



### **The Evolutionary Trajectory of Social Enterprises in the Czech Republic and Slovakia**

Journal:	<i>Public Management Review</i>
Manuscript ID	RPXM-2019-0380.R1
Manuscript Type:	Special Issue Paper
Keywords:	social economy, social enterprises, non-profits, Czech Republic, Slovakia

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## Social Enterprises: The Czech and the Slovak Republic

The paper aims to contribute to the existing literature on social enterprises in the Central and Eastern Europe region. Based on historical institutionalism, its main objective is to map what happened with the segment of social enterprises in the Czech Republic and Slovakia after the collapse of the communist rule. The assessment of the current position of social enterprises in the economy and their comparison is framed vis-a-vis the third sector of civil society organisations. The conceptual innovation of the paper lies in the novelty of methodology used to examine the research issue as yet unexplored.

Keywords: social economy; social enterprises; non-profits; Czech Republic; Slovakia

Subject classification codes: L31, L32, L33, O35

### 1. Introduction

The key period associated with the first mentions of social economy is the early 21st century, when new problems began to appear for which European countries had to seek innovative solutions. Social enterprises have developed significantly over the last decade. Specifically, since the economic crisis in 2008, the interest in social enterprises has increased and various forms of social enterprises have spread (Gidron & Hasenfeld, 2012). Social enterprises have been characterised as “*exemplars of hybrid form which intertwine within one organisation the different components and rationales of market, state and civil society*” (Evers and Laville, 2004, p. 8). As hybridity becomes increasingly common (Aiken, 2010) in the ‘*western world*’, it is important to understand the current state and driving forces of social entrepreneurship also in post-transitive countries.

The emergence of social enterprises is associated with the advancement of a civil society in which corporate altruism is on the rise (Dees and Anderson 2003). The discourse is quite different across countries; the definitions of social enterprise are diverse (see Table 1) and tend to describe the functions of different types of social enterprises (e.g. Emerson and Twersky 1996, Dees 1998, Dart 2004, Harding 2004, Haugh 2006, Thompson and Doherty 2006, Hockerts 2006, Peredo and Chrisman 2006, Korosec and Berman 2006, Hartigan 2006, Masseti 2008, Wronka 2013, etc.).

**Table 1 Schools of thought with their respective links to the SE debate**

School of Thought	Characteristics
The “ <i>Earned Income</i> ” School of Thought	<ul style="list-style-type: none"> <li>– refers to the use of commercial activities by nonprofit organizations</li> <li>– distinction between an earlier “commercial nonprofit approach” and a broader and more recent “mission-driven business approach”</li> <li>– focuses on strategies for starting a business that would earn income in support of the social mission of a nonprofit organization and that could help diversify its funding base</li> <li>– no link is explicitly made with social innovation - implicit dimension of social innovation</li> </ul>
The “ <i>Social Innovation</i> ” School of Thought	<ul style="list-style-type: none"> <li>– emphasizes social entrepreneurs in a typical Schumpeterian perspective</li> <li>– tends to underline blurred frontiers and the existence of opportunities for entrepreneurial social innovation within the private for-profit sector and the public sphere</li> <li>– social entrepreneurship is more a question of outcomes than a question of incomes</li> <li>– satisfaction of human needs is at the core of this school; the key actors of innovation are seen in a rather individualistic perspective - the issue of relations between different social groups is not part of the debate</li> </ul>

Source: Authors based on Defourny & Nyssens, 2013

In 2011, the European Commission (EC) launched the Social Business Initiative (SBI) with the aim of creating a favourable legal, administrative and financial

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3 environment for social enterprises. According to the operational definition, these  
4 enterprises operate by providing goods and services for the market in an entrepreneurial  
5 and innovative fashion and use profits primarily to achieve social objectives.  
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7 Specifically, the SBI stresses the fact that the main objective of social enterprises is “*to*  
8 *have a social impact rather than to make a profit for their owners or shareholders*” (p.  
9 23). It is indeed argued that social enterprises are at the very heart of inclusive growth  
10 due to their emphasis on helping people (particularly disadvantaged groups of people  
11 and vulnerable individuals) and stimulating social cohesion.  
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21 The social economy is considered to be an alternative/supplement to the public  
22 sector and the market. Its development is related to solving the problems of the welfare  
23 state while sharing responsibility for the quality and range of services. The key period  
24 associated with the notion of the social economy is the early 21st century, when new  
25 problems began to appear for which European countries had to seek innovative  
26 solutions. Specifically, since the economic crisis in 2008, the interest in social  
27 enterprises has increased and various forms of social enterprises have spread (Gidron &  
28 Hasenfeld, 2012).  
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40 The emergence of the social economy and the blurring of the boundaries of the  
41 public, private and third sectors (Billis, 2010) and has long been recognised in Western  
42 literature. Nevertheless, these processes are not less significant in the post-transitional  
43 context - maybe they are even more important because of limited public sector  
44 resources and because of the fact that variations in socioeconomic contexts account for  
45 international differences in social enterprise. Despite this significance, the number of  
46 studies analysing the social economy in the region of Central and Eastern Europe is  
47 rather limited (in the conditions of Slovakia and the Czech Republic only few studies  
48 exist – e.g. Dohnalova et al (2013), Dohnalova, Prusa et al (2011), Korimová et al.  
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3 (2007, 2008, 2017), Lubelcova (2007), Vackova et al. (2015), Bolecekova and  
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5 Vackova (2015).  
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8 To reflect this gap, the paper aims to contribute to the existing literature on  
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10 social enterprises in the Central and Eastern Europe region. We focus on two post-  
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12 communist CEE countries – the Czech Republic and Slovakia - with a common history  
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14 within one state<sup>1</sup>. In the Czech Republic and Slovakia, the transition to a market  
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16 economy since 1989 has stimulated the emergence of new actors in the social economy  
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18 sector and opened new pathways for entrepreneurial activities in the emerging free  
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20 market economy.  
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24 There are several reasons for our research. First, we are not aware of any study  
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26 dealing with path-dependence in this area and with the issue of transforming the  
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28 ‘socialist’ social enterprise sector into the market economy conditions. Second, the  
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30 country counts across the comparative research articles (Engeli et al. 2018, p. 120)  
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32 shows that comparative studies from the Czech Republic are lacking, and again we are  
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34 not aware of any such study from the CEE countries in transformation; this paper aims  
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36 to at least partly address this research gap. Third, we sought to find a new and  
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38 innovative approach to the research scope. The main contribution of our paper lies in an  
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40 application of historical institutionalism on the explanation of path dependency in the  
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42 development of social enterprises in the Czech Republic and Slovakia and an  
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44 assessment of their current state in a comparative perspective of two countries that had  
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46 shared a common communist history within one state while dealing with different  
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48 burning issues in the researched area 30 years after the transformation. The paper  
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50 concentrates on social enterprise development throughout influential historical  
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59 <sup>11</sup> Czechoslovakia was a sovereign state that existed from October 1918, when it declared its independence from the Austro-  
60 Hungarian Empire, until its peaceful dissolution into the Czech Republic and Slovakia on 1 January 1993.

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3 milestones in the Czech and Slovak society. It advances the domain of comparative  
4 policy studies in the CEE; its unique contribution lies in applying a historical  
5 comparative approach to a double national-level comparative study to assess the  
6 ongoing conceptual, organisational, and political recognition of the Czech and Slovak  
7 social economy sector.  
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## 17 **2. Research context**

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20 In order to prove the importance of our inquiry we have to conceptualise our  
21 research focus. The comparative motto by Rose and Mackenzie (1991, pp. 3-4)  
22 asserting that *“every country has problems, and each thinks that its problems are unique*  
23 *to its place and time [...] However, problems that are unique to one country [...] are*  
24 *abnormal.”* holds true also for social enterprises across the regions, nevertheless each  
25 region produces specific debates. Western European social enterprises *“tend to be based*  
26 *on a social cooperative model and tend to be narrowly targeted on work integration*  
27 *efforts”* (Gidron and Hasenfeld 2012, xii Foreword). The Western European approach  
28 also emphasises *“the participatory aspect of social enterprises”* (Gidron and Hasenfeld  
29 2012, xii Foreword), a characteristic that has thus far received relatively little attention  
30 in the post-transition countries. The social enterprises in CEE emerged as a result of the  
31 fall of communism and the need to address some of the demands of economic  
32 transformation. The idea of *“exogenous shocks”* has played a major role in theorising  
33 about historical institutionalism and path dependency (Katznelson, 2003; Pierson, 2000)  
34 and *“surely the collapse of communism presents one of the greatest exogenous shocks*  
35 *that European countries have experienced in recent decades”* (Saxonberg et al., 2013,  
36 p. 438).  
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3 Later on, several states tried to join the European Union; their accession was  
4 conditioned by the requirement to solve various socioeconomic problems. Social  
5 enterprises in the transitional economies of the CEE were at that time relatively  
6 underdeveloped in terms of how they were legally and institutionally defined (Poon,  
7 2011). They have developed significantly over the last decade; specifically, since the  
8 economic crisis in 2008, the interest in social enterprises has increased and various  
9 forms of social enterprises have spread (Gidron and Hasenfeld 2012).

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11 Hence, the fall of communism (1989), the access to the EU (2004) and the  
12 financial crisis (2008) might all be considered as the exogenous factors affecting the  
13 research object and the subject (social enterprises and their development in the Czech  
14 Republic and Slovakia) even if the starting conditions at the beginning of the path could  
15 had been experienced more than equal or the same, which enables us to focus on the  
16 potential divergence based on the historical institutionalism and evolutionism.

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18 A brief historical overview provides information on what happened before the  
19 split of the Czechoslovakia to conceptualise the proposed research. As far as the  
20 development of the social economy sector in the former Czechoslovakia is concerned,  
21 our analysis indicates that some forms of social entrepreneurship are rather long  
22 established. Co-operatives, that exist up to today, can be considered the forerunners of  
23 social enterprises. The first co-operative on the future territory of Czechoslovakia was  
24 established in Slovakia on February 9, 1845 in Sobotište (Korimová, 2014), which was  
25 the first credit co-operative to fulfil the function of a savings bank. By founding this  
26 association, Slovaks had overtaken much more advanced countries, with the exception  
27 of England.

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29 After 1918, when Czechoslovakia declared its independence from the Austro-  
30 Hungarian Empire and was founded as a sovereign state, the so-called disabled  
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3 production co-operatives (“výrobné družstvá invalidov” – VDI) became widespread in  
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5 the first Czechoslovakia as a result of the initiative of war invalids who were seeking  
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7 employment through self-help cooperatives and associations. These gradually became an  
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9 integral part of the care system for disabled citizens in the country.  
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12 Despite the fact that the principle of the right of all citizens to work (and the duty  
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14 to work as well) was incorporated in the Constitution of post-war Czechoslovakia in 1946,  
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16 the tasks of extending rehabilitation for the disabled could not be resolved unscheduled  
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18 without a long-term programme and without the direct involvement of the State and its  
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20 bodies. To reflect these needs, the existence of production co-operatives of the disabled  
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22 (VDI) was comprehensively supported by the state. VDI activities were realised  
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24 especially in the engineering, textile, chemical, rubber, printing, woodworking, leather,  
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26 footwear, pulp and paper, souvenir, glass, ceramics and services sectors. Two types of  
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28 VDI existed (Kontra, 1985); the first type with a minimum 70 % of employees with some  
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30 disability (25 VDIs in 1985) and a second type with a minimum 50 % of employees with  
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32 major disabilities (5 VDIs in 1985).  
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38 After November 1989, the Czechoslovak co-operative sector has been gradually  
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40 transformed to a modern democratic system. Maintaining the employment of disabled  
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42 employees in the VDI required a solution by the government which adopted measures on  
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44 income tax, tax holidays for 1991 and 1992, and the processing of subsidy guidelines for  
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46 these organisations. Measures taken and implemented helped VDIs and other  
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48 organisations employing disabled people to overcome problems and to continue meeting  
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50 employment targets in the first phase of post 1989 development.  
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54 ***The goal of this paper*** is to map what happened with the social economy sector  
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56 in the Czech Republic and in Slovakia after the collapse of the communist rule in 1989  
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58 in order to find out whether the development of the social enterprises in the Czech  
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3 Republic and Slovakia follow the same patterns from the pre-1989 period, or if there is  
4 a visible divergence. The structure of the social enterprises in the Czech Republic and  
5 Slovakia will be analysed in relation to the third sector expansions in these countries to  
6 provide information on their position and the role in the economy of both countries.  
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13 As an institutional and legal phenomenon, social entrepreneurship has to be seen  
14 in the context of the ongoing evolutionary trends of the Czech welfare state (Vaceková  
15 et al. 2017). Horák et al. (2013) contend that the nature of the public-private mix of  
16 social service delivery is being affected by the centralisation of decision making, the  
17 marketisation and contractualisation of service delivery, the growing use of new public  
18 management methods, organisational innovation, and the increasing networking  
19 between state and non-state organisations. These trends reflect the increasing  
20 involvement of the social enterprises in service delivery processes, as well as its closer  
21 entanglement and coordination with the public and private for-profit sectors (Bode and  
22 Brandsen 2014). In the Czech and Slovak institutional context (see also Nemeč and  
23 Buček, 2012), it is plausible to speculate that social entrepreneurship constitutes a part  
24 of the evolutionary dynamics of the welfare state (Vaceková et al. 2017).  
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### 42 **3. Methodology**

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45 In terms of methodology, the paper is based on the idea of “*evolutionism*”. Using  
46 the example of Czechoslovakia (or rather the Czech Republic and Slovakia), we  
47 research the genesis of social enterprises and their transformation in Czech and Slovak  
48 society. We study the transformations that the Czech and Slovak social enterprises have  
49 been undergoing and the traces left behind in them by previous historical developments.  
50 Such methodological anchoring enables the generalisation of the research results. The  
51 Czech Republic and Slovakia are typical countries with a communist and post-  
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3 communist history. Thus, the “*history is enrooted*” in the evolution of Czech and Slovak  
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5 social enterprises. This fact manifests itself in the path-dependent behaviour of social  
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7 entrepreneurship.  
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11 We aim to meet the challenge of finding comparative ways to conceptualise this  
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13 issue on the basis of historical institutionalism (e.g. Hall and Taylor 1996, Pierson and  
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15 Skocpol 2002). It is an appropriate approach to pose “*a puzzle about why something*  
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17 *important happened or did not happen*” (Pierson and Skocpol 2002, p.4) and to explain  
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19 how it has affected the social enterprises over time. The intensity of the impact of the  
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21 path dependence depends on these key factors: the time spent on the path (the actual  
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23 time the path dependence lasted) and the intensity of the influence of the past on the  
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25 evolution of the social enterprises. It is a non-ergodic process. Therefore, we are still  
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27 encountering the impact of path dependence on the evolution of the Czech social  
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29 economy, even after more than thirty years after the fall of the communist regime. The  
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31 historic factors inbuilt in society influence both the evolution of the social enterprise  
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33 sector and the social enterprises themselves. To understand the phenomenon in the light  
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35 of a comparative method (Lasswell 1968), the historical explanation of social economy  
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37 development is needed for an analysis of social enterprises clarifying the path  
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39 dependence and offering explanations as much for the growth of these hybrids as for the  
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41 current lack of legal regulations governing them, especially in the Czech context.  
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49 In the scholarly literature, these organisational transformations are analysed  
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51 through the lenses not only of historical institutionalism (e.g. Hall and Taylor 1996,  
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53 Pierson and Skocpol 2002), but also of sociological institutionalism (e.g. Baum and  
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55 Oliver 1991), organisational ecology (e.g. Hannan and Freeman 1997), resource  
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57 dependence (e.g. Froelich 1999), and social systems theory (e.g. Moeller and  
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59 Valentinov 2012). The synthesis of the knowledge acquired from literature and data  
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3 analysis show the marginal role of social enterprises in the institutional, socioeconomic,  
4 and political context of the Czech Republic and Slovakia, which seems to be different  
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6 from the Western environment.  
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11 This paper employs a double-country comparative method (Fitzpatrick et al.  
12 2011) as a national-level case study (Howlett and Mukherjee 2018). Even if there was a  
13 boom in writing on the comparative method fifty years ago (e.g. Kalleberg 1966,  
14 Lasswell 1968, Merritt and Rokkan 1966, Smelser 1968, Verba 1967, etc.), “*the field of*  
15 *comparative policy analysis is on a sharp upward trajectory*” (Geva-May et al. 2018, p.  
16 18). It is important to advance this “*field of political science that uses the comparative*  
17 *method*” (ibid, p. 20) in the post-transition context of the CEE to add to existing  
18 research in the western world (e.g. Kerlin, 2009, 2010).  
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30 Selected qualitative methods are used to objectify the results of descriptive  
31 statistics and in-depth analysis of the causes. When mapping what is the position of  
32 social enterprises vis-a-vis other sectors (especially the NGO sector) in dealing with  
33 solutions to social exclusion and unemployment and to what extent social enterprises  
34 deliver innovative pro-active solutions in the Czech and Slovak reality, qualitative  
35 secondary research and method of the focus group were also employed.  
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44 Qualitative secondary research was conducted as a desk research in the form of a  
45 literature review. A combination of a state-of-the-art review and systematic literature  
46 review was applied. State-of-the-art review concentrates on more current issues and  
47 matters. This type of review “*may offer new perspectives on an issue or highlight an*  
48 *area in need of further research*” (Grant and Booth, 2009, p. 101). State-of-the-art  
49 review was used for understanding the contextual situation. Systematic literature review  
50 is, according to Denyer and Tranfield (2009, p. 672), “*a specific methodology that*  
51 *locates existing studies, selects and evaluates contributions, analyses and synthesizes*  
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3 *data, and reports the evidence in such a way that allows reasonably clear conclusions*  
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5 *to be reached about what is and is not known*". Essentially, the systematic literature  
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7 review aimed to synthesise the knowledge of multiple original studies.  
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10 The desk research was enhanced by conduction of focus groups. The intention of  
11 the focus group was to exchange ideas in an open atmosphere that allows the  
12 participants to speak to each other in a deliberative and communicative way. To guide  
13 the discussion, a topic list with RQs was used and the discussion was recorded. Official  
14 invitations to participate in the focus group were addressed to 42 experts on nonprofits  
15 and social economy, both practitioners and academics in the Czech Republic and  
16 Slovakia. Out of these experts, 7 were willing to participate in the focus group, which is  
17 an optimal number<sup>2</sup>. Overview of the experts involved is provided in the Table 2<sup>3</sup>.  
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31 **Table 2 Expertise of participants in the focus group**

Code	Country	Expertise	Year of experience
E1	SVK	Investment banker in impact finance	6 – 10 years
E2	SVK	Academic (research, publications, teaching)	2 – 5 years
E3	SVK	Academic (research, publications, teaching)	More than 10 years
E4	CR	Public administration employee	2 – 5 years
E5	CR	Academic (research, publications, teaching)	Less than 2 years
E6	SVK	Regional Development Agency, partner of municipalities in setting up social enterprises	6 – 10 years
E7	CR	Academic (research, publications, teaching)	6 – 10 years

32 Source: own elaboration, 2019  
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57 <sup>2</sup> recommended size for a focus group is between 4 and 12  
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59 <sup>3</sup> to ensure the full anonymity we used codes instead of names  
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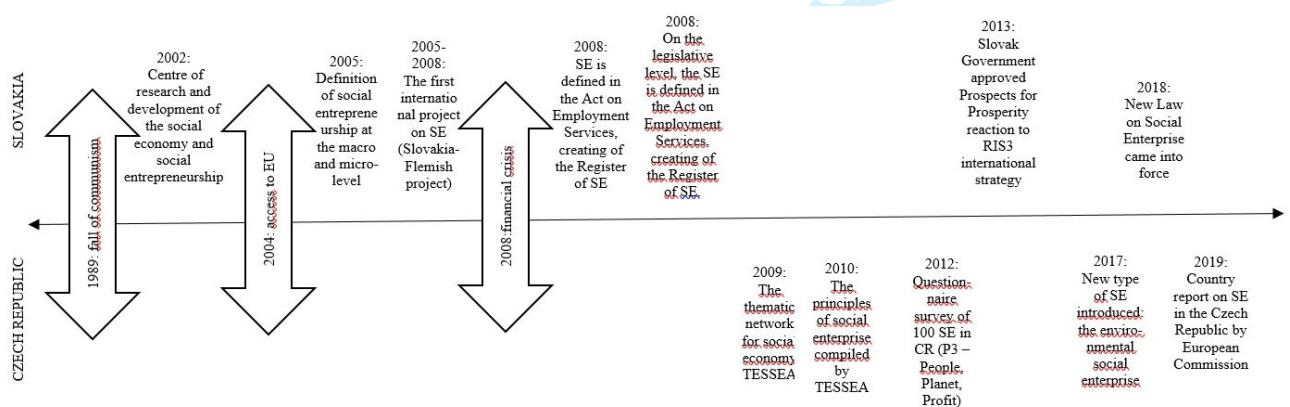
The responses gained from the focus groups were processed using the MAXQDA program, which is software for qualitative data analysis. Using this program, the respondents' answers were encoded to the questions. Each question has been assigned a custom code response. This allowed the different response codes to be visually and (according to content) differentiated. Based on a consensus, the most representative responses which are listed in the article were selected. This approach has allowed for the comparison and linking of the results of the qualitative and quantitative approach.

## 4. Findings

### 4.1. Development and current state of social entrepreneurship in CR and SVK

“History matters” (Liebowitz et al, 2000). While substantial knowledge gaps about the Czech and Slovak social economy sector still persist, it is possible to identify a number of salient historical and institutional factors affecting it. The events presented in a brief overview (Figure 1) contributed to the development of the social entrepreneurship in the Czech Republic and Slovakia after the collapse of communist rule in 1989.

**Figure 1: Timeline of selected milestones affecting social entrepreneurship (Incl. exogenous shocks)**



Source: Authors based on Vacková & Murray Svidroňová, 2016

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7 *In the Czech Republic* the first (non VDI) social enterprises were established in  
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9 1992 when the first four were founded in the form of a public benefit company  
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11 (Frankova, 2019). Only during and after the economic crisis (2008-2009), the concept  
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13 of social enterprise received higher attention and the number of social enterprises began  
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15 to increase. This growth was connected mainly to the fact that from 2009 to the first  
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17 quarter of 2014, subsidies could be drawn from the ESF (European Social Fund) and the  
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19 ERDF (European Regional Development Fund) to start social entrepreneurships. After  
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21 this period, the growth of this sector slowed down significantly, despite the availability  
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23 of EU funding for the sector also during the 2014-2020 programme period. Moreover,  
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25 in 2018, the Ministry of Labour and Social Affairs conducted a survey mapping the  
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27 state of social enterprises that received subsidies in one of the grant programmes. They  
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29 found that they showed low sustainability and were heavily dependent on subsidies.  
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31 After the end of the grant programme, some of them left the market, pointing to the fact  
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33 that they were not competitive with standard businesses as the reason for ending their  
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35 activities.  
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41 When it comes to a comparison with *the Slovak Republic* it should be emphasised  
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43 that from among all the transition economies, Slovakia was the first to address the  
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45 promotion of social entrepreneurship politically, through pilot projects and legislative  
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47 changes. Thanks to the amendment to the Employment Services Act no. 5/2004 Coll. the  
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49 effects of the global economic crisis on the level of unemployment in the Slovak Republic,  
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51 and also on the creation of social enterprises mainly of a local character, managed at least  
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53 partially to be eliminated in the period 2008-2012. In 2008, the government of the Slovak  
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55 Republic approved 8 projects of pilot social enterprises (PSPs), which were territorially  
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57 located in areas with the highest unemployment rate, of which up to 90-95% were long-  
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3 term and generation unemployed and non-adaptable individuals or groups. However, the  
4 government did not sufficiently cooperate in setting up the PSP (2009) with the scientific  
5 and professional community. This has also been attributed to a strong pre-election  
6 politicisation of the founding of the PSP, both by the government and by the opposition.  
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8 The absence of media coverage of the main objectives of the SP, especially the PSP and  
9 the unpreparedness of the business environment for this new type of business and social  
10 enterprises, caused negative reactions. That is why the rules for recruitment of new  
11 employees were not adhered to in some PSPs. Similarly, the intentions of the PSP were  
12 not always sufficiently considered so as not to create undesirable competition in the  
13 location in promoting capital investment (insufficient market research on the subject of  
14 production in pilot projects with regard to the existing classical business environment).  
15 For this reason, capital investment was most criticised and abused in the political struggle.  
16 The negative attitude of society towards the goals of the social economy and social  
17 entrepreneurship has deepened. Unfortunately, the PSPs gradually disappeared, even  
18 those that proved their existence and independence. For example, within WISEs, only 12  
19 are still active in 2018, 90 were cancelled and 3 are paused.  
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40 As Frankova (2019) also states it is rather difficult to map the social enterprise  
41 sector in both countries. For the Czech Republic we work with the data from the  
42 unofficial registry of social enterprises that is maintained by the P3 (Planet, People,  
43 Profit) nonprofit organisation and data provided by the EU report (ibid). For Slovakia  
44 we first process official data from the existing state registry. We provide extra estimates  
45 as well because official registries do not cover the whole social enterprise sector (see  
46 Table 3).  
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58 **Table 3 The Czech and Slovak social economy sector: comparison of key indicators**  
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	<b>Czech Republic</b>	<b>Slovakia</b>
population	10,637,794	5,443,120
EU membership status	member country (since 2004)	member country (since 2004)
GDP per capita	23,210 USD	20,160 USD
Number of CSOs	133,842	15,630
<b>Number of SEs</b>	<b>235</b>	<b>115</b>
Potential estimated SEs	3773*	n/a
Newly created SEs:		
in 2008	10	12
in 2009	16	44
in 2010	18	25
in 2011	34	12
in 2012	46	6
in 2013	24	5
in 2014	17	0
in 2015	8	0
in 2016	5	0
in 2017	8	9
in 2018	n/a	12

Source: Authors based on More-Hollerwege et al, 2019 and Directory of social enterprises in CR and SVK, 2019

\*see Fraňová, 2019

A (temporary?) “*divergence*” is the best descriptor for the post-1989/1993 situation in the Czech Republic and Slovakia. The core difference is connected with the fact that the Czech Republic had still not passed any direct legislation concerning social entrepreneurs and the main catalyst for its development in this country is the nonprofit sector (bottom-up approach to establish the social economy sector, mainly by the initiative of the non-profit sector). On the contrary, the top-down approach dominates in Slovakia, socio-democratic governments in 2008 and 2016 also included the promise to establish the system of social enterprises into their manifesto declaration and in both periods converted this promise also to real action.

The findings above have been supported also by the opinions of experts participating in the focus group. Most of them feel that the continuity of social enterprise development after 1989 was interrupted:



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3 *“I perceive any ties as torn, or in essence there is minimal continuity.” (E1)*

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5 *“In the Czech Republic, they tend to focus on practical support tools for SP, in Slovakia*  
6 *we went through the creation of a legal framework that, while more systematic, creates*  
7 *an environment for SP, but lacks practical application support for social*  
8 *entrepreneurship. The difference is also in the state of civil society, where in the Czech*  
9 *Republic there is a greater potential at the local level to establish a SP (also a stronger*  
10 *entrepreneurial spirit).” (E3).*

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19 *“Every government follows its own priorities. The Slovak Republic, which is a more*  
20 *rural country, has dealt with the issue of social entrepreneurship or is more concerned*  
21 *because it has less employment in industry compared to the Czech Republic. The Slovak*  
22 *Republic must therefore compensate for the lack of industry with support instruments,*  
23 *which go more towards services, agricultural production, etc.” (E6).*

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According to mainstream historical–institutional theory, exogenous shocks give rise to ‘critical junctures’ (Collier and Collier, 1991) that allow policymakers to introduce far-reaching changes that set different countries down different paths of development (Saxonberg et al., 2013). This might enhance the understanding of why the Czech Republic and Slovakia pursue different policies towards the social entrepreneurship.

#### **4.2. Social enterprises from the perspective of relations to the third sector**

Of key interest to understanding social enterprises development in both countries is the legacy of the “nanny state” (Brhliková 2004, Vaceková et al, 2017). During the totalitarian period, the Communist government was a monopoly provider of public services. After this period was over, the democratic Czech and Slovak governments were reluctant to cede this monopoly and to acknowledge the nonprofit

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3 sector as an alternative and independent service provider (Frič, 2004). Nevertheless, the  
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5 delivery of public services in the Czech Republic is still heavily dominated by public  
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7 and state-run organisations. Furthermore, the unwillingness of the public sector to cede  
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9 control of public service delivery is by no means limited to the Czech Republic. Pospíšil  
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11 and Hyánek (2009) note that this might be a general “*post-communist*” pattern of public  
12  
13 service delivery. For nonprofit organisations, this pattern primarily means a lack of  
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15 autonomy from the public sector (Vacekova et al, 2017). Social entrepreneurship  
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17 accordingly presents a way to develop this autonomy with a view to advancing to a full-  
18  
19 fledged societal sector that would be worthy of comparison with the market and the  
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21 state. In Slovakia, on the contrary, it is primarily the government itself that expects social  
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23 enterprises to give a boost to nonprofit autonomy.  
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30 It is still possible to contend that the Czech social enterprises would have  
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32 experienced more difficulties in developing their autonomy had they been more  
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34 dependent on state subsidies after the Velvet Revolution. In Slovakia, it is primarily the  
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36 government itself that expects social enterprises to boost autonomy. This political  
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38 attitude is evidenced by the recent adoption of policies that counteract the legacy of the  
39  
40 nanny state and foster the independence of the social economy sector. These and other  
41  
42 measures of the liberalisation of social enterprise activities have been accompanied by  
43  
44 strict controls against “*for-profits-in-disguise*” that might exploit the nonprofit status to  
45  
46 gain unfair advantages over for-profit competitors (ibid). This issue can be illustrated on  
47  
48 the civil society organisation (CSO) sustainability scores (USAID, 2018) for both  
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50 countries (see Table 3) while pointing out the relation of CSOs to social enterprises.  
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57 **Table 4: CSO sustainability scores for the Czech Republic and Slovakia**  
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	Czech Republic	Slovakia

Human Development Index	0.878*			0.845*		
Freedom in the World	94/100**			89/100**		
Year	2015	2016	2017	2015	2016	2017
<b>CSO sustainability</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>
legal environment	2.7	2.7	2.8	3.0	3.0	3.0
organizational capacity	2.9	2.8	2.8	3.1	3.1	3.1
financial viability	3.2	3.1	3.0	3.7	3.7	3.6
advocacy	1.9	1.8	1.8	2.6	2.6	2.6
service provision	2.4	2.4	2.4	2.6	2.6	2.6
infrastructure	2.7	2.7	2.7	2.9	2.9	2.9
public image	2.3	2.4	2.5	2.5	2.7	2.8

Source: USAID, 2016, ibid 2017, ibid 2018

\*very high

\*\* free

Note: 1-3 sustainability enhanced; 3-5 sustainability evolving; 5-7 sustainability impeded

The CSO sustainability scores deal as a basis for pointing out the main differences between the studied countries in the research area and may well be underlined with the findings from the focus groups. Slovakia performs better in the overall index, as well as in the partial attributes, namely legal environment, organisational capacity, financial viability, advocacy, the service provision, infrastructure and public image (cf. USAID, 2018).

This can be anchored also in the relation of the social enterprises towards the third sector. The experts from the focus group perceive social enterprises and NGOs almost equally or as collaborating sectors:

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3 *"SE and NGOs are almost identical legal entities, many SEs have at least one of*  
4 *the legal forms of NGOs."* (E4)  
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7 Or even as complementary and cooperating ones:

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10 *"SEs and NGOs are complementary in the areas of market failure and public*  
11 *sector solutions"* (E5)  
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14 *"SEs and NGOs work together (e.g. to find innovative solutions as well as to*  
15 *address market and public sector failures)."* (E7)  
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19 This is in line with the "western" approaches. Defourny and Nyssens (2010) argue  
20 that "most social enterprises across Europe, even in countries where these  
21 new legal forms have emerged, still adopt legal forms that have existed for a  
22 long time" (p. 235). Young and Lecy (2014) explain that the situation is analogous to the  
23 early days of nonprofit sector research, especially when comparing the social enterprise  
24 sector across different countries. Moreover, social enterprises are much more diverse than  
25 nonprofits. Indeed, they could be considered just one type of social enterprise (ibid, p.  
26 1309). There are more studies confirming the close relation or even interconnection  
27 between the sectors (e.g. Matei and Matei, 2015; Kerlin, 2010; Jenner, 2016; Teasdale,  
28 2012; etc.).  
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42 Nevertheless, the Czech as well as the Slovak nonprofits have struggled with  
43 legacies from the totalitarian years. The experience of totalitarianism has meant that  
44 people continue to mistrust nonprofit institutions. The legacy of corruption and  
45 clientelism through which the system of nepotism and informal networks has survived  
46 the fall of communism continues to pose a serious challenge to any attempt to introduce  
47 the rule of law and standard procedures even in the social economy sector. Furthermore,  
48 there is a specific legacy of mistrust in the form of a deep divide that exists between 'old'  
49 nonprofits and 'new' social enterprises. This makes concerted action by the whole sector  
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3 difficult and relations across them might seem as a paradox, as the social enterprises can  
4 present both, a complement and a competitor to nonprofits.  
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## 10 **5. Discussion and conclusions**

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13 The findings imply that the development of social enterprises cannot be  
14 supported simply by importing Western European approaches. Unless the approaches  
15 are embedded, social enterprises will just be “*replications of formulas that will last only*  
16 *as long as they are fashionable*” (Gidron & Hasenfeld, 2012). The concept of social  
17 enterprise was almost unknown some 20 years ago (ibid). In the last decade, it has  
18 become a subject of discussion on both sides of the Atlantic, including in CEE  
19 countries. To deepen the discussion on social enterprises as embodied in Western and  
20 Eastern Europe, it is useful to underline the distinct development these regions  
21 experienced.  
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34 We can identify some significant determinants of social enterprise development  
35 in (post-) transitional economies that might not be found in developed economies (see  
36 Korimová and Vaceková, 2011). In the first place, businesses with a ‘social’ attribute  
37 are perceived quite negatively, politically and socially, as they are seen as reminiscent  
38 of socialism. Secondly, a characteristic of the Czech Republic, as in other former  
39 transition countries, is a high percentage of long-term and generational unemployed  
40 people. They were socially excluded and some have been reluctant to assume a  
41 mainstream way of life. Finally, there were important differences between the  
42 circumstances in which social enterprises developed. In developed economies, social  
43 economics and social enterprises were promoted organically through experience and  
44 drawing on established partnership networks with the nonprofit sector. In the transition  
45 economies, by contrast, the nonprofit sector has only recently been established and is  
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3 still finding its feet. One result of this delay is that a variety of organisations – and not  
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5 only NPOs – have been gradually entering the process of establishing social enterprises.  
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9 The comparative approach to policy research makes it possible to show that  
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11 potential discrepancies between social structure and semantics are probably well-  
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13 exemplified by the various fittings of Western semantics into the institutional context of  
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15 the Czech Republic and Slovakia (Vaceková et al. 2017). The Czech and Slovak social  
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17 economy sector still faces the challenge of developing its own independent and distinct  
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19 institutional identity. Hybridisation in the form of social enterprises seems to be a step  
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21 in its evolution worth study despite the low number of registered institutions. In the  
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23 Czech and Slovak context, the hybridisation of welfare is institutionally hardwired into  
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25 the public-private mix of public service delivery and is particularly common among  
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27 social enterprises. The current institutional and regulatory environment of Czech and  
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29 social enterprises offers a chance to link civil enthusiasm with economic  
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31 viability so as to revitalise and carry forward the rich historical traditions of the  
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33 Czechoslovak society (ibid).  
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40 Compared with the Western case, the causal nexus of social entrepreneurship in  
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42 the Czech Republic and Slovakia is shifted from the level of individual managerial  
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44 decision-making to the level of institutional environment. Put differently, in the post-  
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46 transitive context, social enterprises present rather a legal and institutional phenomenon.  
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48 Institutional ambiguities are also acknowledged in the Western literature which is  
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50 sensitive to the existence of “*for-profits-in-disguise*” which “*are lured into the nonprofit*  
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52 *sector by the tax and subsidy advantages they get there from*” (James 1998, p. 273).  
53  
54 Alongside the “*for-profits-in-disguise*”, Western scholars acknowledge that social  
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56 enterprises may be likewise driven by cross-subsidisation reasons. In the  
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58 “*Czechoslovak*” context these institutional ambiguities are amplified.  
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3 Several studies in this area (cf. Defourny, Hulgard and Pestoff, 2014, Gidron  
4 and Hasenfeld, 2012, Monzon and Chaves, 2012, Powel and Osborne, 2015) point out  
5 that the fundamental global economic and demographic changes quantify the state's  
6 participation in social policy and its priorities, in particular in employment policy. The  
7 convergence of social goals with the interests of overall economic prosperity and  
8 efficiency is a natural and lasting response to the interconnection of social and  
9 economic goals, which is particularly true today, when the main feature of the modern  
10 age is information technology and a knowledge-based economy.  
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21 Over the last 30 years, the Czech and Slovak economies have undergone a deep  
22 transformation in their shift from a centrally-commanded economy to one driven by the  
23 market. This transformation has involved systemic, institutional, and structural changes  
24 (Lašek, 1998) and it has led to some negative consequences such as unemployment and  
25 social exclusion enhancing the path-dependent development of social entrepreneurship.  
26 At the macro level, the transformation of the Czechoslovak economy has included  
27 changes to its structure: in terms of different sectors, industries, branch specialisations,  
28 and products; in terms of the size of corporations; and in the nature of foreign trade. The  
29 accession of the Czech Republic and Slovakia to the EU in 2004 has involved the  
30 complete transformation of the former command economy to one based on the market.  
31 And the transformation of the economy was the precondition for a radical change in the  
32 political system to create a capitalist social system, a process that was much broader  
33 than changes to the economy. It was another “*exogenous shock*” (Saxonberg et al, 2013,  
34 p. 437) affecting the path dependency, followed by the third one – the economic crisis.  
35 Those are the areas to which the further research might move. The most promising one  
36 seems to be the conceptualisation of social enterprises as social innovators. The  
37 approximation of the pilot findings resulting from the discussions in the focus groups  
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3 shows the upward trajectory towards the fields of environmental policy at national and  
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5 regional level in both countries, as well as innovative and creative understanding of  
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7 regional socio-economic development.  
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## 10 11 12 **Funding**

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14 This research received funding from the Czech Grant Agency (GA19-06020S).  
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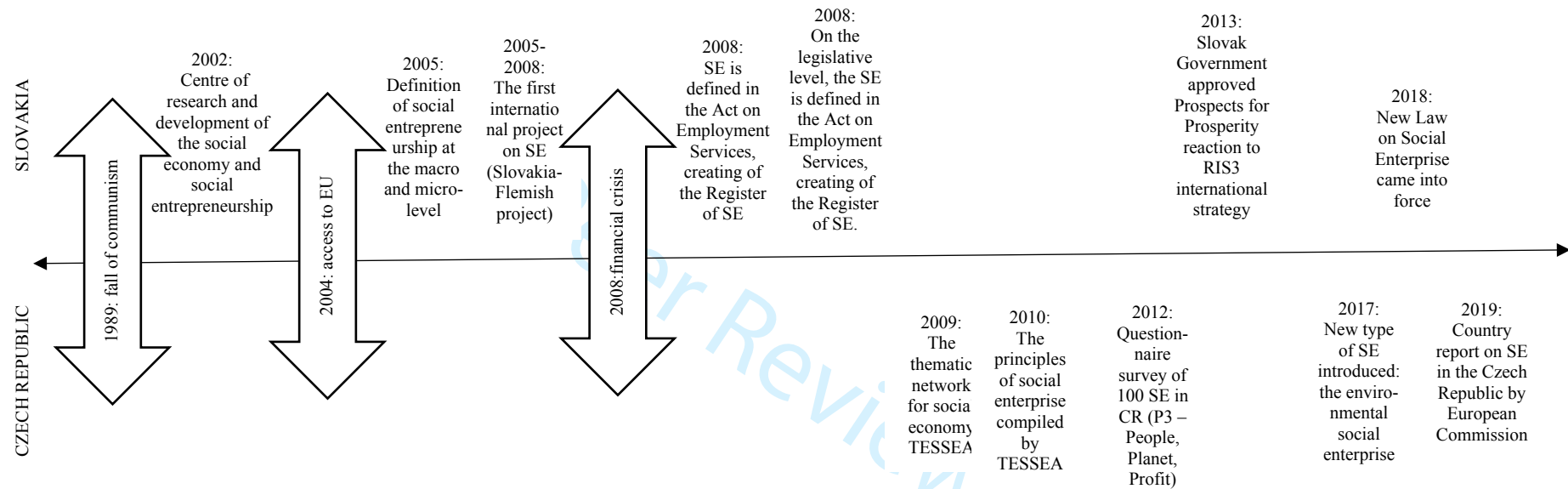
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**Figure 1: Timeline of selected milestones affecting social entrepreneurship (incl. exogenous shocks)**



Source: Authors based on Vaceková & Murray Svidroňová, 2016

**Table 1 Schools of thought with their respective links to the SE debate**

SCHOOL OF THOUGHT	CHARACTERISTICS
The “ <i>Earned Income</i> ” School of Thought	<ul style="list-style-type: none"> <li>– refers to the use of commercial activities by nonprofit organizations</li> <li>– distinction between an earlier “commercial nonprofit approach” and a broader and more recent “mission-driven business approach”</li> <li>– focuses on strategies for starting a business that would earn income in support of the social mission of a nonprofit organization and that could help diversify its funding base</li> <li>– no link is explicitly made with social innovation - implicit dimension of social innovation</li> </ul>
The “ <i>Social Innovation</i> ” School of Thought	<ul style="list-style-type: none"> <li>– emphasizes social entrepreneurs in a typical Schumpeterian perspective</li> <li>– tends to underline blurred frontiers and the existence of opportunities for entrepreneurial social innovation within the private for-profit sector and the public sphere</li> <li>– social entrepreneurship is more a question of outcomes than a question of incomes</li> <li>– satisfaction of human needs is at the core of this school; the key actors of innovation are seen in a rather individualistic perspective - the issue of relations between different social groups is not part of the debate</li> </ul>

Source: Authors based on Vaceková, 2016 and Defourny & Nyssens, 2013

**Table 2 Expertise of participants in the focus group**

Code	Country	Expertise	Year of experience
E1	SVK	Investment banker in impact finance	6 – 10 years
E2	SVK	Academic (research, publications, teaching)	2 – 5 years
E3	SVK	Academic (research, publications, teaching)	More than 10 years
E4	CR	Public administration employee	2 – 5 years
E5	CR	Academic (research, publications, teaching)	Less than 2 years
E6	SVK	Regional Development Agency, partner of municipalities in setting up social enterprises	6 – 10 years
E7	CR	Academic (research, publications, teaching)	6 – 10 years

Source: own elaboration, 2019

**Table 3 The Czech and Slovak social economy sector: comparison of key indicators**

	<b>Czech Republic</b>	<b>Slovakia</b>
population	10,637,794	5,443,120
EU membership status	member country (since 2004)	member country (since 2004)
GDP per capita	23,210 USD	20,160 USD
Number of CSOs	133,842	15,630
<b>Number of SEs</b>	<b>235</b>	<b>115</b>
Potential estimated SEs	3773*	n/a
Newly created SEs:		
in 2008	10	12
in 2009	16	44
in 2010	18	25
in 2011	34	12
in 2012	46	6
in 2013	24	5
in 2014	17	0
in 2015	8	0
in 2016	5	0
in 2017	8	9
in 2018	n/a	12

Source: Authors based on More-Hollerwege et al, 2019 and Directory of social enterprises in CR and SVK, 2019

\*see Franova, 2019

**Table 4: CSO sustainability scores for the Czech Republic and Slovakia**

	Czech Republic			Slovakia		
Human Development Index	0.878*			0.845*		
Freedom in the World	94/100**			89/100**		
Year	2015	2016	2017	2015	2016	2017
<b>CSO sustainability</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>
legal environment	2.7	2.7	2.8	3.0	3.0	3.0
organizational capacity	2.9	2.8	2.8	3.1	3.1	3.1
financial viability	3.2	3.1	3.0	3.7	3.7	3.6
advocacy	1.9	1.8	1.8	2.6	2.6	2.6
service provision	2.4	2.4	2.4	2.6	2.6	2.6
infrastructure	2.7	2.7	2.7	2.9	2.9	2.9
public image	2.3	2.4	2.5	2.5	2.7	2.8

Source: USAID, 2016, ibid 2017, ibid 2018

\*very high

\*\* free

Note: 1-3 sustainability enhanced; 3-5 sustainability evolving; 5-7 sustainability impeded