurship brings an ethical dimension and the principle of solidarity to entrepreneurship, i.e. social entrepreneurship has expanded its scope from the social sector to the market economy, and here it is making substantial transformational changes. Several economists refer to social entrepreneurship as ‘business for the 21<sup>st</sup> century. Of course, there are also views such as Bieckman (2013) and Hudson (2009) who are less optimistic that social entrepreneurship has a chance to become a force for change. Social enterprises need to compete with mainstream for-profit businesses that are engaging in competitive struggles by way of wage cuts. Social enterprises that

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strive to pay fair wages to workers and fair prices to suppliers will not become viable and succeed in mainstreaming unless governments intervene with regulatory policies to level the playing field, changing the tax structure for conventional businesses and rewarding social enterprises. In contrast, Depedri (2010) argues that social enterprises have clear competitive advantages over commercial enterprises. Close relationships with clients and their search for locally specific solutions can help reduce wasted investment resources and enable more efficient operations. Social enterprises attract employees who are intrinsically motivated and who often accept lower wages. In addition, social enterprises very often have volunteers, which significantly reduces operating costs. Another competitive advantage is the non-distribution of profits, which leads to lower capital costs. Last but not least, social enterprises generally have a better alignment between individual and organizational goals, and this leads to lower motivation and management costs.

## **2. SOCIAL ENTREPRENEURSHIP IN THE SLOVAK REPUBLIC**

In the Slovak Republic, social entrepreneurship is currently regulated by Act No. 112/2018 Coll. on Social Economy and Social Enterprises and on Amendments and Additions to Certain Acts, as amended in May 2018. This Act has changed the definition of entrepreneurship in the Commercial Code in the Slovak Republic. According to the newly expanded definition of entrepreneurship, this activity is not only a profit-making tool, but can also be a means to achieve a positive social impact, i.e. socially beneficial objectives. This has created a legislative space for the development of social entrepreneurship itself in the Slovak Republic, as this law regulates, among other things, the subjects of the social economy and the provision of support in the broader social economy space. It also regulates the instruments to prevent abuse of public support. A clear set of rules and tools to support social enterprises helps social enterprises to emerge and develop and stimulates opportunities in the field of social entrepreneurship. Prior to the adoption of this Act, there was in the Slovak Republic Act No 5/2004 on employment services, which, however, narrowed the meaning of the term ‘social enterprise’ to enterprises that focused on the work integration of the disabled or long-term unemployed (‘WISE’ - work integration social enterprises). At that time, social enterprises in the Slovak Republic included not only labor integration enterprises such as sheltered workshops, but also cooperative enterprises, municipal enterprises, agricultural social enterprises and some legal forms of non-governmental organizations, provided that they prepared disadvantaged citizens for the labor market. Continuously since the adoption of Act No. 112/2018 Coll. on Social Economy and Social Enterprises and on Amendments and Additions to Certain Acts, as amended, there has been a growing interest in the Slovak Republic in establishing a social enterprise or transforming an existing entity into a social enterprise, as evidenced by the number of registered social enterprises in Slovakia (as of May 2022, there are 516 registered entities in the Slovak Republic). Registration allows these enterprises to enjoy the full benefits of social entrepreneurship while helping to achieve financial sustainability. From a regional perspective, the number of registered social enterprises in the individual regions of the Slovak Republic reflects some extent the status and development of the number of registered disadvantaged jobseekers (UoS). The concept of disadvantaged jobseeker is defined in Section 8 of Act No 5/2004 on Employment Services. Disadvantaged jobseekers are mainly long-term unemployed citizens, citizens with disabilities, citizens over 50 years of age, citizens with less than secondary vocational education, citizens under 26 years of age, etc.

Table 1 shows the development of the number of disadvantaged jobseekers in the individual regions of the Slovak Republic in the period 2018 to May 2022, where we can clearly see that the largest share of disadvantaged jobseekers in the long term is shown by the regions of Prešov, Košice and Banská Bystrica. In these regions, more than 60% of disadvantaged jobseekers are registered in total. In terms of the type of disadvantage, the largest share was made up of those who had been unemployed for at least 12 calendar months, followed by the long-term unemployed and citizens who had attained less than secondary vocational education.

**Table 1.** Registered number of disadvantaged jobseekers by type of disadvantage in individual regions of the Slovak Republic

<i>year</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
total number of disadvantaged jobseekers* per region					
<i>Region of Bratislava</i>	7 025 (5%)	7 493 (5,58%)	12 051 (6,55%)	11 710 (6,9%)	9 666 (5,97%)
<i>Region of Trnava</i>	5 960 (4,25%)	6 312 (4,70%)	11 360 (6,17%)	10 075 (5,93%)	9 516 (5,87%)
<i>Region of Trenčín</i>	8 086 (5,75%)	8 288 (6,17%)	12 886 (7,00%)	10 938 (6,44%)	9 753 (6,02%)
<i>Region of Žilina</i>	12 805 (9,11%)	12 417 (9,24%)	18 841 (10,24%)	16 346 (9,63%)	15 372 (9,49%)
<i>Region of Nitra</i>	11 066 (7,87%)	10 118 (7,53%)	15 826 (8,60%)	14 762 (8,69%)	13 437 (8,29%)
<i>Region of Banská Bystrica</i>	25 752 (18,33%)	24 176 (18,0%)	31 069 (16,88%)	28 503 (16,78%)	27 863 (17,20%)
<i>Region of Prešov</i>	36 522 (25,99%)	34 992 (26,04%)	43 466 (23,62%)	40 940 (24,11%)	40 653 (25,09%)
<i>Region of Košice</i>	33 309 (23,70%)	30 546 (22,74%)	38 536 (20,94%)	36 541 (21,52%)	35 739 (22,06%)
<i>Together in SR</i>	<b>140 525 (100%)</b>	<b>134 342 (100%)</b>	<b>184 035 (100%)</b>	<b>169 819 (100%)</b>	<b>161 999 (100%)</b>

**Source:** Monthly statistics on the number and structure of jobseekers, \*disadvantaged jobseekers = regulated by Act No. 5/2004 on employment services in section 8

As Table 2 documents, the Slovak Republic has been showing for several years a high share of disadvantaged jobseekers in the total number of jobseekers, which is over 80%. Social enterprises are one of the possible solutions to the problem of integration of these disadvantaged jobseekers. Therefore, if we compare the data in Table One with the data in Table 3, which maps the number of registered social enterprises in individual regions of the Slovak Republic, we find that interest in setting up a social enterprise is growing dynamically, especially in regions with a high concentration of disadvantaged jobseekers. This is because, despite legislative changes, the general public still perceives social enterprises exclusively in the context of employment. In a narrow sense, they are seen as work-integration initiatives aimed at integrating the most disadvantaged and vulnerable groups.

**Table 2.** Evolution of the number of disadvantaged jobseekers and their share in the total number of jobseekers in the Slovak Republic

<i>year</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
<i>jobseeker</i>	425858	398876	373754	334379	276131	195583
<i>chain index</i>	1,065	0,936	0,937	0,894	0,825	0,708
<i>disadvantaged jobseeker</i>	295867	346371	336063	294120	239426	165869
<i>share of disadvantaged jobseekers in the total number of jobseekers in %</i>	<b>69,48%</b>	<b>86,84 %</b>	<b>89,92 %</b>	<b>87,96 %</b>	<b>86,71 %</b>	<b>84,81 %</b>
<i>year</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>May 2022</i>	
<i>jobseeker</i>	169802	165455	227341	200225	188886	
<i>chain index</i>	0,868	0,974	1,374	0,880		
<i>disadvantaged jobseeker</i>	140525	134342	184035	169819	161999	
<i>share of disadvantaged jobseekers in the total number of jobseekers in %</i>	<b>82,76 %</b>	<b>81,20 %</b>	<b>80,95</b>	<b>84,81 %</b>	<b>85,77 %</b>	

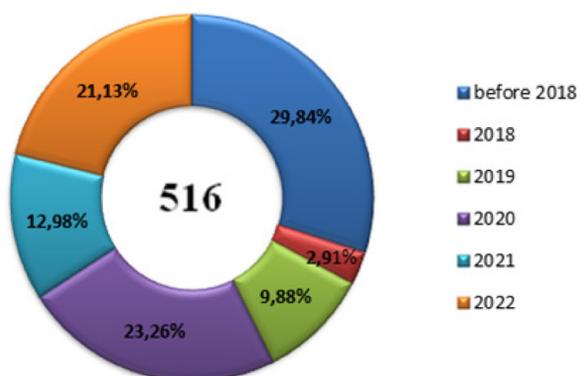
**Source:** Monthly statistics on the number and structure of jobseekers

As of 31 May 2022, we have a total of 516 registered social enterprises in the Slovak Republic. However, in terms of the date of establishment, of these 516 registered social enterprises, 154 were established before the legal regulation of the social economy and social enterprises (Act No. 112/2008 Coll.), which accounts for almost 30% of all registered social enterprises. The largest increase was recorded in 2020. During the Corona pandemic, there was a slight decline, but already in this year 2022, the number of registered enterprises has grown significantly (Figure 1).

**Table 3.** Number of registered social enterprises in the Slovak Republic by region

	<i>before 2018</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>May 2022</i>	<i>% share in 2022</i>
<i>Region of Bratislava</i>	-	1	2	10	21	28	5,42 %
<i>Region of Trnava</i>	-	1	4	17	27	45	8,72 %
<i>Region of Trenčín</i>	-	-	6	38	61	71	13,76 %
<i>Region of Žilina</i>	-	3	10	31	73	97	18,80 %
<i>Region of Banská Bystrica</i>	-	2	8	32	62	82	15,89 %
<i>Region of Nitra</i>	-	2	3	13	28	39	7,56%
<i>Region of Prešov</i>	-	3	8	22	53	68	13,18 %
<i>Region of Košice</i>	-	3	10	36	82	86	16,67 %
<i>the number of social enterprises created in a given year</i>	154	15	51	120	67	109	
	29,84 %	2,91 %	9,88 %	23,26 %	12,98 %	21,13 %	
<i>together in SR</i>	<b>154</b>	<b>169</b>	<b>220</b>	<b>340</b>	<b>407</b>	<b>516</b>	<b>100 %</b>
<i>chain index</i>	-	1,097	1,301	1,545	1,197	1,267	

**Source:** Processed on the basis of the Register of Social Enterprises and the Register of Organizations of the Slovak Statistical Office as of 31.5.2022



**Figure 1.** Structure of social enterprises by year of creation as of May 2022

**Source:** Processed on the basis of the Register of Social Enterprises and the Register of Organizations of the Slovak Statistical Office as of 31.5.2022

### 3. FUTURE RESEARCH DIRECTIONS

The social economy is one of the promising sectors of the national economy, which are also important for the economy of each country in terms of regional development and the blurring of regional disparities, not only in terms of solving employment problems, and this is also true for the Slovak Republic. This issue can be the subject of further analyses that will evaluate the impact of social enterprises on regional development in the conditions of the Slovak Republic. The areas of social entrepreneurship are not limited, but social entrepreneurship is also strongly influenced by the environment. Possible opportunities or threats to social entrepreneurship in the Slovak Republic are outlined in the table 4.

**Table 4.** SWOT analysis

<i>internal factors</i>	
<i>strengths</i>	<i>weaknesses</i>
<ul style="list-style-type: none"> <li>• legislation,</li> <li>• growing local support for social enterprises,</li> <li>• creation of financial instruments for social enterprises,</li> <li>• the presence of regional social economy centers,</li> </ul>	<ul style="list-style-type: none"> <li>• the complexity of public procurement (administrative, time),</li> <li>• the still persistent narrow understanding of social enterprise as only a WISE,</li> <li>• poor awareness of social entrepreneurship,</li> <li>• insufficient knowledge of legislation,</li> <li>• high dependence of social enterprises on grant funding,</li> <li>• lack of investment aid for the development of social enterprises,</li> </ul>
<i>external factors</i>	
<i>opportunities</i>	<i>threats</i>
<ul style="list-style-type: none"> <li>• the ageing population in the Slovak Republic, the persistently high unemployment in many regions of the Slovak Republic, the problems of poverty, and the large Roma community living in the Slovak Republic will continue to create a high demand for social services,</li> <li>• support from the European Commission and the strengthening of the position of social entrepreneurship in national programmes,</li> <li>• multi-source financing of social enterprises (e.g. donations, subsidies, grants),</li> <li>• the increasing interest of regional and local authorities in social entrepreneurship.</li> </ul>	<ul style="list-style-type: none"> <li>• the high dependence of social enterprises on the external economic environment,</li> <li>• large regional disparities,</li> <li>• problems of stabilization of social enterprises (personnel and financial),</li> <li>• insufficient managerial and entrepreneurial skills,</li> <li>• political cycles - changing government attitudes towards social enterprise.</li> </ul>

#### 4. CONCLUSION

In conclusion, we can say that social enterprises today are gradually starting to respond to global challenges such as climate change, aging, cyber-security, extreme poverty and are trying to contribute to their solution through activities implemented at the local level. Through their activities, social enterprises often contribute to local development and improving the quality of life in both urban and rural areas. We see e.g. agriculture, support for local production, food self-sufficiency, environmental protection and innovation development as promising areas for social entrepreneurship in the future. In this respect, the establishment of social entrepreneurship appears to be a strategy that can bring positive effects to any economy in the areas of social and local development, employment development and social inclusion.

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