

INFLUENCING FACTORS OF SOCIAL ENTREPRENEURSHIP IN LATVIA

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Abstract

The social enterprise features are well known in the world history while in Latvia there is a lack of studies and understanding about it. The aim of the research paper is to study the influencing factors of social entrepreneurship in Latvia. In the research the essence of social entrepreneurship and the main principles for definition of social enterprises – social mission, business orientation and involvement of marginalized groups are described. The analysis to determine the most important internal and external factors influencing development of social entrepreneurship was carried out. It was found out that the main external factors are political and legal environment, lack of knowledge about significance of social entrepreneurship, dominating values in society and such internal factors as access to finances, recruitment of professional and well motivated personnel.

Key words: social entrepreneurship, social enterprises, external factors, internal factors.

Introduction

Nowadays the concept of social economy is well-known concept. It has been mentioned as one of the basic tools of the Lisbon objectives. In the European Parliament resolution of 19 February 2009 on Social Economy it was emphasized that social economy has one of the main senses of the European economy because it combines profitability and solidarity, creates quality jobs, promotes economic, social and regional cohesion, enhances social capital, as well as promotes the sustainable development of economy. The social economy is carried out in social entrepreneurship.

The terms ‘social entrepreneurship’ and ‘social entrepreneur’ are relatively new, but the social business features have been well known already in ancient history. The first examples are identifiable in the 18th century when private health and social care institutions were set up. Since the second half of the 20th century in economy such phrases as ‘social economy’, ‘social entrepreneurship’ and ‘social enterprise’ were increasingly used, but a special urgency and practical applications they are beginning to experience only recently, driven by the social entrepreneur Bill Drayton and Charles Leadbeater. The most outstanding example of social entrepreneurship is a professor Muhammad Yunus, who in 1976 launched the Grameen bank project and started to provide banking services to poor rural inhabitants. Nowadays there are more than 60 new global social enterprise establishments, including several social business schools in Britain (Martin and Osberg, 2007) following the principle he established.

It is believed that social enterprises are the economic future because they promote employment (especially for marginalized groups), reduce poverty risk, solve social and economical problems and enhance entrepreneurial skills. But in Latvia there are only few social entrepreneurs and the concept of social entrepreneurship is still very new. According to Global Entrepreneurship Monitor in 2009, the social entrepreneurship rate in Latvia was 1.9% which is significantly smaller than in such European countries as

France, Switzerland, Norway and Hungary. Furthermore, in Latvia there are economical, legal and political obstacles that hinder social entrepreneurship development.

In Latvia there is a lack of scientific researches about social entrepreneurship in general. First time some data about social entrepreneurship were presented in Global Entrepreneurship Monitor in 2009. Latvian researchers (A. Petersons, L. Pavare and A. Viksne) have paid more attention to corporate social responsibility; however, it is not the same. Companies which are characterized by corporate social responsibility focus on profits and they only engage in philanthropy but for social entrepreneurs the priority is social mission rather than profit. Significant contribution to social entrepreneurship gave the first Latvian social entrepreneurship forum organizer T. Cvetkova as well as a director of ‘Idea Partners Fund’ S. Sile (Žagare, 2010). Thus, it is essential to start research about social entrepreneurship in Latvia by explanation of the term ‘social entrepreneurship’ and analysis of factors that influence the development of social entrepreneurship.

The **aim** of the research paper is to study the influencing factors of social entrepreneurship in Latvia. The following **tasks** are advanced to achieve the set aim:

1. to study the essence of social entrepreneurship;
2. to determine factors influencing social entrepreneurship.

Materials and Methods

The main research methods applied: monographic descriptive method, logical, comparative analysis, method of analysis and synthesis, induction and deduction method. Method of analysis and synthesis was used to study the problem elements and to synthesize coherence. Induction method was used for summarising individual facts in general statements but deduction method - for theoretical explanations and logical synthesis of the empirical study. A graphical method for statistical display of data was used.

The research was made in Latvia from the year 2009

– 2010. Research is based on the analysis of information published by the Central Statistic Bureau (CSB), Global Entrepreneurship Monitor 2009 and scientific literature. Because of a lack of scientific literature in Latvia, the author bases the study on researches made by foreign scientists and social entrepreneurs.

Results and Discussion

1. The concept and essence of social entrepreneurship

Definition of the term 'social entrepreneurship' must start with the word '**entrepreneurship**' because the word 'social' modifies entrepreneurship. In the 19th century, entrepreneurs were the 'captains of industry', the risk takers, and the decision makers. They were individuals who aspired to wealth and who gathered and managed resources to create new enterprises. Early French, British and Austrian economists wrote about entrepreneurs as the 'change agents' of progressive economies (Holt, 2006). For example, French economist Jean-Baptiste Say described the **entrepreneur** as one who 'shifts economic resources out of an area of lower and into an area of higher productivity and greater yield', thereby expanding the literal translation from the French, 'one who undertakes', to encompass the concept of value creation (Dees, 2001). Austrian economist Joseph Schumpeter identified in the entrepreneur the force required to drive economic progress, without it economies would become static and structurally immobilized (Schumpeter, 1975). According to J. Schumpeter an entrepreneur is one who applies 'innovation' within the context of the business to satisfy unfulfilled market demand. On the other hand, Peter Drucker sees entrepreneurs as canny and committed exploiters of change. According to P. Drucker, 'the entrepreneur always searches for change, responds to it, and exploits it as an opportunity' (Drucker, 1993). It can be concluded that theorists universally associate entrepreneurship with opportunity, value creation and innovation. Entrepreneurs are believed to have an exceptional ability to see and seize upon new opportunities, the commitment and drive required to pursue them, and an unflinching willingness to bear the inherent risks.

Social entrepreneurs act similarly, tapping inspiration and creativity, seize opportunities that challenge and forever change established but fundamentally inequitable systems. But at the same time entrepreneurship and social entrepreneurship cannot be understood equally. There are several components that distinguish social entrepreneurship from its for-profit 'relative'.

There can be found various definitions for the term '**social entrepreneurship**'. Experts from different countries and organizations actively discuss and still cannot agree on the best possible definition of social enterprise. At the broadest level, a social entrepreneur is someone driven by a social mission and a desire to find innovative ways to solve social problems that have been neglected by either the market or the public sector. In other words, the role of a social entrepreneur is to identify societal problems and offer innovative solutions to them.

According to J. Mair and I. Marti (2006) social entrepreneurship definitions can be divided into 3 groups based on their focus to: economic entity (a social enterprise), the individual (social entrepreneur) or the process. For example, when the focus is on the organizational entity, the issue of profit allocation has been widely debated as a defining attribute of social enterprise. As S.L. Wallace (1999), J. Emerson and F. Twersky (1996) pointed out that social purpose enterprises are enterprises that trade like any other commercial establishment but return the profits to a social organisation. A lot of researchers by defining social entrepreneurship are focusing on the person – the individual social entrepreneur (Bornstein, 2007, Dees et al., 2001, Seelos and Mair, 2005, Vega and Kidwell, 2007). The third definition group focuses on process which involves either people, activities or organising process (Austin et al., 2006, Mort et al., 2003).

There are elaborated different **criteria** based on which it is possible to define a social enterprise. The UK-based Social Enterprise Coalition provides the following three characteristics that social enterprises display: enterprise orientation, social aims and social ownership. Enterprise orientation means that social enterprises are directly involved in producing goods or providing services to a market. Social aims mean that they have explicit social and environmental aims such as job creation, training or the provision of local services. And many social enterprises are also characterized by their social ownership. They are autonomous organisations whose governance and ownership structures are normally based on participation by stakeholder groups (employees, users, clients, local community groups and social investors) or by trustees or directors who control the enterprise on behalf of a wider group of stakeholders.

K. Alter (2004), on the other hand, provides the following nine characteristics of social enterprises:

- ◆ they use business tools and approaches to achieve social objectives,
- ◆ blend social and commercial capital and methods,
- ◆ create social and economic value,
- ◆ generate income from commercial activities to fund social programs,
- ◆ they are market-driven and mission-led,
- ◆ they measure financial performance and social impact,
- ◆ meet financial goals in ways that contribute to the public good,
- ◆ enjoy financial freedom from unrestricted income,
- ◆ incorporate enterprise strategically to accomplish mission.

J. Pearce (2003) has found out six common elements for social enterprises: having a social purpose, engaging in trade (at least in part; delivering services to clients which are paid for by a third party, sales to a customer, etc.), non-distribution of profits, holding assets in trust for community benefit, democratic ownership and accountability to a range of stakeholders. Similar determinants for social enterprise are described by J.L. Thompson and B. Doherty (2006).

The author combines previously mentioned characteristics of social enterprise and highlights one more - involvement of marginalized or excluded people (Figure 1).

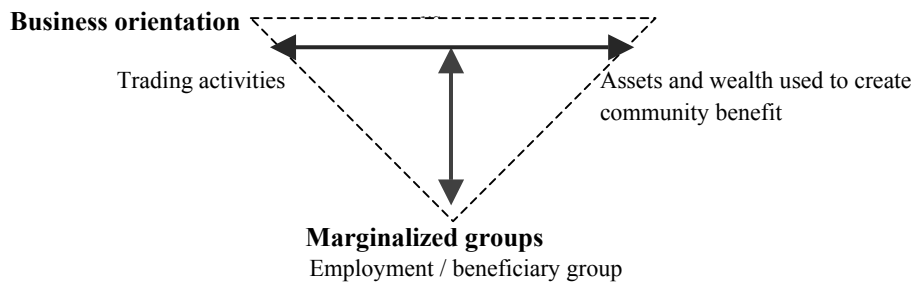


Figure 1. Characteristics of social enterprises.

Source: Made by the author

The author emphasises that, firstly, social enterprises have a **social purpose** or purposes such as job creation, training or the provision of local services. Secondly, it is achieving the social purpose by, at least in part, engaging in trade in the marketplace. It means they are **run as a regular business** just with a social purpose. Organizations are directly involved in business activity, supplying goods or services to the market and earning incomes as a result. Sometimes it is very hard for social entrepreneurs to find the balance between these two categories – business orientation versus (vs.) social purpose. That’s why M. Yunus (2010) distinguishes two types of social businesses - non-loss, non-dividend companies (companies devoted to solving social problems and owned by investors who reinvest all profits in expanding and improving the business) and profit making companies (owned by poor people, either directly or through a trust that is dedicated to a predefined social cause). Thirdly, it is significant to employ a certain number of **marginalized people** or give them benefit of trading activities – provide them with cheaper products and services they can afford.

Based on the previous findings, the author defines the **social enterprise** as a practical, innovative and sustainable business creating primarily social value, as well as economic value by employing (or making them as a major beneficiary group) marginalized or excluded people in business where

income generation has an important supporting role. By working this way such businesses can solve particular social and economical problems.

2.External and internal factors influencing social entrepreneurship

M. Bull et al. (2008) analyses factors and barriers influencing social enterprise in different organisation life cycles – from courtship to organisations death. According to his research, there can be determined different factors influencing social enterprise – the size of the enterprise, lack of resources, finance and funding, etc. All factors are related to one or another stage of the organisation life cycle. S. Grant (2008) analyses four influencing factors in New Zealand – socio-cultural norms, political reforms, legislation and international culture introduced by international citizens.

The author in the research emphasises external and internal factors influencing social entrepreneurship development in Latvia. **External factors** are opportunities and threats outside the business that it cannot control directly. For example, political and legal factors, cultural values in society, economical and technological factors, etc. **Internal factors** are opportunities and threats inside the business it has to compete with (Figure 2).

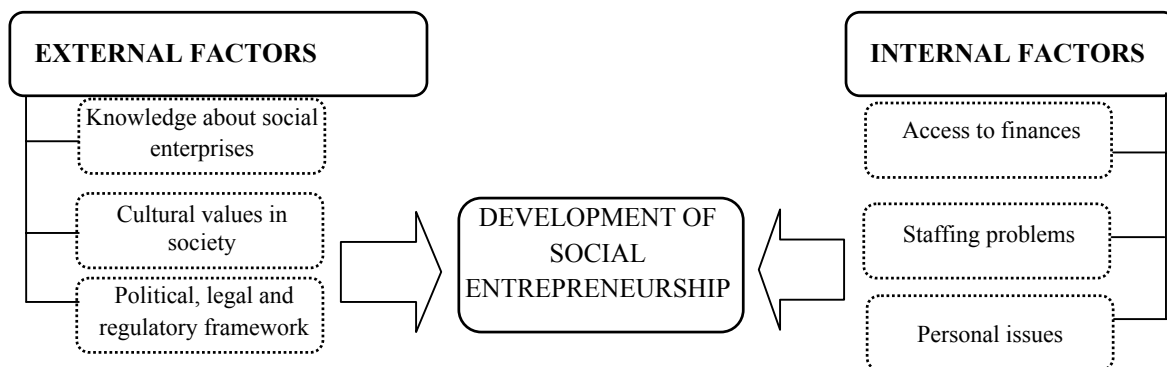


Figure 2. Factors influencing the development of social entrepreneurship in Latvia.

Source: Made by the author

Firstly, there is a **lack of understanding about social entrepreneurship** as a term. Even entrepreneurs who act as social entrepreneurs sometimes don't know that they are social entrepreneurs. According to E. Žagare (2009) research, only 37% of Latvia residents have heard the term 'social entrepreneurship' and have some understanding about it. But the understanding of this term should be strengthened by the explanation of benefits and functions that social enterprises fulfil in society. For example, social enterprises have a high potential to create and maintain a stable level of employment. According to the data of the CSB (Central Statistical Bureau, 2011) in 2009 employment rate significantly decreased compared with 2008 (for 7.4%) and unemployment rate increased (for 9.4%) because of economical crisis. Based on Government employment agency data unemployment rate is still very high - in January 2011 it was 14.3%. Furthermore, social enterprises can create jobs and provide support to socially vulnerable (marginalized) groups, for example, the disabled, pre-staff, etc. In Latvia last 15 years there have been no significant changes in employment terms for disabled people. In 1995 there were 4109 workers with disabilities in the country and almost twice as many (7895) unemployed people with disabilities. After the latest available data of CSB (Central Statistical Bureau, 2011) the author concludes that there have been no significant quantitative changes (in 2008 there were 7313 disabled unemployed people). Establishment of social enterprises is important for employment of socially vulnerable groups. In Latvia there are several such companies - the Business Opportunities Fund and the Short-term employment agency that offer job for people with disabilities, Mammu! - employing mothers for handicraft development, Tac-Osona Work Center, where most of the workers are people with intellectual disabilities and other disabilities, ziedot.lv - social enterprise that provides a variety of services, the Idea Partners Fund charity shops etc. Also it is essential to emphasize that social entrepreneurs create social innovation in various areas and promote development of entrepreneurial skills. According to the Global Entrepreneurship Monitor 2009 study, 69% of respondents noted that they lack entrepreneurial skills and knowledge, which makes business environment in Latvia look poor compared with other European countries.

Secondly, the economist and social entrepreneur Marcello Palaci (Unused Potential for Social Entrepreneurship in Latvia, 2009) highlights that a huge obstacle for development of social entrepreneurship in society is '**architecture of capitalism**' where the main focus is on profit making. And the performance of business which is coordinated alongside with society aims is not so important. D. Bornstein and S. Davis (2010) emphasize that thinking of society has to be moved from 'me' to 'us' and, eventually, to 'all of us'. But this is important to make a step forward of changing the way of people thinking and understanding of social enterprises significance.

Also, the way of thinking should be changed for some society groups that are used to receive support but

not to earn it. That is why charity programs (also lead by Nongovernmental organizations (NGO)) have the inevitable effect on taking away the initiative of those who receive the benefits. Poor people who become dependent on charity do not feel encouraged to stand on their own feet. By contrast, as M. Yunus (2010) and D. Bornstein and S. Davis (2010) noted people who pay a fair price for the goods and services they receive are taking a giant step toward self-reliance. Thus, social enterprises lead more directly to genuine, long-term solutions to such problems as poverty, inequality and oppression.

Thirdly, social entrepreneurship is influenced by **political and legal framework** in Latvia. For example, in the UK political climate is one which visibly supports the development of social enterprises but in Latvia the great obstacle is that social entrepreneurship is not legally introduced in legislation and is not accepted as the form of entrepreneurship. Also, there are several prejudices from governmental institutions against NGO who are establishing social enterprises and also other forms of entrepreneurship that has a social purpose. J. Bland (2003) describes the importance and difficulty of choosing the best legal structure to fulfil a social enterprise's multi-faceted aims. According to Global Entrepreneurship Monitor 2009, there can be distinguished different social entrepreneurship types in Latvia. Some of those social enterprise types don't generate incomes - traditional NGOs who has purely social goals and not-for-profit status and not-for-profit social enterprises. But hybrid social enterprises (purely social goals and some complementary economic activity), for profit social enterprises and social activities for profit motives are able to generate profit by themselves (Figure 3). Unfortunately, it is not possible to make comparison of quantitative changes during longer period as there were no previous findings about it.

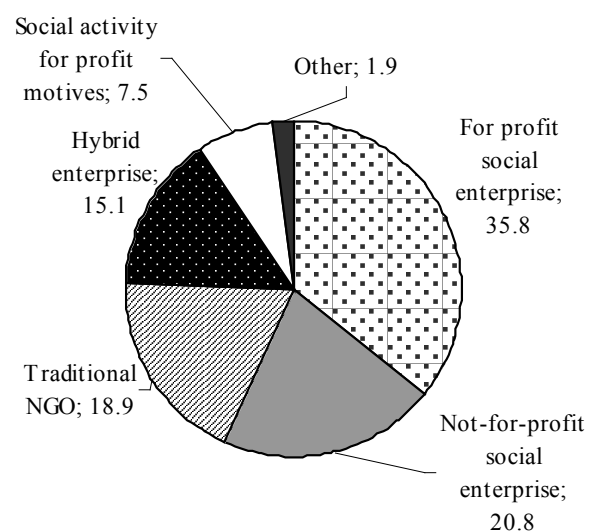


Figure 3. Social entrepreneurship by type of activity in Latvia in 2009 (%).
Source: Global Entrepreneurship Monitor 2009

R.L. Martin and S. Osberg (2007) hold the view that the government needs to provide an enabling legal and regulatory environment for social enterprises to thrive. Furthermore, social and environmental issues should be given a political priority. In Great Britain there are set four areas where the role of the government is most important: foster a culture where there is a complete information about the potential of social enterprises, ensure that the right information and advice is available to those running social enterprises, enable social enterprises to access appropriate finance and ensure that social enterprises are able to do business with the public sector and work with government to achieve shared objectives. According to K. Alter (2004), the law in many countries does not make neither provision nor recognition of a social enterprise as a legitimate legal entity. However, some countries have made special provisions in their law and tax codes for social enterprises. While the legal environment varies from country to country, a general lack of clarity in the law about the legality and tax treatment of enterprises engaged in commercial activities in emerging market countries results in a variety of practical and ethical challenges.

Fourthly, there are problems with **access to finance and investment**. R.L. Martin and S. Osberg (2007) and J. Brown (2002) say that social enterprises have lack of consistent, flexible and long-term financing. B. Hynes (2009) research revealed that social entrepreneurs face with funding problems which prevent establishment and development of social enterprises. Financing enables social entrepreneurs to hire talented employees, find a market, rent a space, pursue pilot projects, and carry out other activities related to growing their enterprises. K. Alter (2006) stresses that social enterprises are capitalized through a variety of different instruments such as grants, loans and charitable contributions. Unfortunately, it doesn't work well in Latvia. The high cost of credit and loans and collateral requirements is a problem in accessing funds for social enterprises. Also, in Latvia there is no specific venture capital fund where social entrepreneurs can borrow from. Social entrepreneurs are treated on the same level as other commercial organisations when seeking funds. There is no government support and there is a lack of links with foreign partners on sources of finance. A. Westall (2007) recommends that banks and community development finance institutions should be encouraged to work together and co-finance social enterprises wherever it is appropriate. Governments may also need to extend the availability of support, for example through matched funding or tax relief on investment in social enterprises. So far in Latvia there have only been possibilities to apply for Soros Foundation - Latvia announced programmes which promote social entrepreneurship development in regions for a short period. It can be concluded that in Latvia social entrepreneurs act like enthusiasts and they seek to find funding from the different sources in the same way as mainstream entrepreneurs.

Fifthly, in social enterprises **problems with recruiting and retaining staff** can occur. C. Leadbeater (1997) and B. Imperatori, D. Ruta (1996) suggest that success of the firm is its ability to attract and retain employees with the right skills and knowledge. According to R.L. Martin and S. Osberg (2007), social enterprises lack the ability to attract the talent and commitment needed to expand their impact. Developing and retaining talent and balancing professionalism with entrepreneurialism and passion for the mission is also difficult. Whereas some have the social skills to work in social enterprises, they lack the entrepreneurial skills necessary to blend entrepreneurship with social missions. This lack of blended skills impacts negatively on the ability of the firms to achieve greater benefits to the target communities. Retaining staff in the social enterprise may not always be an easy task also because of a lack of financial resources, inability to guarantee job security or provide attractive salaries (Bornstein, 2007). It is a challenge for social entrepreneurs to incentivise staff through non - financial awards. A. Amin (2009) states that there are different category employees with diverse motivation. The first category employees have ethical reasons. Those can be university graduates who want to obtain a career opportunity and a space of ethical practice. The second category of employees is the individuals who have 'fallen' into the social enterprise – sometimes after personal mishap or due to forced exit from mainstream employment. Sometimes work in social enterprises change their value preferences and they stay there for a longer time than previously expected. The third category is the individuals for whom working in social enterprise is a matter of earning income or gaining experience before moving to other job. According to CSB data, in Latvia in 2009 there were 12% people without work experience (Central Statistical Bureau, 2011). It means that social enterprise can be a way how to get working experience which is very important for university graduates and students. Also, in social enterprises individuals with limited skills, experience or knowledge, frequently from socially disadvantaged backgrounds can be involved.

Finally, there are some **personal issues** that affect social enterprises. B. Hynes (2009) stressed that there are personal challenges for social entrepreneurs in growing their business. They have to do different tasks which are sometimes completely different from their previous experience. Also, social enterprises are founded by one or a number of people and when they retire, those below them may not be able to carry on with the vision.

It can be concluded that there are several factors that hinder the development of social entrepreneurship in Latvia. It should be overcome by disseminating information about significance of social entrepreneurship and by active discussions with municipality and government specialists to solve legal and political problems related to social enterprise issues.

Conclusions

1. Social business is a new kind of business which is quite distinct from a traditional profit-maximizing business. The goal of social enterprise primarily is to solve a social problem by using business methods, including the creation and sale of products or services.
2. There are various definitions of the term 'social enterprise' but the explanation of it has to be based on three main characteristics – social purpose, business orientation and employment or making benefit to marginalized groups.
3. Significant external factor influencing social entrepreneurship development in Latvia is a lack of knowledge about social entrepreneurship and its importance in social and economical problem solving, as well as cultural values in society. The main external factor that hinders extension of social enterprises is political and legal environment because in legislation it is not recognized as a legal entity. Also there isn't any support from government for establishment and development (funding, tax reliefs) of social enterprises in Latvia.
4. Substantially social enterprises are affected by internal factors – recruitment and retention of qualified staff and access of finances. It is hard to compete with a level of salaries offered by traditional profit making businesses, but social enterprises can offer meaningful job with provision of great experience. Access of finances is usually solved by investing capital from family, friends or taking a bank loan with the same requirements as traditional businesses do.

Acknowledgments

Academic study and publication is financed by the project „Support for doctoral studies in LUA” /2009/0180/1DP/1.1.2.1.2/09/IPIA/VIAA/017/

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