

# **Nonprofit organizations in selected CEE countries: A journey to sustainability**



Gabriela Vaceková & Mária Murray Svidroňová





Instytut Naukowo-Wydawniczy „Spatium”  
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# **Nonprofit organizations in selected CEE countries: A journey to sustainability**

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this work is also truly yours!*





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# LIST OF ABBREVIATIONS

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ANA	- Annual National Accounts
AT	- Austria
CA	- Civic associations
CEE	- Central and Eastern Europe
CIRIEC	- International Center of Research and Information on the Public, Social, and Cooperative (Centre International de Recherches et d'Information sur l'Economie Publique, Sociale et Coopérative)
CSO	- Czech Statistical Office (Český statistický úřad)
CZ	- Czech Republic
CZK	- Czech Crown (Česká koruna)
EMES	- Emergence des Entreprises Sociales en Europe
ERDF	- ERDF - European Regional Development Fund
ESF	- European Social Fund
EU	- European Union
EUBA	- University of Economics in Bratislava (Ekonomická univerzita v Bratislave)
GDP	- gross domestic product
LIPSE	- Learning from Innovation in Public Sector Environments
Ltd.	- Limited
MPSV	- The Ministry of Labour and Social Affairs (Ministerstvo práce a sociálních věcí)
NF	- Noninvestment funds
NGO	- nongovernmental organization
NPO	- nonprofit organization
o.p.s.	- public benefit organization (obecně prospěšná společnost)
OECD	- Organization for Economic Co-operation and Development
ÖVP	- Austrian People's Party (Österreichische Volkspartei)
PBO	- Public benefit organizations

- SANI – Satelit Account of Nonprofit Institutions
- SČMVD – Union of Czech and Moravian Production Co-operatives  
(Svaz českých a moravských výrobních družstev)
- SE – social economy
- SK NACE – Slovak Nomenclature statistique des activités économiques dans  
la Communauté européenne (klasifikácia ekonomických činností)
- SPSS – Statistical Package for the Social Sciences
- SVK – Slovakia
- TESSEA – Thematic network for social economy  
(Tematická síť pro sociální ekonomiku)
- UMB – Matej Bel University (Univerzita Mateja Bela)
- US – the United States
- WISE – Work Integration Social Enterprise
- WU Wien – Wirtschaftsuniversität Wien  
(Vienna University of Economics and Business)

# INTRODUCTION

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Nonprofit organizations play an important and irreplaceable role in building a civil society. They are one of the main pillars of democracy and bearers of its principles, which can be used to argue the merits of their own existence and the intensive research of their field both on a theoretical and practical level.

Based on an interdisciplinary methodological approach, this scientific monograph shows the role and position of nonprofit organizations in the national economy in selected Central and Eastern European countries. The data used were collected in the course of the authors' common research, which focuses on the funding of nonprofit organizations, including self-financing and commercialization issues; financial controlling as a tool of nonprofit organizations' financial management; and nonprofit organizations as bearers of social innovations. Based on the stage of research, we provide data analysis supporting the researched issues in the Czech Republic, Slovakia, and Austria.

The text itself is divided into five main chapters: the theoretical and conceptual base of the nonprofit sector and the social economy, the history of nonprofits in selected CEE countries, the importance and justification of the nonprofit sector, the current state of nonprofit organizations and their funding, and the future of nonprofits in the social economy and social innovations. The subchapters are logically connected and enable the presentation of the researched issues in a wider context of interdisciplinary overlaps with other scientific fields. Individual chapters contain relevant empirical data from the authors' own research, vividly illustrating the nonprofit sector in selected CEE countries and its never-ending journey to sustainability, while earning its position, funding, and independence.

Sustainability of nonprofit organizations is a key concern for today's nonprofit scholars and practitioners. The sustainability of any organization means its capacity to fulfill its mission in the most effective way. In other words, sustainability ensures that an organization works continuously for as long as possible in the marketplace. The scientific monograph describes this journey to sustainability, while examining the challenges and opportunities for nonprofit



organizations in achieving a stable marketplace and a strong position in the national economy.

The authors hope that this monograph provides a sufficient methodological and theoretical basis for further research and creates a space for discussion in areas beyond the range of the issues within the monograph. It may serve as an inspiration for the theory and practice of nonprofit organizations internationally and as a basis for further scientific activities.

*Authors*

# CHAPTER 1

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## Theoretical and conceptual foundations

In the presented scientific monograph, we explore the journey to sustainability of nonprofit organizations in selected CEE countries. We make efforts to pave this journey with abundant empirical material that we have managed to collect and evaluate during our long-time common research, and also with a solid theoretical framework upon which we build our assumptions and draw the conclusions.

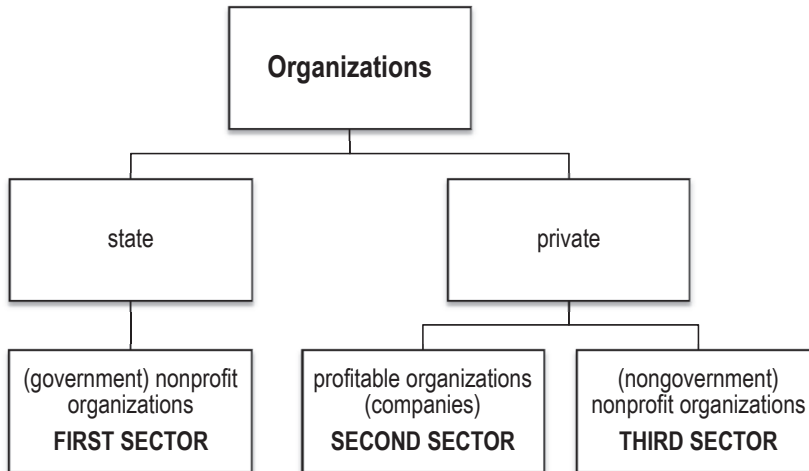
### 1.1. Nonprofit sector

Recently, there has been a considerable surge of interest throughout the world in the broad range of organizations that operate outside the market and the state. Known variously as the „nonprofit”, „nongovernmental”, „voluntary”, „civil society”, „third”, or „independent” sector, it involves numerous types of entities, including hospitals, universities, social clubs, professional organizations, day care centers, environmental groups, sports clubs, job training centers, and human rights organizations (Salamon, Sokolowski & Anheier, 2000). For clarity, it is necessary to provide a brief insight into the main definitions of the nonprofit sector and organizations operating within it. In the following part we define the terms but if not specified by „nonprofit organizations” we mean both governmental and nongovernmental nonprofit organizations, only when we want to stress the private character of nonprofits, we use the term nongovernmental organizations.

#### 1.1.1. Nonprofit organizations and their position in the national economy

To understand the principles based upon which nonprofit organizations exist, it is important to define their position within the national economy, determining the limits within which these organizations carry out their activities and fulfill their missions. In order to describe the organizations operating within the third sector, nonprofit scholars use the term „private nonprofit organizations”

as the most accurate for expressing the fact that these organizations result from a three-sector economy. To explain the origin of the name it is the best to use the following scheme:



**Figure 1.** Scheme of three sectors of the national economy

Source: Svidroňová, Vaceková, 2012.

Some authors have suggested that the nonprofit sector is by nature unsuited to singular definitions (Chew & Osborne, 2008). Pestoff (1992; 1998) modified this perspective by situating the nonprofit sector at the center of the welfare triangle (figure 2), clearly separated from the state, market, and community (households) by major social divisions, i.e., public/private, for-profit/nonprofit, and formal/informal.

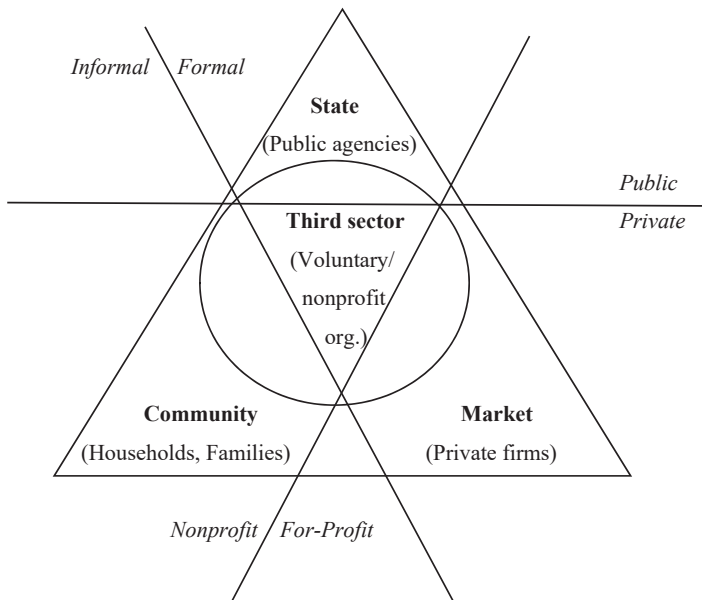
The welfare triangle helps to define major governance institutions in society and to depict the changes in the welfare mix in post-industrial societies. Along with the market, state, and community, there is the nongovernmental nonprofit sector. It is comprised of voluntary organizations, civic associations, sports clubs, social enterprises, popular movements, etc. (Pestoff, 1992).

One advantage of Pestoff's classification is that the triangle image makes it possible to read the basic characteristics of the organizations operating in the individual areas. The diagram greatly contributes to the understanding of the nonprofit sector position. The entire triangle represents a national economy. It is divided into three areas, reflecting the following divisions:

- Formal/informal sector – the division reflects whether there is a legal entity. Legal entities are regulated by acts, making them formal;



- Public/private organizations – the division is a reflection of who founded, owns, and operates the organization. Sometimes this division is problematic, especially due to unclear legal regulations;
- Profit/nonprofit organizations – this division is a reflection of the purpose for which the organization was founded. This is indicated by legal regulations and the Income Tax Act.



**Figure 2.** The welfare triangle

Source: Authors, based on Pestoff, 1992.

The nonprofits are located in the center of the triangle, indicating that they are:

- Private – founded by private entities, not by government. They may even be founded by individual citizens or legal entities;
- Nonprofit – not founded for the purpose of generating profit;
- Formal – their image and position is adjusted by relevant acts.

The triangle also shows boundary organizations, which represent a transition at the boundary of one type of division. An example of a boundary organization is a private middle school, the function of which is involved in the public sector, and which is partially financed from public sources, but which has a private character. A special type of boundary organization is a state enterprise that was established for business purposes by a public sector institution and which attends to state property. A part of the private nonprofit sector is consti-

tuted by households that create groups for their activities, but they cannot be called organizations or institutions because they are informal, i.e. they were not established based on government legislation. Usually these groups are charity associations or are focused on free time activities for children. They may be informal associations that defend the rights of certain groups or communities outside legislation. They have been described as neighborhood or family associations. The nonprofit sector is involved in the for-profit market sector through the nonprofit activities it practices using available legal forms, e.g. based on the Commercial Code. This makes it possible to establish stock companies, limited companies, and cooperatives for charity, education, sports, and other missions (Rektořík, 2001). Boundary organizations are a place where a nonprofit mission may deviate from the standard nonprofit activities to favor commercial activities, in order to secure means for the organization's operation. However, sometimes partial or complete deviation from the mission or clients for which the nonprofit organization was founded may occur.

Hybrid organizations reflect the situation in which the government transfers part of its responsibility, e.g. for providing certain services to nonprofit organizations. A good example of this is a social enterprise (see Chapter 1.2 and 5).

Another interesting aspect of the nongovernmental nonprofit sector is the relative size and strength of individual participants. In the past, in both the Czech Republic and Slovakia, the role of government in providing public services was significantly strengthened, similarly to that of countries of northern Europe. The opposite situation may be the liberalized model in the USA. When the government role is significantly small, the vacant space is filled by companies and households. However, households are often unable, either financially or organizationally, to secure some services alone. This creates a role for nonprofits, which often provide the services that the government does not secure and that households are unable or unwilling to buy from companies. Even when the government plays a significant role, this does not mean that nonprofit organizations cannot exist. In this situation, they still react to needs; however, these needs may have other themes, such as free time activities. For example, in the Czech Republic, where the government now plays a weaker role in sports, there are numerous sport clubs (Pavlík, 2013), and in Slovakia there are many civic associations (Kuvíková & Svidroňová, 2013).

The scope of the nonprofit nongovernmental sector is so diverse that it is impossible to find a single term to define its organizations. In light of this diversity, many authors (e.g. Anheier & Salamon, 1999; Pestoff, 2006; Rektořík, 2001; Rose-Ackerman, 1996; Toepler & Salamon, 2003; Weisbrod, 1988; Anheier, 2014; Soňta, 2011) have expressed a preference for a broader description of these organizations. One commonly used term is „nongovernmental organizations” (NGOs).

Anheier and Salamon (1999) used a structural/operational definition. According to this definition, an NGO should meet five characteristics:

- organized, i.e. institutionalized to some degree in terms of their organizational form or system of operation;
- private, i.e. institutionally separate from government;
- nonprofit-distributing, i.e. not returning any profits generated to their owners or directors but plowing them back into the basic mission of the agency;
- self-governing, i.e. equipped with their own internal apparatus for governance; and
- voluntary, i.e. involving some meaningful degree of voluntary participation, in the operation.

The structural/operational definition emphasizes the basic structure and operation purposes of the organizations rather than their sources of income.

Based on these characteristics, the following types of nongovernmental organizations operate in the Czech Republic, Slovakia, and Austria (table 1):

**Table 1.** Type of nongovernmental organizations fulfilling structural/operational definition

Country	The Czech Republic	Slovakia	Austria
Type of NGO	Associations and institutes (spolky a ústavy)	Civic associations (občianske združenia)	Association (Verein)
	Foundations (nadace)	Foundations (nadácie)	Foundation (Stiftung)
	Public benefit organizations (obecně prospěšné společnosti)	Public benefit organizations (neziskové organizácie poskytujúce všeobecne prospešné služby)	Public benefit organization (gemeinnützige Kapitalgesellschaft)
	Endowment funds (nadační fondy)	Noninvestment funds (neinvestičné fondy)	Cooperative (Genossenschaft)

Source: authors.

In addition to these NGOs, there are various other organizational types of nonprofit organizations, including informal nonprofits that are mostly represented by nonregistered active groups of residents actively involved in local public affairs, sometimes acting under a joint name.

### 1.1.2. Theories of the nonprofit sector

Several theories have been advanced to explain the economic role of nonprofit organizations. Table 2 introduces the major theoretical approaches, presenting a summary, key terms, key strengths, and key weaknesses.

Table 2. Theories of the nonprofit sector

Theory	Summary	Key terms	Key strengths	Key weaknesses
Heterogeneity Theory A.K.A.: <i>Public Goods or governmental failure theory</i>	Unsatisfied demand for public and quasi-public goods in situations of demand heterogeneity leads to emergence of nonprofit providers	Demand heterogeneity; median voter; government; quasi-public goods	Explains part of government-private institutional choice dynamics in liberal democracies in the context of public fund shortages; why nonprofits become „gap-fillers.“	Assumes inherent conflict between government and private nonprofit provision
Supply Side Theory A.K.A.: <i>Entrepreneurship theory</i>	Nonprofit organizations are a reflection of demand heterogeneity, served and created by entrepreneurs seeking to maximize non-monetary returns	Social entrepreneurship; non-monetary returns; product bundling; demand heterogeneity	Explains close link between value base of many nonprofits and choice of service field such as health and education (to maximize value impact and formation)	Assumes neutral state; equates religious and secular value-based behavior; what about non-value based nonprofits?
Stakeholder Theory	Given information asymmetries between provider and consumer, stakeholders decide to exercise control over delivery of service	Nonrival goods; information asymmetry; trust; principal-agent problems	Introduces tripartite relation as basic theoretical problem and goes beyond simple principal-agent issues: Stakeholder – provider – recipient	Scope of theory limited to experience of informational problems faced by deeply concerned stakeholders – what about more conventional nonprofits?
Trust Theory A.K.A.: <i>Contract or market failure theory</i>	Non-distribution constraint makes nonprofits more trustworthy under conditions of information asymmetry which makes monitoring expensive and profiteering likely	Non-distribution constraint; trustworthiness; information asymmetry	Explains part of nonprofit – for-profit institutional choice from supply-side perspective, with focus on inherent problems in „nature“ of good or service	Other institutional responses possible (government regulation); nonprofit constraint weakly enforced; indirect profit distribution possible (for profits in disguise)
Interdependence Theory A.K.A.: <i>voluntary failure theory or third party government theory</i>	Because of (initially) lower transaction costs, nonprofit organizations precede government in providing public benefit goods, but due to „voluntary failures“ develop synergistic relations with the public sector over time	Philanthropic insufficiency, particularism, paternalism, and amateurism; third party government	Moves away from zero-sum, competitive relation between voluntary sector and government; explains frequent pattern of public-private partnerships	Assumes neutral, yet well-meaning state; equates value-based and non value-based behavior; when will synergies develop and when not – conditions unclear
Social Origins	The size and structure of the nonprofit sector are a reflection of its „embeddedness“ in a complex set of relationships, classes, and regime types	Comparative-historical approach; path-dependency; state-society relations	Move away from emphasis on micro-economic models and puts interdependence theory in context	Difficulty in testing counterfactual as nonprofit form varies significantly over time and across countries/cultures

Source: Anheier, 2013.

Serious work on the economic theories of nonprofits began in the early 1970s. All of the theories can conveniently, „if somewhat artificially” (Hansmann, 1987), be divided into theories of the economic role of NGOs – failure theories; and of their behavior – behavioral theories. These theories can be seen as both competing and complementary.

The first reconciliation of the persistence of nonprofit organizations with classical economic theory was offered by Burton Weisbrod (1977). His theory of government failure parallels the more established theory of market failure (Le Grand, 1991). The failure-based theories of nonprofits explain their ability to overcome two types of failures (Valentinov, 2009): those involving public goods, and those involving information asymmetries. The basic assumption for this government failure/market failure theory is the limitation in the ability of the market to provide public goods in sufficient amounts. Classic economics argues that this market shortcoming would serve as a justification for the state and government. But the government tends to reflect the preferences of median voters, resulting in the persistence of unsatisfied demands for public goods. This government failure makes people turn to nonprofit organizations „to supply the public goods they cannot secure through either the market or the state” (Salamon & Anheier, 1998).

Another theoretical approach treats the unsatisfied demand for public goods resulting from state and market failures as a necessary but insufficient condition for the existence and importance of nonprofits in a socio-economic context. This supply-side theory argues that another condition is needed, namely „the presence of people with an incentive to create NGOs to meet such demand” (James, 1990).

The interaction mechanism between NGOs and government can also be understood through the resource dependence theory. „In terms of the interdependence between an NGO and the state, the level of NGO resource dependence on the government is systematically higher than the other way round; in other words, the interdependence of NGOs and the state is always an asymmetric one” (Yaguai, 2012). The unbalanced and bidirectional relationship (NGOs depend highly on government) should be turned from zero-sum into a win-win strategy.

Trust theories are based on the non-distribution constraint, which is a key structural feature of NGOs. The prohibition of profit distribution to owners is an aspect of NGO trustworthiness, because it means that „those involved in nonprofit organizations are less likely to be in the field solely for the money” (Hansmann, 1980; *ibid*, 1987). Nonprofits can be perceived as a solution for another form of market failure arising from information asymmetries, such as when consumers lack the information they need to judge the quality of goods and services they purchase, mainly when the purchaser is not the same person as the consumer.

The welfare state theory, both failure theories (underlying the heterogeneity), and supply-side theories „take as given that the relationship between the nonprofit sector and the state is fundamentally one of conflict and competition” (Salamon & Anheier, 1998). Nevertheless, close cooperative relationships can occur between nonprofits and government. The possibility of cooperative relationships is the subject of the interdependence theory. A specific version was proposed by Salamon and Anheier (1998) called the social origins theory.

A new theory to explain the role and existence of nonprofits in the economy and society is the rural theory. This theory was formulated by Vladislav Valentinov (2009) and assumes that generally the existence of the nonprofit sector is a result of the limited abilities of for-profit firms to satisfy human needs (market failure theory). Valentinov adds to this theory that there are specific characteristics of rural areas with specific human needs resulting in „rurality-specific costs”. The rural theory’s general hypothesis is that rurality-specific transaction costs led to the emergence of rural nonprofit sector organizations. Based on Valentinov’s assumptions, the recognized empirical relevance and the growing political popularity of the rural nonprofit sector have not yet been matched by a corresponding development in nonprofit sector economic theories (Moeller & Valentinov, 2012). In fact, a rural nonprofit sector economic theory has been altogether lacking. Traditional general theories of the nonprofit sector emphasized its role in providing public goods (Weisbrod, 1998), gaining consumer trust (Hansmann, 1987), ensuring better consumer control over the production of goods and services (Ben-Ner, 1986), and serving as an outlet for ideological entrepreneurship (Rose-Ackerman, 1996). These theories have clearly been developed with no regard to the distinction between rural and urban regions. Hence, none of these theories is adequately positioned to take account of the specificity of rural conditions in explaining the existence of the rural nonprofit sector. In line with the traditional nonprofit sector economic theories, the rural theory assumes that the existence of the nonprofit sector is a result of the limited ability of for-profit firms to satisfy human needs. The original contribution of the rural theory is in the argument that some of the limitations of for-profit firms located in rural areas are related to rural characteristics such as low population density, geographical dispersion, and poor infrastructure. These characteristics give rise to „rurality-specific” transaction cost that must be borne by for-profit firms located in rural areas. The rurality-specific transaction costs constrain the scope of operation of rural for-profit firms, thus diminishing their ability to satisfy rural dwellers’ wants and creating a niche for rural nonprofit sector organizations (Moeller & Valentinov, 2012).



## 1.2. Social economy

Due to the integration of countries into the European Union, there are several common definitions on the EU level, although each country defines the social economy according to their own cultural traditions and economic development (Mravcová & Jurčík, 2009).

Jacques Defourny founded a center for the social economy in 1990 and the European network EMES in 1996, which was legally adjusted in 2002. The aim of this organization is to build a European database of theoretical and empirical knowledge from university research centers. The organization was founded at the Belgian University of Liège, which is also the seat of the International Center of Research and Information on the Public, Social, and Cooperative (CIRIEC). Both institutions cooperate with various countries, carry out research and studies, and issue publications, including theories describing social enterprises and the social economy in various countries (Dohnalová & Průša, 2011, p. 31).

As a cooperating workplace, the Faculty of Humanitarian Studies at Charles University in Prague became involved in the project related to models of social enterprises and their process of institutionalization in 2013 (Department of Studies of the Civil Society, online). The aim of CIRIEC, which was established in 1947, is to collect information, conduct research, and publish works focused on public benefit services. A key concern is primarily the social economy, which is monitored throughout the world (CIRIEC, online).

CIRIEC defines the concept of the social economy as a „set of private, formally established companies with autonomous decision-making and freedom of membership, which were created to meet the needs of their members through the market and production of goods and services, insurance and financial services, where decision-making and any distribution of profits or surpluses among the members are not directly linked to the capital or fees paid by individual members, who each have one vote. Social economy also includes private and formally constituted organizations with autonomous decision-making and freedom of membership, which provide non-market services for households and whose potential surpluses cannot be allocated to economic agents, which create, control, or finance them” (Dohnalová & Průša, 2011, p. 36).

The social economy has specific activities defined by the European Economic Social Committee, including an emphasis on social objectives and social elements without any prioritized purpose to maximize turnover and profit, and a preference for values such as solidarity, social responsibility, social cohesion, democratic governance, civic participation, autonomy, and combinations of considerations and commitments related to the public interest (Vanický & Truhlářová, 2008). Events in the European Union have shown that social economy and social entrepreneurship can unite seemingly contradictory motives, such as economic

rationality and social objectives, providing opportunities for including socially disadvantaged citizens, respect for the local environment, and respect for different traditions, in order to meet the new challenges (Mravcová & Jurčík, 2009, p. 56).

### **1.2.1. Concept of the social economy**

The issue discussed in this chapter begins unusually with a question: Which came first, the social economy or the nongovernmental nonprofit sector? Proponents of the social economy argue that the term „civil society” is just a name for the social economy in the countries of Eastern Europe where the civil society developed after the fall of communism. Proponents of the nongovernmental nonprofit sector argue the opposite, that the social economy only appropriates what the nongovernmental nonprofit sector built a long time ago: active citizenship reflected into founding civic associations. Historically speaking, the nongovernmental nonprofit sector has been evolving for longer; in Slovakia its beginnings date back to the 12<sup>th</sup> century when various religious fraternities and communities formed and provided social and health services for the poor (Kuvíková & Svidroňová, 2010). The fundamental source of the social economy is the embedding of economic activities in associations with the potential to form organizations; the genesis of the social economy from a historical perspective is associated with the growth of freedom of association, especially under the influence of bourgeois revolutions in the 18<sup>th</sup> and 19<sup>th</sup> centuries (Nyssens, 2006). Individuals associating to achieve a certain purpose, not always economic, are characteristic of the nongovernmental nonprofit sector, therefore we believe that the nongovernmental nonprofit sector was the predecessor of the social economy, i.e. the social economy has been set aside as a separate area in the natural path of development of the nongovernmental nonprofit sector. The nongovernmental nonprofit sector responds to changes in people’s consciousness with its range of products and services, and that opens up the space for the social economy. The goal of this chapter is not to prove which came first or to indicate differences; on the contrary, we try to find common characteristics of the social economy and the nongovernmental nonprofit sector in order to strengthen both of the areas in which NGOs operate.

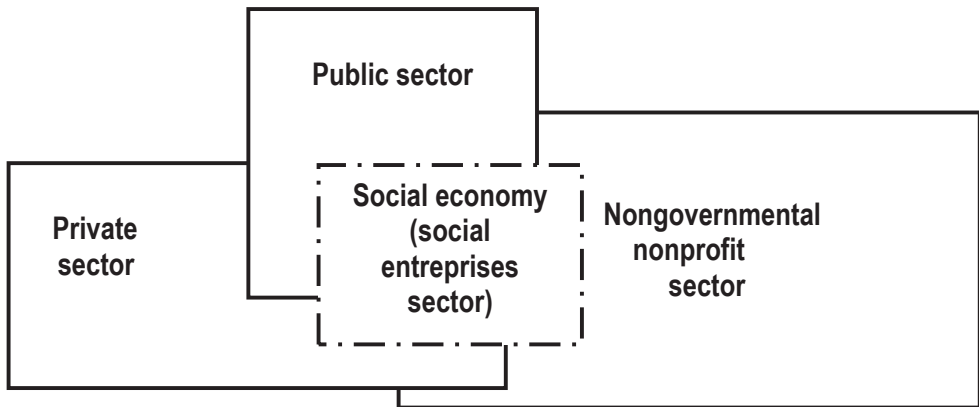
The development of the social economy is unquestionably influenced by the development of the nongovernmental nonprofit sector that focuses on the provision of public services, including social services. NGOs earned their position in the economy of every developed country as social innovators and important actors in the social economy. Many social economy subjects take the legal form of civic associations or public benefit organizations. Nongovernmental nonprofit sector organizations can be seen in a certain light as social economy organizations. This chapter addresses the shared points of the nongovernmental nonprofit sector and the social economy, summarized in the following table.

**Table 3.** Comparison of social economy and nongovernmental nonprofit sector characteristics

Sector Characteristic	Social economy/ social enterprises (SEs)	Nongovernmental nonprofit sector/ NGOs
Goal	fulfillment of social mission – to serve a local community or specific groups of citizens	fulfillment of organization's mission – to provide social benefits
Institutions	a wide variety of organizational forms, including public benefit organizations, co-operative organizations, joint stock companies, and limited liability companies	formalized and institutionalized structures, legal form given by law, usually associations and public benefit organizations, but also foundations and non-profit funds
Autonomy	social enterprises are usually created and managed by a group of people on the basis of an autonomous business plan	NGOs are not part of the public administration: they are institutionally separated from the state and have political independence
Non-distribution constraint	limited distribution of profit to shareholders or employees and the obligation to reinvest the profit (or a substantial part of the profit) to the social objectives of the enterprise	NGOs are not founded to generate profit to be shared among the owners or managers, any profits are fully returned to the organization and used in accordance with its statutes
Voluntarism	a combination of volunteers and paid staff; a minimum level of paid work	voluntary participation in activities of the NGOs; a high proportion of volunteering
Civic initiatives	typically the result of collective dynamics involving citizens or members of groups sharing a common goal or community need	established by citizens for the purpose of achieving a mutual or generally useful purpose/benefit
Entrepreneurial/ business activity	business is a main activity; goods and services are produced, i.e. they enter the market and offer their production for sale	funded under redistribution mechanisms; entrepreneurship is seen as a side activity
Funding	financial sustainability depends on the performance of members and staff and their efforts to ensure adequate resources; activities are also funded through financial support mechanisms from public and private sources; multisource funding is used	multisource funding is a principle; this may be a combination of public (government) sources, private and individual sources, grants, membership fees, income from self-financing, and business activities
Management	participatory governance, decision making involves all stakeholders	self-governance; they manage themselves through established organizational structures; the main body is usually a general assembly
Registry (for the Czech Republic and Slovakia)	register of social enterprises at the Central Office of Labor, Social Affairs and Family	relevant registers at the Ministry of Interior

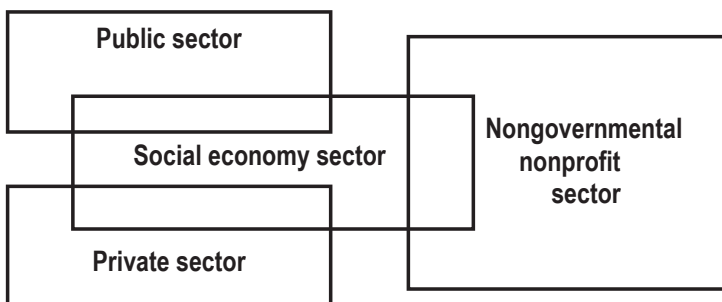
Source: Svidroňová, 2014.

For a better understanding of the differences between the social economy and the nongovernmental nonprofit sector, we also defined the space for the realization of the social economy. It can be seen as a space for a specific type of business-social entrepreneurship. Bearing in mind the sectoral breakdown of the economy, the space for the social economy/social entrepreneurship can be defined more precisely in two alternatives. In the first alternative, social economy (social entrepreneurship) is the intersection of the public, private, and nongovernmental nonprofit sectors. The second alternative defines the area of the social economy (social entrepreneurship) as an independent sector. These alternatives are shown in figures 3 and 4.



**Figure 3.** Sectoral definition of the area of the social economy – alternative 1

Source: Korimová, 2014.



**Figure 4.** Sectoral definition of the area of the social economy – alternative 2

Source: Korimová, 2014.

The social economy is considered a certain alternative to the public sector and the market. Its development is related to solving problems of the welfare state while sharing responsibility for the quality and range of services. This responsibility should be shared by the public sector, businesses, and the nongovernmental nonprofit sector.

„The concept of social economy is based on the premise that the state and municipalities can no longer fully meet the diverse and growing needs of the population, nor fund them; however, that a purely commercial approach does not meet the demands of a democratic society either” (Mravcová & Jurčík, 2009, p. 56). The added value of the social economy is strengthening the use of social capital. Social capital includes interpersonal relationships, trust, and understanding and helping others (ibid). The development of the social economy in the Czech Republic and Slovakia was primarily a result of inadequate funding and the necessity of meeting the growing needs of the population (Jurčík, 2009). An important period in the development of the social economy in both countries was their entry into the European Union (Hunčová, 2007).

Two key objectives of the social economy are the inclusion of disadvantaged people in the labor market and the reduction of dependence on state aid. The state acts as an initial support in social enterprises and facilitates conditions that could lead to the development of social enterprises (Hunčová, 2007). The social economy includes activities carried out by cooperatives, associations, and mutually beneficial organizations, the purposes of which are to provide services to clients, but not to make a profit (Dohnalová & Průša, 2011). A definition based on the European context that is fully adaptable to the current Czech environment and social economy was approved by the annual membership meeting of TESSEA (Thematic network for social economy in the Czech Republic) and revised in 2011. „The concept of social economy is perceived as a summary of activities undertaken by subjects of the social economy aiming to increase employment in local conditions or to satisfy other needs and goals of the community in the area of economic, social, cultural, and environmental development” (Francová, 2011, p. 14). The concept of social economy is currently innovatively applied mainly to self-governed, private, nonprofit entities, whose decision-making processes include democratic elements. These entities are associations of people seeking primarily to achieve publicly beneficial objectives by means of economic activities in the market. All the activities of these associations have positive social impacts on the surrounding areas (Hunčová, 2007).

Although the social economy was officially recognized by the French government in the 1980s, and over time spread to other European countries, it is a relatively new concept in Slovakia. With the recent developments in Slovak society, a new area of economic activity has emerged which can be termed a social economy. We agree with Lubelcová (In: Jakab, 2008) that the issue of unemploy-

ment is one of the most significant social challenges of the 21st century, standing in the background of the establishment and development of the social economy. Modern societies continue to seek an answer to the problem of employing specific population categories, such as mentally challenged people, young graduates, single parents, etc. Developed economies produce mainly highly-skilled professions, but this decreases the range and offer of jobs for low-skilled and/or unskilled members of the population, which then remain permanently out of work and stay unemployed. This phenomenon has led to the social exclusion of vulnerable categories of the population.

Lubelcová (2012) identifies the causes for the social economy development in Slovakia as follows:

- the employment crisis – slowing economic growth, restructuring the modern economy, increasing labor productivity and a consequent increase in unemployment leading to the need to strengthen employment policies (especially active forms);
- crisis of the welfare state – long-term unemployment caused increased poverty and social exclusion risks for certain categories of the population, resulting in pressure on social policies;
- taking over from NGOs – social enterprises took over from NGOs' organizational forms, a specific type of management, social objectives, and voluntary work.

According to Pollák (2013, p. 6), the social economy is linked by two principles: social (solidarity, social inclusion, and social development) and economic (competitiveness and economic sustainability). The focus on social contributions and an innovative approach to achieving social economy objectives constitute a major difference between social entrepreneurship and other forms of private, public, and civil/nonprofit sectors. Social entrepreneurship is characterized by three dimensions: social benefits, market orientation, and innovation. The innovation dimension is described in subchapter 5.2.

In practical terms, „the social economy is made of different types of social actors who are independent from the public administration, even if they deal with the production of goods and services supported by public funds because they prioritize social goals: work before capital, public interest before profit, democratic participation regardless of ownership interest in an enterprise, potential profit reinvested to social and developmental purposes.” (Korimová, 2014, p. 51).

One of the main roles of the social economy is improving people's living conditions, ensuring the development of individuals as well as various social groups. The basic objective is to mitigate social inequalities. One of the most appropriate ways to eliminate these inequalities is the development of social entrepreneurship.

### 1.2.2. Social entrepreneurship and social enterprises

Social entrepreneurship is a part of the social economy, although its characteristics are perceived differently by different authors. The definition of a social enterprise has similarly varied perceptions, as outlined in the next section. In social entrepreneurship, a description of the difference between social enterprise and social integration enterprises is especially important. The summary of terms and definitions is processed here according to an extensive review of Czech, Slovak, and foreign literature. Subjects and key stakeholders involved in the social economy that are indispensable for its existence are defined within this chapter.

The key period associated with the first mentions of the social economy is the early 21st century, when new problems began to appear for which European countries had to seek innovative solutions. This essentially concerned the increased number of disadvantaged people, connected with the difficulties of their integration into society. Many problems are related to demographic changes, including an aging population and the impossibility of securing necessary care by family members. It is also necessary to pay attention to the quality of life of the entire population by means of the careful and renewable use of available resources. Economic globalization has important implications as well. The area of social economy plays an important role in all these problems, because their solutions require specific innovations (Jurčík, 2009).

Social entrepreneurship reinforces the importance of self-management with the purpose of creating resources that will subsequently be used for the implementation of a given mission. Social entrepreneurship operates on the border between profit-making and nonprofit entities (Boukal, 2013). The main differences in the ways how nonprofits and business think are in table 4.

**Table 4.** Differences in the thinking of profit-making and nonprofit subjects

Thinking of charity organizations	Business thinking
Maximize profits to meet social needs.	Maximize profits to meet the needs of an owner or investor.
Providers obtain income by persuading donors to help achieve their mission.	Providers obtain income according to competition based on price and quality.
Success is based on achieving organizational objectives. The main goal is the public interest.	Success is based on abilities to maximize the difference between revenues and costs and the achieved profit.

Source: prepared by the authors, based on data from Gidron & Hasenfeld, 2012.

In cooperation with other working groups, a more specific modification of the definition of social entrepreneurship was proposed: „business activities ben-



eficial for the society and the environment. Social entrepreneurship plays an important role in local development and often creates job opportunities for people with disabilities, or with social or cultural disadvantages. Profit is mostly used for further development of the social enterprise. Increasing benefits for the public is as important as achieving profit". (Bednáriková & Francová, 2011, p. 14).

Muhammad Yunus, the Nobel Peace Prize winner and social entrepreneur, defined the conditions of social entrepreneurship as (Strzelcová, 2012):

- the business goals are solving problems that threaten society and eradicating poverty;
- business must be sustainable both economically and financially;
- profit is not distributed among the owners or stakeholders but reinvested in the development of the human capital and society;
- employees of a social enterprise work in favorable conditions for a market wage;
- at least 40% of the workers must be socially vulnerable.

Although social entrepreneurship is a relatively new subject of study, there is a considerable amount of literature on this topic in Europe. Social entrepreneurship is an activity aimed at solving social objectives related to market transactions, which correspond to operations of private organizations (Gidron & Hasenfeld, 2012).

According to Borzaga and Defourny, „a social enterprise is mainly a small or medium company, including cooperatives. Innovativeness can be seen in the diversity of goals in multisource financing, in a different approach to job creation, and also in a new type of entrepreneurship, which is a way of bearing risks on the principle of stakeholders and supporters, including partnerships with the public sector” (Borzaga & Defourny, 2001, p.12). In social enterprises, people are rewarded for their work, but there are also people who work as volunteers. With this voluntary assistance, which strengthens public confidence in these businesses, they gain better positions in the market (Defourny, Hulgård & Pestoff, 2014).

The stability of a social enterprise is required in two dimensions: its long-term survival and its maintenance of the intended balance of social contribution and success in the market over time. Survival and growth are the key motivators for any organization, whether it is for profit or nonprofit. The orientation and the character of a social enterprise is continuously influenced by financial possibilities and environmental pressure. Social enterprises are organizations that are driven by social tasks and apply marketing strategies to achieve social or environmental purposes (Gidron & Hasenfeld, 2012).

Social enterprises are required to achieve business success and to fulfill social objectives with democratic participation, while maintaining their stability over time and observing the boundaries where the company is a social enterprise and is able to remain on the market at the same time (ibid). Social enterprises are



just a different kind of company and another kind of charity organization. As Billis (2010) stated, perhaps business companies need to be more dedicated to social welfare. Perhaps charities need to be more enterprising and self-reliant. It is desirable to be a socially responsible company, even if it brings somewhat lower profits.

Stakeholders in the field of social entrepreneurship are people who are in some way involved in activities related to the social economy. Key stakeholders are determined according to their nationwide, urban, or regional scale. The parliament, which approves measures according to a selected program, as well as municipalities and regions, which are social actors as municipal units of the state, operate on these levels. The actions of all stakeholders in the social economy area are strongly influenced by the state. The state's activity is not clearly defined, nor is the extent of intervention in a certain sphere. The task of the state in the field of social entrepreneurship is primarily to create and provide a space in which there are mechanisms for strengthening social cohesion. State aid to social enterprises is therefore provided primarily thanks to the change in attitudes of the government in the area of provision of public services (Kolibová, Václavíková & Bělová, 2010).

Social economy activities are carried out by private entities who are founders, providers, and decision-makers. The founders of public benefit enterprises are referred to as social entrepreneurs. The founders may also be voluntarily formed associations of citizens that are independent of the government and take various legal forms (*ibid*).

Stakeholders include ministries, government agencies, offices, community leaders, government organizations supporting local development, community groups, other social enterprises/cooperatives, business ties, organizations supporting small and medium-sized businesses, banks and financial institutions, philanthropic organizations, religious organizations, the private sector, educational institutions, providers of EU subsidies and other providers of subsidies, local clubs and organizations, and socially responsible entrepreneurs. Stakeholders are essential for social entrepreneurs in terms of supporting and financing their activities.

Identifying these institutions and groups is essential for establishing working relationships. The stakeholders that social enterprises should focus on most throughout their activities are their own employees and the users of services or products that they offered (*ibid*).

The social entrepreneurship and its actors were defined by the European organizations EMES and CIRIEC based on international surveys. Both organizations defined social entrepreneurship on the basis of its subjects according to a normative and institutional approach. Social entrepreneurship entities are characterized by a private character, autonomous decision-making, and eco-

conomic activity (production of goods or services to people). „The main purposes of social entrepreneurship entities are the services provided to people, the community, or society; the possibility of partial redistribution of income; and the democratic principle where decisions are based on the ‘one man, one vote’ principle” (Evers & Laville, 2004, p. 11). Civil sector and social economy (social entrepreneurship) organizations are characterized by the shared features of their subjects, which include voluntariness and self-governance; they are formally organized and private (ibid). Among these subjects, there are also different characteristics; table 5 provides a review.

**Table 5.** Subjects of social economy

Criterion	Subject of the current civil sector	Subjects of social entrepreneurship, according to CIRIEC and EMES
Establishing an objective	It does not define objectives.	The main aim is to serve members, a certain community, or society.
Use of profits	A re-distribution of profit is not allowed.	A limited re-distribution of profits is allowed.

Source: prepared by the authors, based on Borzaga & Defourny, 2001.

The first mention of social entrepreneurship appeared in the 19th century, but its origin and development differs in individual regions. The subchapter 2.4 focused on the history of social economy will deal with the development of descriptions of social entrepreneurship. Since the first mention of a social economy and its specification was in France, its development is first described in the European context, and the incorporation of social entrepreneurship into the Czech and Slovak environment is then described. The developmental stages of a social business are presented as a synthesis of Czech, Slovak, and foreign sources.

# CHAPTER 2

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## History of the nonprofit sector and social economy

In order to achieve sustainable development of the nonprofit sector in any aspect of its justification and functions it has to fulfill in the national economy and civil society, it is necessary to understand the past and historical development. We focus on the history of NGOs in three selected CEE countries: the Czech Republic, Slovakia, and Austria. These countries were part of the Austro-Hungarian Empire from 1867 to 1918. During this period there was a nonprofit sector, represented by charities and various voluntary associations and self-help groups or institutions providing social and health services for the poor. After the collapse of the monarchy, the nonprofit sector was developed in the successor countries of Austria and Czechoslovakia and later on in the Czech Republic and Slovakia after Czechoslovakia split in 1993. Different political regimes have affected the nonprofit sector and its formation in these countries (Svidroňová & Vaceková, 2013). This holds true also for the social economy in these countries.

### 2.1. Development of the nonprofit sector in the Czech Republic

The description of the development of the Czech nonprofit sector is based on comprehensive work by Miroslav Pospíšil (cf. Pospíšil et al, 2013; Pospíšil et al, 2012; Pospíšil, 2009; Pospíšil, 2006), who devoted his professional life to the research of the nonprofit sector and is one of the main figures in Czech nonprofit studies.

The tradition of civil society in the Czech Republic dates back to the 9<sup>th</sup> century. Its long evolution culminated in the later 19<sup>th</sup> century and early 20<sup>th</sup> century, and in the twenty years of the first Czechoslovak Republic. In the past 25 years (1990–2015), the nonprofit sector in the Czech Republic has experienced a dramatic transformation during the transition from a totalitarian regime to a parliamentary democracy.

The most important process contributing to the rise of civil society was the Czech National Revival, during the 18<sup>th</sup> and 19<sup>th</sup> centuries. The purpose of this

movement was to revive Czech language, culture, and national identity. By the end of the 19th century, the Czech empire had the largest number of charitable and voluntary organizations in the Austro-Hungarian Empire.

During the First Republic (1918–1938), Czechoslovakia became one of the world's most advanced industrial-agrarian countries. The Constitution of February 1920 guaranteed that the new Republic would also be one of the few states in Europe to have a parliamentary democracy. Consequently, dynamic charitable and voluntary organizations flourished. Some organizations were extremely popular, almost national institutions (e.g. Sokol). The community life in the country was based on the existence of volunteer organizations.

The dynamic development of civil society and nonprofit organizations in Czechoslovakia came to an abrupt end when Hitler's Wehrmacht occupied the Czech lands in March 1939. It was the beginning of fifty years of totalitarian rule, during World War II and the ensuing Cold War. Both the Nazis and the Communists ruthlessly annihilated everything free and independent, so the free civil society was a prime target of their repression.

The effects of these totalitarian regimes were devastating. Independent citizen initiatives and opposition to the Communist regime did exist, but remained fragmented and weak. Both the early scattered opposition of the 1950s and the mightier reform movement of the Prague Spring in the 1960s were put down by force. In spite of the admirable work of cultural activists and opposition leaders, the independent volunteer sector remained small and isolated from the rest of society.

In 1989, the people finally released their long-suppressed frustration, and the Communist regime collapsed within a week. How did charity and volunteer action respond to the new freedom? There were 537 (mass) organizations in existence at the end of the Communist years; by the end of 1991, there were 21,000; in 1999, there were 60,000; there are currently approximately 120,000 nonprofit institutions in the Czech Republic.

In the first months and years after 1989, the number of nonprofit organizations dramatically increased. The country was receiving massive support from abroad for the development of civil society and nongovernmental nonprofit organizations; European and US foundations and NGOs started working in the country. In spite of their explosive growth, nonprofit organizations and the concept of civil society were generally unfamiliar to the Czech public.

In the 1990s, the rapid growth continued but there was increased awareness of the need to stabilize the new organizations, to learn necessary skills, and to improve the legal and fiscal environment for nonprofit activities.

A very positive role was played by the programs of assistance to the nonprofit sector established by the governments of many western countries and by the work of numerous foreign foundations and organizations. With their help, the sector drafted its own legislative proposals and increased pressure on the gov-

ernment and parliament. Towards the end of this period, the long-term pressure on the government began to pay off, and the relations between the state and the nonprofit sector began to improve. The excellent performance of the humanitarian organizations brought about a dramatic change in the attitude of the public to the whole sector.

The nonprofit sector continued to grow rapidly through the end of the 1990s, but the rate of growth began to slow down after 2002. The sector lacked trustworthy representative bodies that most organizations would endorse, although some of its service and umbrella organizations won wide approval. The attitude of the government gradually changed from reservation to cautious cooperation. The country became a member of the European Union (2004), which was a signal to most foreign governments to phase out their assistance programs.

Czech civil society at the beginning of the 21<sup>st</sup> century has been insufficiently researched. There was a lack of data available from the Czech Statistical Office (CZSO) and only patchy and unreliable data from several one-off research projects. Systematic nonprofit statistics and research did not exist. The situation began to improve when the CZSO introduced a satellite account on nonprofit institutions in 2007. By 2010, it had resolved the basic problems that accompanied the implementation and completed the work on a short version of the account, so that now there are time series for several years with reliable data on nonprofit institutions. A change explicitly influencing the Czech nonprofit sector was the adoption of the New Civil Code in 2014, which brought new organizational forms of nonprofits and opened opportunities for their profit-oriented activities.

## **2.2. Development of the nonprofit sector in Slovakia**

Civic and volunteer activities have had a long tradition in Slovakia. The establishment of the first nonprofit organizations in this area is related to the formation and activities of the church. The oldest examples are charities, institutions providing social and health services for the poor, and various brotherhoods of religious communities (Kuvíková, 2004).

In the 19<sup>th</sup> century, many voluntary associations and groups with self-help missions existed in Slovakia. The first break in the development of voluntarism occurred in the post-revolutionary years 1848–1849 when most of the associations ceased to exist.

In the 20<sup>th</sup> century, there were many regime changes within Slovakia and Central Europe. Slovakia was under several different regimes: the Austro-Hungarian Empire, Czechoslovak First Republic, Slovak Fascist State, Czechoslovak Republic 1945–1948, Communist Czechoslovakia, Czechoslovakia after the Warsaw Pact Occupation in 1968, Federal Socialist Czechoslovakia, and Federal

Democratic Czechoslovakia; the current Slovak Republic formed in 1993. There have been eight currency reforms and nine constitutions. The country has experienced numerous political systems, including a parliamentary democracy, a fascist regime, Stalinism, „normalization”, socialism, and the post-communist return to democracy (Hochel, 1996). Despite these changes, NGOs and civil societies were formed in Slovakia.

November 1989 brought political and economic changes and increased civic activities, as well as the entry of private institutions, including nonprofit organizations, into the economy. The number of private nonprofit nongovernmental organizations and volunteers soared. By 1993, there were almost 6,000 registered nongovernmental organizations. In one year, the number increased to 9,800; by 1996, there were already more than 12,000 NGOs. Positive growth was complicated by the government's new restrictive laws. Administrative guidelines and limits for the establishment and funding of organizations made it difficult for the existence of the nonprofit sector. In 1997, the Act on Foundations was adopted, which greatly limited the independence of civic activities; as a result, 1800 Slovak foundations were closed. After the 1998 elections, a new coalition established liberalized regulations regarding the nonprofit sector. Favorable legal and economic conditions for its further development and existence were created (Kuvíková & Svidroňová, 2010). There were attempts in early 2000 to establish a code for nonprofits that would have summarized all of the acts related to different types of nonprofit organizations, but the attempts were unsuccessful and the legislation concerning the nonprofit sector in Slovakia remains fragmented.

After the 2010 election, the government emphasized the topic of civil society, establishing a representative post for the development of civil society. Based on the representative's recommendations, the Government Council for NGOs, which had operated in Slovakia since 1999, was transformed into the Committee for NGOs. Resolutions of the Committee were to be automatically placed as a reminder to relevant materials discussed at parliamentary sessions (Radvanský et al, 2010). The government that was elected in 2010 ended after the 2012 election, and the next government came up with a proposal to create a post for a government representative for national minorities and civil society. The nonprofit sector did not agree with this proposal, wishing to maintain the post of an independent representative for a civil society. This issue has not yet been resolved.

There is no satellite account on nonprofit organizations in Slovakia. Several universities, organizations, and researchers are dealing with the issues of nonprofits (EUBA, UMB, Majduchová, Kuvíková, Marček, Bútorá etc.), but systematic statistics do not exist.

### 2.3. Development of the nonprofit sector in Austria

The nonprofit sector has a long tradition in Austria, and many of the NGOs that are active today date back to the 19<sup>th</sup> century. The formation of the civil society sector was enabled thanks to the law on registered associations, which was established in 1867. The most important types of associations, from around the turn of the century until 1914, were charitable societies and savings clubs, reflecting the lack of a public system of social security and the necessity for the working class to save for unforeseen events. The political parties of the Austrian Republic had their roots in the registered associations that were active in those times. During World War I, the activity of the nonprofit sector diminished. However, the sector later recovered and grew very quickly. In the interwar years – when fascist ideology gained ground in Austria – civil society associations played an important role in disseminating fascist thoughts, which manifested themselves within such associations first, especially sports associations. The associations served to disguise political activity and contributed to keeping fascist ideology publicly unnoticed until it emerged quite broadly (Simsa et al, 2006).

The steady increase in the number of NGOs after 1925 came to a sudden end in 1934, when the Social Democratic Party and all associations linked with it were dissolved and any further activities were forbidden. Associations with „undesirable” aims were either shut down or brought in line with nationalistic goals. All Jewish associations were dissolved. Membership in those NGOs which were co-opted by the regime was partly obligatory (Heitzmann & Simsa, 2004). After World War II, in connection with the formation of the Second Republic, the reinvigoration of the nonprofit sector was greatly influenced by political parties. Many NGOs were founded or supported either by the Social Democratic Party or by the conservative Austrian People’s Party (ÖVP). Following the retreat of the Church from current political affairs, some of the associated NGOs started to work closely with the ÖVP (Simsa et al, 2006). Due to these affiliations, NGOs had an enormous influence on politics. This constituted the basis for the corporatist system Austria has today, within which political parties, as well as the labor movement, professional associations, and NGOs in general, are represented.

In 1973, many ecological, cultural, and political movements that had been developing throughout the 1960s resulted in the founding of a huge number of registered associations. A number of self-help groups and organizations delivering services emerged, as did charity associations engaging in activities for disadvantaged people, such as drug addicts. The number of registered associations in Austria has increased steadily since then. A more recent occasion that motivated action within the civil society sector occurred in 2000, when a great number of initiatives emerged spontaneously during the course of protests against the new right-wing government (Schneider et al, 2007).



The Austrian nonprofit sector is being researched by several nonprofit scholars, mostly from the Vienna University of Business, including researchers from the Competence Centre for Nonprofit Organizations and Social Entrepreneurship (<http://www.wu.ac.at/npocompetence/en/>).

The most common legal forms for NPOs used in Austria are registered associations, foundations, corporations, and co-operatives. The organizational form of an association clearly dominates the entire nonprofit sector. Corporations can be awarded the status of a nonprofit corporation by fiscal authorities, if their statutes codify the non-profitability and if this can be verified in practice. Compared to Germany and Switzerland, Austria is able to keep up well with the participation of people donating. However, the amount of the donations is considerably higher in other countries. Austria has the lowest amount of donations of the German-speaking countries. In the Austrian nonprofit sector, many different sources of funding are used. The public sector is by far the most significant in terms of total volume.

## **2.4. History of social entrepreneurship in Europe**

The first mentions of the issues of social entrepreneurship appeared in the early 19<sup>th</sup> century (EMES online, 2010). The main reason for the creation of the contemporary social entrepreneurship sector occurred during the economic downturn in Western Europe in the 1970s. Rising unemployment caused great pressure on the social security system. Societies tried to cope with social problems by introducing innovative programs. In 1980, the national council for relations between mutual societies, associations, and cooperatives drew up the Social Economy Charter in France. In 1981, France incorporated the concept of social entrepreneurship into its legislation as a group of organizations operating on democratic principles that do not belong to the public sector and that redistribute profit for their own purposes and further development, especially in the area of improving services for its members and for the whole society. Social entrepreneurship became a recognized form of business in France and gradually began to spread to other countries (Dohnalová, 2006).

In 1989, discussions about the concept of social economy began in other states of the European Union. A number of countries were beginning to focus on the promotion of social economy being developed by building supporting and scientific institutions. EMES, a specialized network dealing with the development of social entrepreneurship in Europe, was created in 1996 (online EMES, 2015). The first WISE businesses started to appear, with the aim of adapting the unemployed for the regular labor market and supporting their job searches. In some areas, the social business sector was strongly supported by govern-



ments, which contributed to its rapid growth. Governments considered social enterprises to be partners through which socio-economic problems could be addressed. Effective problem solving was achieved through direct state support and by the creation of a favorable institutional environment.

Greece became the first country to establish social cooperatives with limited liability in 1990; Italy followed in 1991, and social solidarity cooperatives began to emerge in Portugal in 1998. Spain joined this trend with social initiative cooperatives in 1999.

The social economy sector in Western Europe is largely influenced by legal structures created by the state, and it is characterized by social purposes, creating jobs and reducing profit distribution (Defourny & Nyssens, 2010). As a result of the 1970 economic recession with the transition to a market economy, massive displacements occurred in the economy, as did a high unemployment rate, while the state's role in addressing socio-economic issues was reduced. In Eastern Europe, the social business sector was formed as a result of the fall of communism, when conditions similar to those in Western Europe were reached. Later, many states attempted to join the European Union, where the conditions of entry include solving various socio-economic problems. The social enterprise sector in Eastern Europe is relatively underdeveloped in terms of legal and institutional definitions (Poon, 2011). Important developments in social enterprises have occurred in the last decade, particularly since the economic crisis of 2008, when interest in various forms of social enterprises began to emerge and spread (Gidron & Hasenfeld, 2012).

Tables 6 and 7 provide a brief overview of the institutions and bodies that have been an impetus for the definition of the social entrepreneurship in the nonprofit sector and the private sector in Europe.

**Table 6.** Precursors of social entrepreneurship in the nonprofit sector

Precursors of social entrepreneurship in the nonprofit sector	
1890: <i>Carnegie model</i>	Development of universities, freely available libraries, hospitals, parks, concert halls, swimming pools, and churches. Their expenses are considered good deeds.
1910–1920: <i>Rosenwald model</i>	Investing in organizations that are related to the farming community. Their expenditures are considered as sunk costs.
1960–1980: <i>Norris model</i>	The development of educational programs based on work with computers, revitalizing urban neighborhoods and rural communities, creation of businesses and educational opportunities in prisons, first corporate windmills, mobile medical vehicles. Their expenses are considered investments.
1970	Centers for adult day care, early childhood education centers, housing for low-income families, training, hospice care, rehabilitation services, computer training programs for self-employed people, tutoring centers, prisons, universities, windmills, rehabilitation centers for mentally disturbed people and substance abusers, home care for the elderly.

Source: prepared by the authors, based on data from the Institute for Social Entrepreneurs, 2008.

**Table 7.** Precursors of social entrepreneurship in the private sector

Precursors of social entrepreneurship in the private sector	
1844: <i>Rochdale, England</i>	Outrageous billing prices by owners of factories and traders led 28 workers to gather 28 pounds and open their own shop.
1884: <i>Chicago, Jane Addams</i>	Night school for adults, nursery schools, clubs for older children, public kitchens, cafes, galleries, girls' clubs, gyms, swimming pools, music schools, drama groups, libraries
1895: <i>Boston, Rev. Edgar J. Helms</i>	The beginnings of efficient business. Employment of immigrants for repair and reconstruction of useless household goods for resale. Income from the sales were used to pay workers' wages.
1938: <i>Washington, DC</i>	Wagner-O'Day Act. Legislative measure provided jobs for people with severe disabilities.

Source: prepared by the authors, based on data from the Institute for Social Entrepreneurs, 2008.

The development of social entrepreneurship in European countries is mapped in the table 8.

**Table 8.** Key events in the field of social entrepreneurship in Europe

Key events in the field of social entrepreneurship	
1980	First international conference about earning money in a social enterprise; Ashoka's definition of social entrepreneurship emphasized that the purpose of establishing a social enterprise is not necessarily profitable, but such activity is not excluded Establishment of the first nonprofit consulting firm in the field of social enterprises The first international conference on making money in a social enterprise
1982	The first national survey of nonprofit social enterprises (questionnaires)
1984	The National Center for Social Entrepreneurs, an alpha center of public and private initiatives
1993	The first official academic program in the field of social entrepreneurship at Harvard University (Dees)
1997	The first consulting firm focused on social enterprises in Central Europe and South America (Lee Davis, Nicole Etchart) School of Social Entrepreneurs (founder: Sir Michael Young)
1998	First national meetings of social entrepreneurs (Co-founders: Jerr Boschee, Jed Emerson, Gary Mulhair, John Riggan, Bill Shore, and Richard Steckel)
2004	Centre for Social Innovations in Toronto World Forum SKOLL for social business (Jeff Skoll) aimed at a broader definition of social entrepreneurship

Table 8 continued.

Key events in the field of social entrepreneurship	
2005	The UK legislation created a new form of legal person, which gave social enterprises access to capital markets and gave social investors the ability to get financial returns from their investments into volunteer and community organizations
2006	The University Network for Social Entrepreneurship, based on collaboration with professors, researchers, and doctors to develop social entrepreneurship (founders: Ashoka, the Skoll Centre for Social Entrepreneurship, Social Enterprise Knowledge Network, EMES)
2007	Social Investment Fund Management (UK), established for more than a four-year investment period for new and existing social enterprises in health and social services The government defines a social company as a business with a primary goal, with surpluses principally reinvested in the business rather than used to maximize profits for owners and shareholders
2008	First social enterprises combining black, Asian, and ethnic minorities

Source: prepared by the authors based on data from the Institute for Social Entrepreneurs, 2008.

The events presented in table 9 contributed to the development of social entrepreneurship both globally and later in the Czech Republic. The information covering the period from 2000 to 2015 is based on data from an analysis by the Institute for Social Entrepreneurs and our own research.

Table 9. Key events in the field of social entrepreneurship in the Czech Republic

Key events in the field of social entrepreneurship	
2009	The thematic network for social economy TESSEA
2010	The principles of social enterprise compiled by TESSEA
2011	Project about social enterprise as a way of thinking in Ostrava
2012	A questionnaire survey of a hundred social enterprises in the Czech Republic (P3 – People, Planet, Profit o.p.s.)
2013	ČSOB announced a new grant program with the aim of helping working social enterprises
2014	A set of indicators for a social enterprise and social integration company (P3 – People, Planet, Profit o.p.s.)
2015	1 <sup>st</sup> quarter – outline of a bill on social entrepreneurship in the Czech Republic 4 <sup>th</sup> quarter – paragraph version

Source: prepared by the authors, based on data from the Institute for Social Entrepreneurs, 2008, Dotacni.info online, České sociální podnikání online.

The development of Slovak social entrepreneurship is presented in key events, summarized in table 10.

**Table 10.** Key events in the field of social entrepreneurship in Slovakia

Year	Event
2002	The first scientific and research contacts in Slovakia – conferences and consultations with foreign players in the social economy
2002	Establishing the center of research and development of the social economy and social entrepreneurship at the Faculty of Economics, Matej Bel University, Banská Bystrica
2005	Based on the number of publications and research activities to define the conditions of social economy in transition economies (particularly in Slovakia), social entrepreneurship at the macro and microlevel was defined
2005–2006	Workplace training (as a social enterprise) for people with disabilities, PHARE project, funded by the EU
2005–2008	The first international project on social economy and social enterprises in Slovakia (Slovakia-Flemish project: Social entrepreneurship in Central Slovakia)
2008–2011	Thematic Network for the Development of Social Economy - Operational Programme Human Resources and Employment, international project
2008	On the legislative level, social enterprise is defined in the Act on Employment Services, creating the Register of Social Enterprises
2008	The accredited course „Social Enterprise Manager” was successfully tested; in 2008 there were 36 successful absolvents

Source: prepared by the authors, based on Korimová, 2014.

Social enterprises have developed significantly over the last decade; specifically since the economic crisis in 2008, the interest in social enterprises has been increasing and various forms of social enterprises have been spreading (Gidron & Hasenfeld, 2012).

# CHAPTER 3

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## Importance and justification of private nonprofit organizations

Nonprofit organizations carry out a number of important functions in the economy. In addition to the services provided by them in the social sphere such as assistance to the poor, the disabled or the homeless, the services aimed at changing the society have also been gaining in importance. No less significant are the benefits of providing these services by private nonprofit organizations in comparison with the public production. Nonprofit organizations are not only a complement to the provision of services in the areas where the state has been failing, but an equal partner of the public and business sector.

### 3.1. Empirical testing of theories of the nonprofit sector in Slovakia

To examine the economic theories that motivated the establishment and justify the existence of nonprofit organizations in Slovakia, we started a pilot research project in 2015 in which we approached 280 organizations by e-mail with a questionnaire. A total of 60 organizations responded. The sample reflects the current state of the structure of NGOs in Slovakia. The appropriateness of the structure and the scope of the sample were confirmed by the statistical significance of the results of a Chi-square test.

We used the Friedman and Wilcoxon tests to examine whether nonprofit organizations had a particular reason or motive for being established. In analyzing the dependence of economic theories on other factors such as region, location, legal status, core work organization, etc., we used Pearson's chi-square test of independence. If there was a confirmed dependency, we measured the level of intensity of dependence with Cramer's V. All statistical analysis was done using SPSS (Statistical Package for the Social Sciences) software.

The respondents were different types of nonprofit organizations located throughout the territory of Slovakia; table 11 shows the locations in all eight Slovak regions.

**Table 11.** Location of the nonprofit organizations by region

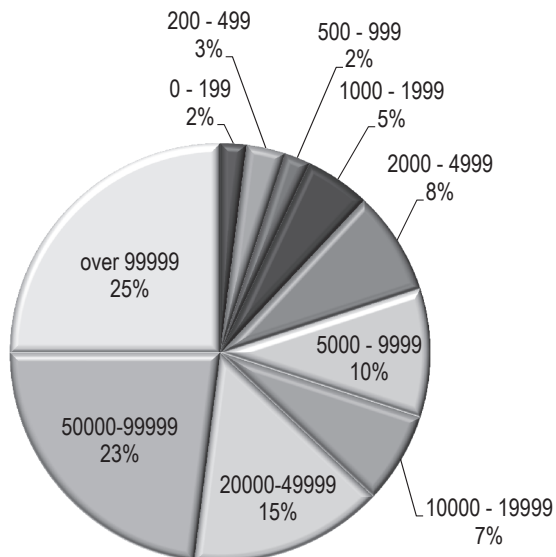
Region	Number of organizations
Banskobystrický	5
Bratislavský	16
Košický	2
Nitriansky	4
Prešovský	7
Trenčiansky	14
Trnavský	7
Zilinský	5

Source: authors.

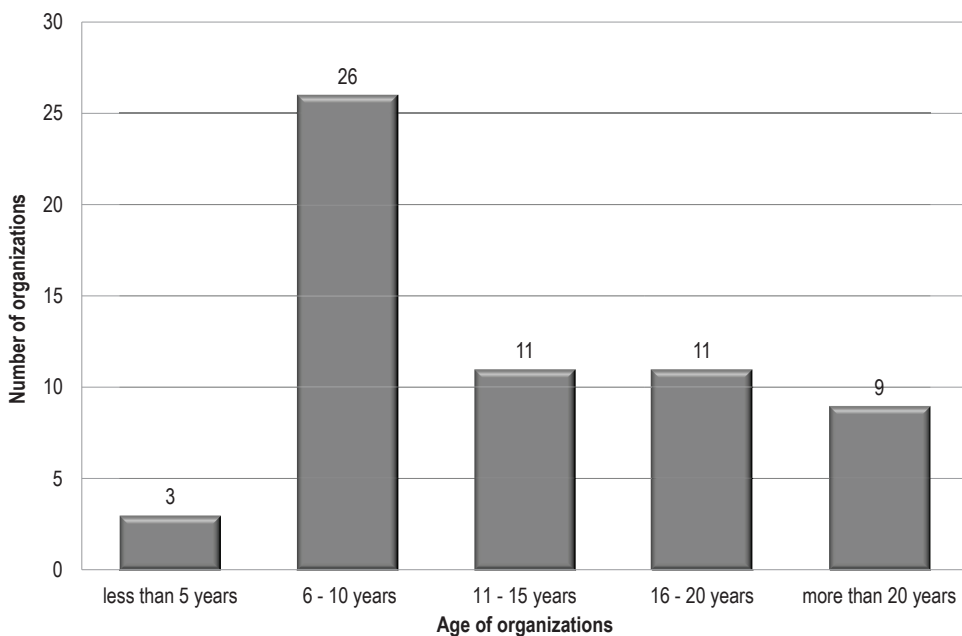
Of the total sample of 60 organizations, 48 were active in the city/town, accounting for 80% of the total number of organizations involved; the remaining 12 functioned in the villages/countryside, representing 20% of the total number of organizations involved.

The respondents varied depending on the size of the municipality in which they operated. Most organizations were located in cities with a population of over 100,000 inhabitants (15 respondents) and in towns with between 50,000 and 99,999 inhabitants (14 respondents). The fewest respondents said that they operated in municipalities with populations smaller than 199 or between 500 to 999 inhabitants. For a better overview of the answers of all respondents, we presented the results in a figure (figure 5).

The largest share of nonprofit organizations involved in the research, a total of 46 respondents, had the form of a civic association. Two organizations had the form of a foundation, three organizations were noninvestment funds, and six were established as organizations providing generally beneficial services (public benefit organizations). The remaining three organizations chose the option „other” (an association of legal entities and unspecified nonprofit organizations). An overview is presented in the following figure (figure 6).

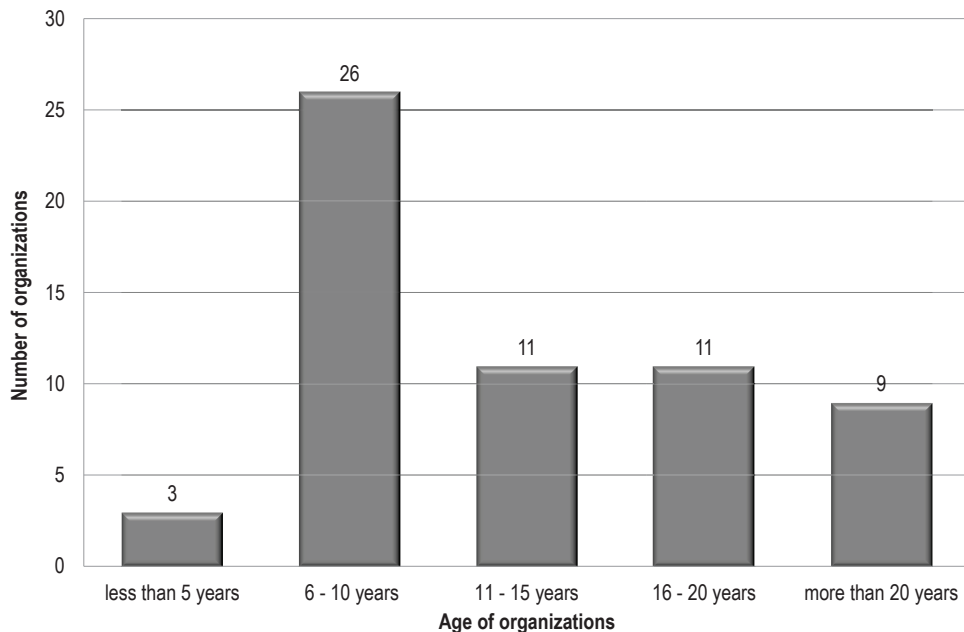


**Figure 5.** Share of the respondents by the size of municipality in which they operate  
Source: authors.



**Figure 6.** Legal form of the respondents  
Source: authors.

Figure 7 shows that the respondents were usually active in the nonprofit sector for 5 to 10 years.



**Figure 7.** Age of the respondents (how long they operated in the nonprofit sector)

Source: authors.

To describe the size of respondents we used two characteristics: number of employees and/or volunteers (table 12) and size of the annual budget (table 13).

**Table 12.** Overview of full-time and part-time employees and volunteers in respondents' organizations

	Number of organizations	
	Yes	No
<b>Full-time employees</b>	<b>13</b>	<b>47</b>
- up to 5 employees	7	
- 5 - 9 employees	2	
- 10 - 20 employees	3	
- more than 20 employees	1	
<b>Part-time employees</b>	<b>14</b>	<b>46</b>
- up to 5 employees	11	
- more than 5 employees	3	



Table 12 continued.

	Number of organizations	
	Yes	No
<b>Volunteers*</b>	<b>50</b>	<b>9</b>
- up to 5 volunteers	5	
- 5 – 10 volunteers	21	
- 11 – 20 volunteers	12	
- 21 – 50 volunteers	9	
- 51 – 80 volunteers	2	
- more than 80 volunteers	1	

\* – the sum of organizations with volunteers is not 60, as one organization reported only occasional volunteer help for special events.

Source: authors.

Table 13. Size of the annual budget in the respondents' organizations

Annual budget (in thousands of €)	Number of organizations
Less than 1	9
1- 5	15
5 - 10	12
10 - 20	7
20 - 50	4
50 - 100	5
More than 100	8

Source: authors.

Based on their reported fields of operation, the respondents covered all of the main areas in which nonprofit organization operate and provide their services (table 14).

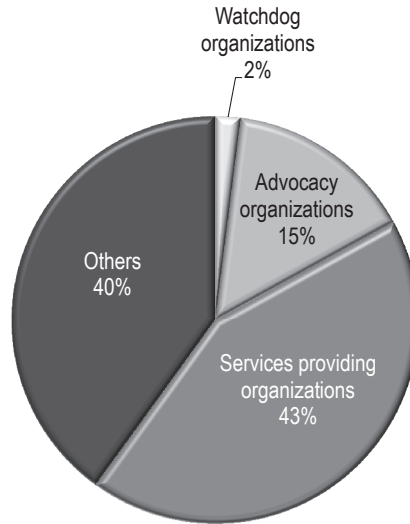
Table 14. Areas of operation of the respondents

Areas of operation	Number of organizations*
Health care	8
Education	12
Sport	10
Welfare	15
Human rights	1
Culture and art	8
Religion and spiritual development	4
Environment	4
Others (research and development, family issues, leisure activities, drug prevention, not specified)	5

\* – the sum was greater than 60, as respondents could choose up to three fields in which they operated.

Source: authors.

Figure 8 shows the reported activities of the responding nonprofit organizations. The respondents were mostly service producers (43%); 40% could not identify themselves using the provided options and they chose „other”, mostly stating that their activities were a combination of watchdog and service or advocacy and service organization.



**Figure 8.** Reported activities of the responding nonprofit organizations

Source: authors

We assigned each nonprofit organization an economic theory in accordance with the reason they cited for their foundation. The results are shown in table 15. Respondents chose from among the available answers, shown in the first column, and we assigned them directly to particular theories, shown in the second column. The third column reflects the number of organizations that selected the particular theory. The sum of respondents is greater than 60, since they were allowed to choose up to three reasons for their creation and existence.

The table shows that eight respondents selected the option stating that they wanted to do some kind of business and a legal form of nonprofit organization was the most suitable way for them to do so, because with their activities they would achieve a profit, but these activities fulfilled the characteristics of a general benefit. The organizations reinvested their achieved profits in the core business, as required by legislation.

The most commonly selected theory was the supply side theory, chosen by 30 organizations involved in our research, representing half of the total surveyed organizations. This preference was confirmed by the Friedman test, which we

used to find whether the organizations were created for the same reason (theory) or if there was a more preferred theory. Based on the results of the Friedman test, the nonprofit organizations clearly preferred the supply side theory as the reason for their creation and existence. Only one organization chose the third party government theory.

**Table 15.** Theories of creation and existence of the respondents

Reason for establishment/creation	Theory	Number of organizations
Nonprofit organization was created based on the personal interests of its founder, i.e. founder followed their own needs and motives for self-realization. Or (the organization) wanted to provide a service to ourselves; we created an association that provides mutual benefits to its members.	Supply side theory	30
This product / service was needed for the community of people living in rural areas; we wanted to contribute to the development of the community/locality.	Rural theory	7
We perceived the need for a nonprofit organization in the locality /in Slovakia in addition to public and private profit organizations, so we were established.	Interdependence theory	17
We perceived that the market lacked a trustworthy partner and in our opinion a nonprofit organization was a more credible producer of goods / services to the consumer, so we were established.	Trust theory (information asymmetry theory)	2
We established our nonprofit organization as an atypical form of business; we did not want to create a business or social enterprise, but the activities that we do are publicly beneficial (beneficial for the wider environment) and by these activities a profit can be produced, which we return to the main activities of the organization.	Entrepreneurship theory	8
The government did not provide a service / product at the national or local level because it lacked the capacity (financial, personnel, etc.), or the product was provided by the government but with signs of cronyism or corruption, so we were established.	Heterogeneity theory (government failure theory)	10
We were established in partnership with government/local government. Government helped us with the foundation; the government (national, regional or municipality) was our founder.	Third party government theory	1
No private companies provided such a service / product because it would be unprofitable for them, i.e. there was a lack of such a service in the market, so we were established to provide it.	Heterogeneity theory (public goods failure theory)	13

Source: authors

The reason for establishing a nonprofit organization may depend on many factors, including the region in which the organization operates, the population in the area, the location of the organization in an urban or rural area, areas of operation, and type of activity. It may also depend on the legal form, but since most of the surveyed organizations were civil associations, we considered it unnecessary to examine the dependency of the theory on the legal form of organization. We did not have sufficient responses to evaluate correlations for other legal forms.

To evaluate the dependency of the selected reason for the establishment and existence of the nonprofit organization on various factors, we used Pearson's chi-square test of independence. Where a dependency was confirmed, we used Cramer's V to measure the intensity of the dependency. All calculations were made using SPSS statistical software, and the results were reviewed with an expert in the field of statistics.

The following table 16 presents an overview of the theories of nonprofit organizations with confirmed dependencies (for the sake of brevity, we show only those theories where dependencies were confirmed).

**Table 16.** Overview of economic theories of nonprofit organization existence with confirmed dependency

Economic theory	Confirmed dependency
Trust theory	– the region in which a nonprofit organization operates
Interdependence theory	– the number of inhabitants in the municipality in which a nonprofit organization operates – area of operation in which a nonprofit organization operates
Rural theory	– the number of inhabitants in the municipality in which a nonprofit organization operates – area of operation in which a nonprofit organization operates (health care, welfare, education, environment...)
Heterogeneity theory	– type of activities that nonprofit organization carries out as their core work (service, advocacy, etc.)

Source: authors.

As can be seen in table 16, dependency was confirmed only in four theories of the existence and establishment of nonprofit organizations: trust theory, interdependence theory, rural theory, and heterogeneity theory (based on government failure).

For the trust theory (or information asymmetry theory), we confirmed the dependence on the region in which the organization operates. All of the respondents that chose this theory were from the Zilinsky region. They felt con-

nected to this theory because the market lacked a credible producer of goods or services and nonprofit organizations could be a solution to the problem of untrustworthy for-profit commercial organizations. These organizations could use this fact as an argument to gain more support from the region.

For the interdependence theory and the rural theory, we confirmed the dependence on the population in the municipality and on the area (field) in which the nonprofit organization operated. The rural theory was chosen to a greater extent by respondents who work in rural areas, mostly in villages with less than 5000 inhabitants. We thus indirectly confirmed the importance of this new theory. It would be desirable to pay more attention to the research of this theory in order to identify the specific needs of these organizations and design tools to support them. Nonprofit organizations can greatly benefit a municipality, and the municipality should therefore encourage their establishment and existence, in the form of subsidies or tax credits in local directives. The interdependence theory was selected by organizations operating in cities with larger populations. This shows that nonprofit organizations are complementary with for-profit organizations in urban areas, where the economy is developed at a higher level and there are better conditions for such cooperation.

The last confirmed dependency was of the heterogeneity theory, the dependence of the type of activities performed by the organization on government failure. The government in such cases did not produce enough goods and services, and governmental activities were insufficient to support interests of others, so these nonprofit organizations were created to cover the gap. When the government fails, the solution may be the market and profitable businesses, but it is also the nonprofit sector and social enterprises (see also table 3, p. 21, where we compare social and nonprofit sector organizations). In the following table 17, we compare classic, social, and nonprofit enterprises. The purpose of this table was primarily to demonstrate the benefits of nonprofit business as compared to classic or social entrepreneurship.

The advantage of doing business as a nonprofit organization is that nonprofit organizations do not all have to have equity; only two legal forms, foundations and non-investment funds, require equity; the rest do not have to have any assets to start their activities. Although nonprofit organizations are not established for doing business, they can conduct business activities if they meet the condition of reinvesting profit into their main activities /core work. Revenues gained through the main activity for which they were established are exempt from income tax. Thus, if the nonprofit organization develops activities that meet the nature of their core work and fulfill a generally beneficial purpose, the nonprofit organization can be regarded as a specific form of business/ entrepreneurship. Establishing a nonprofit organization is easier, faster, and less expensive than setting up a commercial enterprise.

**Table 17.** Basic characteristics of commercial, social, and nonprofit entrepreneurship

Type of entrepreneurship Characteristic	Commercial entrepreneurship	Social entrepreneurship	Nonprofit entrepreneurship
Goal	main goal is to achieve profit	fulfillment of social mission – to serve a local community or a specific groups of citizens	fulfillment of organization's mission – to provide social benefits
Equity	depends on the legal form (e.g. for Ltd. which is the most common form, it is at least €5,000)	Depends on the legal form	obligatory only for foundations and noninvestment funds
Business activity	business is a main activity, the reason why the company was established	business is a main activity; goods and services are produced, i.e. they enter the market and offer their production for sale	funded under redistribution mechanisms; entrepreneurship is seen as a side activity
Tax exemptions	no tax exemptions	no tax exemptions	no income tax on the income from the main activity (core work), no income tax on income from tax assignment
Duration of establishment procedure	depends on the legal form (e.g. for Ltd. it is between 15 and 21 days)	depends on the legal form; to register it is necessary to obtain the status of a social enterprise, and it is questionable whether this status will be approved	up to 30 days, usually up to 10 days
Registration	business register	register of social enterprises at the Central Office of Labor, Social Affairs, and Family	relevant registers at the Ministry of Interior
Registration fees	depends on the legal form (e.g. for Ltd. it is €331.5 for the registration in the business register, plus between €5 and €15 for other administration fees)	depends on the legal form	usually €66 per registration

Source: authors.

Maybe for these reasons, eight of the survey respondents chose entrepreneurship theory; their nonprofit organizations were founded as an atypical form of business. Their primary goal was not to establish a business or social enterprise,

but their activities were generally beneficial and could make a profit, which was then returned to the core work of the organization. For the founders of nonprofit organizations, this may be a fake business.

Vaceková and Prouzová (2014) stated that due to the commercialization of nonprofit organizations, something like „for-profits-in-disguise” are emerging. These „false” nonprofits may maximize profits that they then distribute in a disguised form (as higher wages and perks), or they may maximize revenues that lead to power and prestige for their managers. „They are lured into the nonprofit sector by the tax and subsidy advantages that they gain therefrom” (James, 2000). Another interesting phenomenon is „false commercialization” which occurs when nonprofit organizations carry out commercial activities with the sole and explicit aim of covering the costs of the nonprofit mission for which they were founded (see Commercialization of Nonprofit Organizations).

### 3.2. Functions of private nonprofit organizations in society

Nonprofit organizations fulfil a large variety of functions in democratic societies (Neumayr et al., 2007). Following Boris/Mosher-Williams (1998), social, civic, and economic functions can be detected. A closer look at the categorizations of NPOs’ functions offered in literature, however, shows that they are manifold and differ a lot (see, for example Kramer 1981, Salamon et al. 2000, Land 2001, Bolečeková 2010). The functions of NGOs are identified in table 18.

**Table 18.** Concepts of NPOs’ functions identified in literature

Funktion	Author							
	Salamon / Sokolowski	Estelle / Rose Ackerman	Land	Frumkin	Kramer	Kendall	Salamon / Hems	
Service / /Service providing								
Expressive role (and leadership development role) /Value guardian role and volunteerism / Representational function								
Philanthropy								
Charity								
Improve / Advocacy role								
Vanguard role and service pioneer / Innovation function								
Community building (and democratisation role) /Fellowship / Social capital								
Social entrepreneurship								

Source: Neumayr et al., 2007.

The role of nonprofit organizations in democratic societies forms a topic of perennial interest in the political arena as well as in socioeconomic research. NPOs may fulfil two major functions in contributing to security and stabilization of society but at the same time stimulating societal advancement: In a number of countries NPOs take a mainstay role in integrating disadvantaged groups through the provision of social services and hence constitute „social mollifiers”. Simultaneously, NPOs assume an „expressive function”, giving a voice to societal issues such as the protection of the environment. It cannot be assumed that the expressive function and service orientation are dichotomous variables. A majority of socially active NPOs identify themselves with both functions even though this may inevitably lead to tensions within the organization between those who prefer the income generating service activities and those who push for the expressive obligations. Hence it remains unclear how organizations are being classified that are active in both fields. Also observed there is a major lack of a concise method in classification systems such as the International Classification of Nonprofit Organizations (ICNPO) that allows to fully delineate advocacy (Neumayr et al., 2007). Majduchová et al. (2004) apart from service function and expressive functions, adds these three more functions of NPOs:

1. The innovative function. The nonprofit sector can also be a source of various innovations. Whether it is the use of technologies, new methods of education, or innovative procedures of citizen mobilization. The innovative functions of the nonprofit sector lead to creating a more challenging environment for the work of public organizations.
2. The advocacy function or the social change function. These functions lie in defending or promoting the interests and rights of individuals or specific groups of citizens. In the Czech Republic and Slovakia, this function is one of the most important because it contributes to the transformation of society.
3. The function of community building and the democratization function. It is a very important function in the Czech Republic and Slovakia where the former regime adversely affected the development of community life and the natural mechanisms of citizens' mobilization as regards public affairs governance.

It is evident from the given definitions of the NGOs' functions that the role of NGOs in society is very important. On closer inspection of the functions of nonprofit organizations, we can see that the role of the nonprofit sector consists in taking an active part in shaping democracy and diversity, and in controlling the rules adopted in society.

The empirical research conducted in the Czech Republic and Austria (c.f. Pospíšil et al., 2009) revealed that the most important function of NGOs in both countries was providing services. According to the criterion of the share of the hours worked in implementing this function, the prevalence of the service func-



tion is over one half in one country (the Czech Republic, 56%), and completely dominant in the other country (Austria, 75%). NGOs in both countries dedicate less energy to the remaining two functions. Taking into account the allocation of working hours, the second most important function is community building (33% in the Czech Republic, 19% in Austria), followed by the advocacy function (11% in the Czech Republic, 7% in Austria). Although the performance of the community-building and advocacy functions is better (36% and 22% in the Czech Republic, 35% and 27% in Austria) when the subjective performance evaluation is applied, service providing still remains the main function of Czech and Austrian NGOs even according to this criterion. Unfortunately, no research focused on empirical verification of the functions fulfilled by private nonprofit organizations has been conducted in Slovakia yet. However, given the similar historical development in Slovakia and the Czech Republic, similar outcomes can be expected.

In the past, Slovakia, the Czech Republic and Austria shared their common destiny in one state entity and so the societies in these countries stem from the same or very similar roots. These countries boasted a dynamic nonprofit sector in the 19th century but because of their different fates after the collapse of the Austro-Hungarian monarchy and especially after World War II their respective civil society environments are quite different today. Undoubtedly, the development in the second half of the twentieth century plays a crucial role as regards today's differences in the size, structure and behavior of nonprofit organizations in the Czech Republic and Slovakia compared to Austria. Austria managed to slip out of the Soviet sphere of influence after World War II, and since 1955, i.e. since the conclusion of the Austrian Independence Treaty with the four occupying powers that restored the autonomy and independence of Austria, the country has been free to develop as part of the democratic Western Europe. The renewed Czechoslovak Republic was not so lucky and so the short period of Nazi occupation and totalitarianism was followed by the much longer Soviet totalitarianism lasting for more than forty years. The country had not liberated itself from it until 1989 when the whole Czech and Slovak society slowly started returning to democracy, first as part of Czechoslovakia, and in a separate state since 1993. To put it in a superficial and simplified way, the Austrian society today is a stable democracy, which is a result of half a century of uninterrupted democratic development; while the Czech as well as Slovak society is still in a stage of transition from half a century of totalitarianism to democracy (Pospíšil et al., 2009).

### ***Nonprofit Organizations as Providers of Services of General Interest***

In terms of their beneficial effect (the benefit they bring), the nature of the services that private nonprofit organizations provide can be as follows (Kuvíková & Svidroňová, 2010):

- mutually beneficial services: private nonprofit organizations implement the interests of their founders, direct their activities at meeting the needs of a small group of people (an interest group), are established on the membership base, for example. civic associations, political parties and movements, chambers, clubs, associations, and others;
- generally beneficial services: private nonprofit organizations meet generally beneficial objectives and serve everybody under the same conditions that are known in advance, for example civic associations, foundations, non-investment funds and nonprofit organizations providing generally beneficial services, in particular as follows:
  - provision of health care,
  - provision of social assistance and humanitarian care,
  - creation, development, protection, restoration and presentation of spiritual and cultural values,
  - protection of human rights and fundamental freedoms,
  - education and development of physical culture,
  - research, development, scientific and technical services, and information services,
  - creation and protection of the environment and protection of public health,
  - services in support of regional development and employment,
  - the provision of housing; management, maintenance, and renewal of the housing stock;
- public utility services: private nonprofit organizations carry out tasks related to the public interest, fulfil the tasks of the municipality or the state, or secure other public functions; they are subject to public scrutiny and usually have financial relations with public budgets.

It is possible to polemicize whether the mutually beneficial services, this means the services which meet the needs of a small group of people, can also be perceived as generally beneficial from a broader point of view. In many cases, traditions are preserved, non-traditional forms of education are created, sports and culture are promoted, and the spare time of members is filled in with meaningful activities (which can be understood as prevention of socio-pathological phenomena in society) when „hobbies” of an organization’s members are „supported”. It is therefore questionable whether the mutually beneficial activities are not generally beneficial in a wider perspective as they benefit the whole society.

Provision of public utility (generally beneficial) services is referred to as the service role. There are hypotheses that services provided by private nonprofit organizations meet one or more of the following characteristics (ibid):

- Higher quality - since they are not profit-oriented, they provide services of a better quality than commercial facilities. NGOs are also more flexible, being able to provide different (auxiliary) services, for example in the area of community development, along their main service, which in a way increases satisfaction of consumers. Hence, the quality of services can be evaluated as superior.
- More justice - nonprofit organizations have more intensive motivation to serve those who need it most, the services are more equitably distributed than in the case of commercial enterprises that „discriminate” against those who cannot pay. This attribute does not have to be necessarily present compared to the provision of services by government NPOs.
- Lower cost ratio, higher efficiency - nonprofit organizations can reduce the costs of their services and achieve greater efficiency by deploying volunteers and the funds of a charitable and philanthropic character. At the same time, by using other than state resources, private nonprofit organizations strengthen their autonomy and sustainability in the market of the provided services of general interest.
- Specialization - based on their mission, values and knowledge of the communities in which they operate, NGOs may specialize in a particular issue, a group of citizens, a type of intervention and service delivery.

From the perspective of public economics, another specific feature related to the provision of services results from the information asymmetry on the part of the consumer (Chiang & Venkatesh, 1988; Bloom, Standing & Lloyd, 2008). Consumers cannot accurately assess the quantity or quality of the provided services. Their limited assessment ability results either from the conditions under which they consume the service in question, or of the nature of the service itself. The nonprofit principle represents a certain protection against the information asymmetry. On the grounds of the nonprofit principle, the managers and owners of private nonprofit organizations are very limited in the possibility to enrich themselves by providing services in a lesser than promised extent or lower than promised quality and therefore have neither motivation nor incentive to such a conduct. It was Weisbord who pointed out to this fact already in 1988, when he argued that the nonprofit organization that were not motivated by making profits had other goals than profitable businesses and would not skimp on quality or quantity of the services provided at the expense of poorly informed consumers. The advantage of the provision of those services by private nonprofit organizations, compared to profitable companies, lies, inter alia, in reducing the degree of the information asymmetry on the part of the consumer.

If we look at the original division of the economy into three sectors from the perspective of the provision of services of general interest, we can conclude that the provision through the Government and the business sector has been failing. The first sector (the Government) does not have the capacity to provide all the services to the extent required, the second sector (enterprises and commercial organizations) does not provide the service of interest due to their nonprofit nature (the services do not generate profit, they are not attractive for the second sector). In consequence, these services need to be provided by the third sector, which can also entail possible advantages as compared to the production of these services by the public sector, as a number of authors conclude. Pestoff (2006) points out the fact that the third sector has been losing its peculiarity as a result of the concluding of contracts with the public sector, contracting, privatization, and performance measurement. Private nonprofit organizations take on more of the characteristics of both the public sector (e.g. institutionalization) and the business sector (maximizing revenues, however without maximizing profits), thereby giving rise to hybrid and mixed organizations (*ibid*). The Government is no longer interested in the third sector as such, but in how and what it can contribute to the quality of public services. Billis and Glennerster (1998) in their study look at possible comparative advantages of the third sector as opposed to the first and second sector. They claim that there are certain structural characteristics of organizations in each sector (ownership, interested parties – „stakeholders” and resources) that predetermine these organizations to respond in different manners to different „disadvantages” on the side of their customers, such as the already mentioned information asymmetry, and also financial, personal or social disadvantages of consumers (*ibid*).

Nonprofit organizations also have comparative advantages from the perspective of public finances, in particular in the areas where their hybrid and mixed character allows them to overcome the problems associated with contracted provision of public services, that is referred to as the principal-agent relationship, where a public body concludes a contract with a private entity; risks appear in the form of moral hazard, wrong choices, the problems of hidden information and conflicts of interest (see Arrow, 1985; Nemeč, 2002). There are no such problems when public services are provided by private nonprofit organizations.

From the perspective of the public choice theory, private nonprofit organizations have further advantage over the public sector, which is controlled by the Government, namely, that they not meet with the resistance of the median voter (the voter who decides between the proposed alternatives in public choices when the number of voters preferring one or the other alternative is the same). Private nonprofit organizations (similarly to profitable organizations) are governed by the requirements of the market and provide those services for which there is interest, although the provision of these services is not profitable.

Nonprofit organizations have a mixed role – some of them operate as institutions providing public services (of general interest) in a more cost effective manner compared to the other providers, while some of them act as „advocates”, pushing the society to fundamental changes (Edwards et al., 1999).

On the basis of the above mentioned benefits of the provision of services of general interest by private nonprofit organizations, we conclude that private nonprofit organizations have their importance and their existence in the national economy is justified.

### 3.3. Evidence on private nonprofit organizations in the Czech Republic, Slovakia and Austria

The description of the development of the nonprofit sector in the Czech Republic and Slovakia was based on an analysis of relevant statistical data. Table 19 shows the development of the Czech nonprofit sector from 2009 to 2012, with changes in important absolute and relative characteristics.

**Table 19.** Development of the nonprofit sector in the Czech Republic from 2009 to 2012

Year	2009	2010	2011	2012
Number of units	10,3868	109,209	114,185	118,375
Production (in million CZK*)	93,447	97,553	100,168	106,701
Gross added value (in million CZK*)	57,097	59,873	62,324	69,166
NPO share in GDP (in %)	1.52	1.58	1.63	1.69
Number of FTE employees	95,186	97,068	98,53	100,174
Number of FTE volunteers	27,145	25,04	25,984	25,964
Share in the employment rate (in %)	1.89	1.93	1.96	2.04
Revenues				
Payments for market output (in million CZK*)	17,185	18,109	18,853	15,149
Payments for non-market output (in million CZK*)	16,611	18,818	18,658	20,200
Property income (in million CZK*)	1,491	15,69	1,096	1,236
Other current transfers (in million CZK*)	59,632	59,848	60,929	65,153
Voluntary work (in million CZK*)	6,704	6,087	6,510	5,648

\* – 1 EUR = 27,03 CZK, exchange rate on December 8th 2015, data in million CZK.

Source: Vaceková & Prouzová, 2014.

In general, the number of nonprofit organizations (NPOs) in the Czech Republic is increasing. The highest inter-annual growth (by 23.6%) was in 2009,

when the number of NPOs exceeded 100,000. However, this number is not definitive. It is simply the number of registered entities. Civic associations in the Czech Republic are not required by law to be dissolved if they terminate their activities. For this reason, the number of registered organizations that are actually inactive is unknown. The production and the gross added value increased slightly in absolute figures over the whole studied period; however, in light of the potential inactive organizations, it is not possible to determine the conversion per unit. The share of NPOs in the GDP in the Czech Republic grew, increasing from 1.45% in 2008 to 1.63% in 2011, as did the share in the employment rate, showing a slight increase (from 1.71% to 1.96%) in the given period. Interestingly, the number of volunteers (FTE) decreased over the studied period, which can be perceived as an indicator of the impact of the financial crisis on donorship, i.e. on donations of time.

In Slovakia, the development of the nonprofit sector is quite similar to the Czech Republic. The number of NGO units is steadily increasing, but their production and share of the GDP is rather small (table 20).

**Table 20.** Development of the nonprofit sector in Slovakia from 2009 to 2012

Year	2009	2010	2011	2012
Number of units	51,943	54,088	56,206	58,158
Production (in million EUR)	820	830	832	836
Gross added value (in million EUR)	460	480	556	593
NPO share in GDP (in %)	0,81	0,80	0,89	0,91
Number of FTE employees	24,453	25,600	28,205	44,036
Number of FTE volunteers	272,909	304,094	223,804	306,854
Share in the employment rate (in %)	1.53%	1.58%	1.64%	2.51%
Revenues				
Payments for market output (in million EUR)	620.4	609.1	612.43	651.17
Property income (in million EUR)	31.2	26.1	28.86	25.62
Other current transfers (in million EUR)	612.4	624.1	640.46	668.43
Voluntary work (in thousand EUR)	85,729	81,974	77,678	118,850

Source: Kuvíková, Stejskal & Svidroňová, 2014

Table 20 shows that the nonprofit sector has increased. By 1998, less than ten years after the revolution, there were 23,142 nonprofit organizations in Slovakia, of which 17,149 organizations were nongovernmental. In the next ten years, this number more than doubled. The most up-to-date data are available for 2012 and prove the increase in the number of nonprofit organizations

although some legal forms have decreased (subsidiary organizations and non-investment funds). The most common legal form is that of a civic association and their numbers are increasing (based on a conversation with a registrar in the Evidence of Civic Associations in 2015, there are 20 applications for the civic association registry per day).

Growth in the nonprofit sector in Slovakia can be monitored through employment in this sector. In 2012, according to the Statistical Office, 44,036 employees worked in NGOs and another 306,854 volunteers participated in nonprofit sector.

The problem with mapping the size of the nongovernmental nonprofit sector in Slovakia is that there is no satellite account for NGOs like the one in the Czech Republic. The Statistical Office of Slovakia is aware of the satellite accounts approach, but due to a lack of resources is not able to develop it further. None of the research communities – academic, university, or nongovernmental – focuses solely on mapping and researching civil society and the nonprofit sector. As a result, only superficial information is available on the numbers, structure, focus, types of activity, social contribution, economic strength, etc. On the other hand, the Ministry of Interior as the registry office for nongovernmental organizations keeps record on active NGOs (table 21).

**Table 21.** Comparison of registered and active NGOs in Slovakia in 2008 - 2012

Type of NGO	Status	2008	2009	2010	2011	2012
Civic associations (CA)	All registered	32,476	34,243	36,030	38,044	39,881
	Active	27,778	29,458	31,239	33,249	34,978
	Share of active CA on total number of CAs	86%	86%	87%	87%	88%
Foundations	All registered	807	835	870	900	930
	Active	328	349	384	414	433
	Share of active foundations on total number of foundations	41%	42%	44%	46%	47%
Public benefit organizations (PBO)	All registered	1,861	2,081	2,310	2,499	2,685
	Active	899	1,041	1,201	1,389	1,436
	Share of active PBOs on total number of PBOs	48%	50%	52%	56%	53%
Noninvestment funds (NF)	All registered	604	636	665	679	690
	Active	476	506	533	547	548
	Share of active NFs on total number of NFs	79%	80%	80%	81%	79%

Source: prepared by the authors, based on data from the Ministry of Interior of Slovakia



The overview from table 21 compares the registered nongovernmental organizations with those that are actually active, i.e. they have not announced starting a process of liquidation or extinction. The least active registered organizations are foundations (less than 50% of registered foundations are active throughout the period).

Growth in the nonprofit sector in Slovakia can be also monitored through employment in this sector. In 2010 according to the Statistical Office 20 938 employees worked in NGOs and other 269,714 volunteers participated which converted to full-time employment to gives additional 7178 workers. For different part-time contracts 63 618 employees worked in nonprofit sector, we do not have data separately for NGOs (for further characteristics of importance of NGOs in Slovakia see e.g. Kuvíková - Raguseo, 2008).

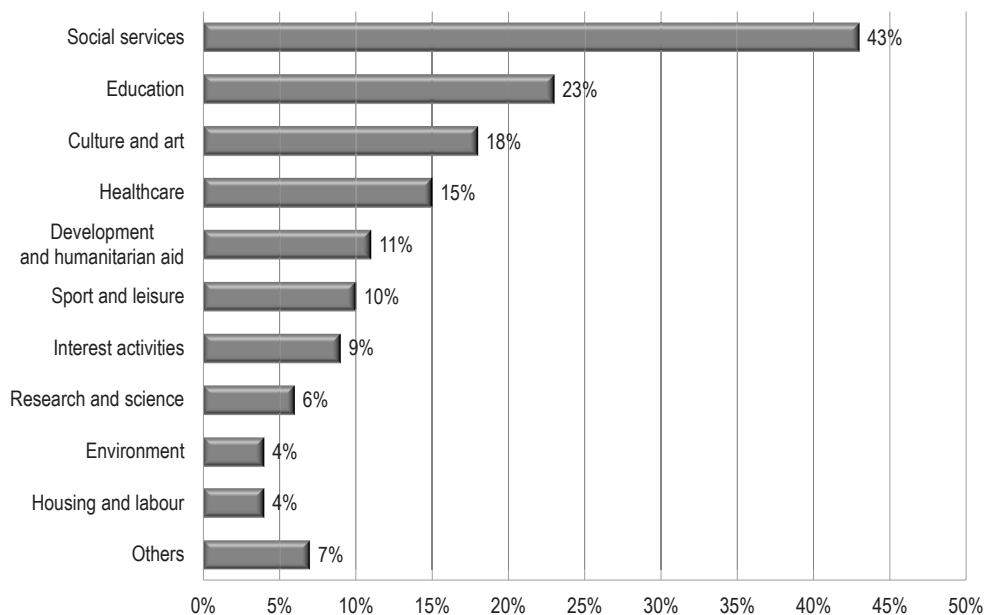
Source data for Austria are the outcomes of the project „Different sources of funding of nonprofit organizations” (Schober et al., 2010) conducted by Research Centre NPO-Kompetenzzentrum WU Wien. In their primary research conducted in 2010 they asked 266 Austrian NGOs and gained answers from 116 respondents.

The available data obtained by nationwide poll of NGOs in Austria in 2010 shows that the number of employees in this sector was about 170 113. Approximately 59 % of the employees work in the field of social and health services. Another 55, 67 % workers are employed for part-time (Haider et al, 2010).

These figures only illustrate the nonprofit sector in Austria, to describe the size of its real economic power we would have to research more complex macro-economic indicators which is not the goal of presented text. In 2010 there were 266 respondents from Austrian NGOs that were selected from the database of NPO Institute, containing ca. 4,000 NGOs. Questionnaire was completed by 116 NGOs, which corresponds to return at 43.6%. In Austria NGOs data have to be collected from various sources since NGOs are not officially registered as such and there is only a very limited access to the register of associations (Zentraler Vereinsregister), the most common legal entity of NGOs. In terms of absence of official data on NPOs in Austria, it is not possible to achieve absolute representativeness of research sample. A significant proportion of participating NGOs (28%) comes from Vienna and is active in the social field (social services) which is typical for the Austrian nonprofit sector (figure 9).

Compared with data on revenue and employment (e.g. Heitzmann 2001, Schneider - Haider, 2006) ICNPO classified NGOs are highly represented in social services (43%), education (23%) and culture and art (18%). We can say that in both countries significant sectors for NGOs activities are education, social services, culture and sport.

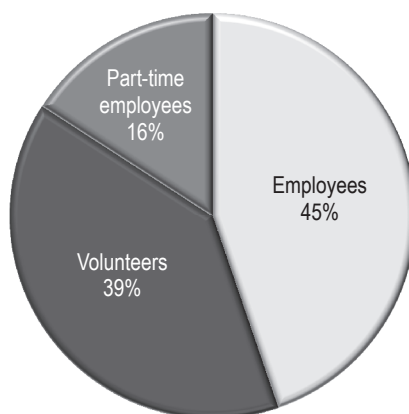




**Figure 9.** The core work of Austrian NGOs by ICNPO

Source: Schober et al, 2010.

Another characteristic of Austrian NGO is a number of employees. According to the median in a single NGO works 21 paid employees and 5 unpaid voluntary co-workers. From this point of view we can say that Austrian NGO are more professional: they have 45% of employees (figure 10).



**Figure 10.** Composition of the staff in the Austrian NGO

Source: Schober et al, 2010.

Other watched characteristics are summarized in table 22 (reflecting the outcomes from scientific research of John Hopkins University in Baltimore and insufficient statistical data for Austria, which had to be completed by secondary data based on Schober, 2010).

**Table 22.** Comparison of selected characteristics in Slovakia and Austria

	Slovakia 1995 - 1998	Slovakia 2011	Austria 1995 - 1998	Austria 2008 -2011
Population (in mil.)	5,3	5,4	7,9	8,5
GDP (in mil. EUR)	19 319	69 058,2	191 190,0	300 712,4
Number of NGOs	17 149	42 122	n.a.	109 346
Field of core work (main 3 sectors)	n.a.	sport, culture, education	n.a.	social servic- es, education, culture
Share of NGOs on employment	0,9%	1,3%	4,5%	n.a.
Share of NGOs on GDP	1,4%	1,2%	3,0%	n.a.
Value added as % of GDP	0,5%	0,89%	2,5%	n.a.
Revenues from Public sector	22,1%	22,8%	47,3%	66%
Revenues from Private giving	23,7%	68,0%	5,7%	31,5%
Revenues from Self-financing	54,2%	23,1%	47,0%	29,14%
Volunteers (FTE in thousands)	7	7,9	41	3019
Share of employees within an NGO	n.a.	19,0%	n.a.	45,0%
Share of volunteers within an NGO	n.a.	50,0%	n.a.	39,0%

Source: Own elaboration using data of Statistical Office of the Slovak republic and data of Statistical Office of Austria, 2011 completed by secondary data based on Schober, 2010

Private nonprofit organizations play a very vital role in the economy of every country. They are not only providers of special type of services that public sector is not capable to provide in full quality and quantity and private sector is not interested in providing these service, but they are also watch dogs of the society and builders of active citizenship. Thus they have become an object of many research studies. The divergence in their goals, size, roles, types of provided services and ways of funding makes the NGOs an interesting object. Therefore we chose as a subject for our study a comparison of the development and current state of the Slovak, Czech and Austrian nonprofit sector in view of the historical development of these countries and consequently we want to evaluate the funding and future trends of NGOs in the Czech Republic, Slovakia and Austria, which is content of the following chapters, depending on the level of our research on NPOs in these countries.

# CHAPTER 4

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## Current state of funding of nonprofit organizations

Examining the funding of nonprofit organizations is an important issue, both for nonprofit organizations and for the whole society. Nonprofit organizations operate in a market economy and their activities require material, technical, and financial security, which cannot be based merely on volunteering. The sustainable development of these organizations is impeded by financial problems that are specific to them and their particular character.

### 4.1. Funding sources of nonprofit organizations

There are several classifications for resources funding nonprofit organizations. Based on a synthesis of theoretical knowledge (Gronbjerg, 1993; Kuvíková, 2004; Kuvíková & Vaceková, 2009; Foster et al., 2009; Carrol & Statter, 2009; Kearns et al., 2014; etc.), and in order to achieve a general classification, we considered the following to be sources of NGO funding:

- public sources;
- private and individual sources;
- self-financing (including business activities);
- foreign sources.

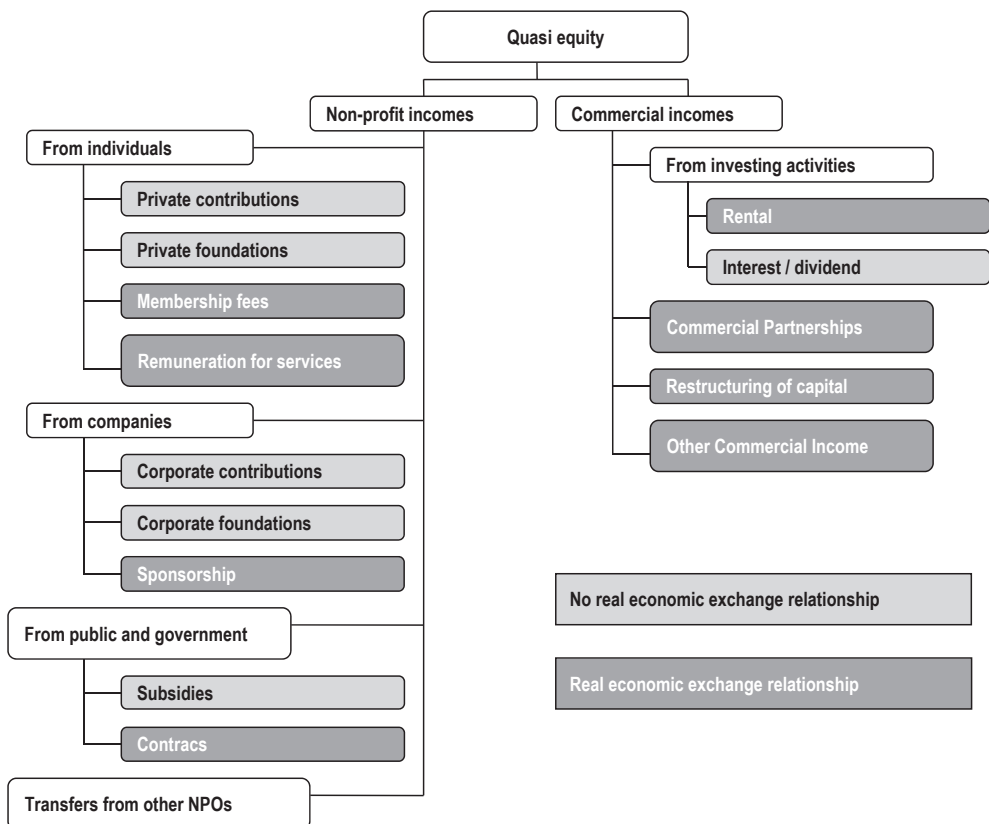
A particular source can be used in various forms, as shown in table 23.

The basic task of financing NGOs in order to fulfill their mission requires continuous liquidity. The financial sources and amounts used to meet this task vary; it is dependent on the NGO's strategic management decisions. NGOs usually have a wider range of financing options than profit-oriented companies.

**Table 23.** Funding sources of nonprofit organizations

Funding sources	Forms of funding
Funding from public sources	State and/or public contracts and subsidies Concluding contracts and agreements
Funding from private and individual sources	Foundation resources Donations from a business Donations from individuals
Self-financing	Membership fees Sale of services (from the core work) Sale of products (from the core work) Use or rent of intangible assets Use or rent of tangible assets Appreciation of investments
Funding from foreign sources	European Union funds Direct subsidies

Source: Svidroňová & Vaceková, 2012.

**Figure 11.** Nonprofit incomes vs. commercial incomes

Source: prepared by the authors, based on data from Schober et al, 2010.

The main division of sources follows the microeconomic division on equity and borrowed capital (figure 11). The concept of equity is problematic in many NGOs, as they do not have any equity in the business or economic sense. Generally, there is a lack of investors who would provide capital in anticipation of earnings. Classic features of equity are often undertaken by donors, providers of subsidies, or members of the organization. To account for this aspect, we use the term „quasi-equity” (Schober et al, 2010). Quasi-equity can be divided into typical nonprofit incomes and standard commercial incomes. Under typical nonprofit incomes, we include incomes primarily related to the main core work and mission of an NGO; these incomes may come from a variety of funders.

Commercial incomes are incomes from activities unrelated to the mission of an NGO. In particular, a commercial income is from investment activity or yield of capital (e.g. income from renting its assets). Commercial incomes also apply to the restructuring of assets, including the sale of assets and the associated effects of financing, such as sales of buildings and real estate. Other commercial income is a residual category that includes all the commercial activities carried out by NGOs that are not related to their mission and at the same time cannot be assigned to any of the other commercial income categories (Michalski & Mercik, 2011; Wolak-Tuzimek, 2013).

One of conditions for the successful functioning of any organization is finance provision. The financial question of the existence of nonprofit organizations is connected with particularities which are derived from their service and non-commercial status in society. Nonprofit organizations face harder forms of competition than ever before, which inevitably requires the successful management of the difficult task of mastering and applying modern methods of acquiring new financial sources in order to ensure the offer of public services in a range that corresponds with society’s needs.

There are new ways to earn income that are a subject of increased popularity among NGOs: self-financing and nonprofit commercialization.

## **4.2. Self-financing of nonprofit organizations**

The organizations that are labeled as nonprofit have many names and there are also a number of names for self-financing (Svidroňová & Vaceková, 2012): gainful occupation, economic activity, NGO enterprise, nonprofit business, income from NGO activities, and community business. Self-financing is still not a clearly defined term for NGOs. It is broadly defined as any diversification of the funding sources of NGOs. From a narrower point of view, self-financing can be understood as a business or any other economic activity of an NGO that generates income for itself, i.e. self-financing as a method of obtaining internal sources.

Self-financing activities bring financial income and potential profit but the principle of the non-distribution constraint still applies. Unlike any commercial company, the ways an NGO can use this profit is predetermined. Profitable NGO activities, such as revenue from the sale or rental of assets or revenue from advertising, are subject to income tax. When taxing this type of income, it is necessary to take into consideration several conditions that differ from country to country. Usually the main activity, the so-called core work of the NGO, is either not subject to taxation at all (Slovakia), or a given amount of profit from the core work is exempt from tax and the profit above this amount is subject to taxation (Czech Republic). In Austria, the law is even more complicated and the conditions for tax exemption vary from region to region. Generally, tax exemption is a sort of compensation for the non-distribution constraint. Weisbrod (1998) pointed out that although NGOs cannot decide about the use of their profit, they have tax exemption instead.

If an activity is not a core work activity or it complies with the definition of business as stated by EU regulation, then it is another form of self-financing, called a commercial activity. Self-financing activities are associated with the entry of NGOs on the market, and they require business sector-style thinking, but they are not business/economic activities in the true sense of the word (Svidroňová & Vaceková, 2013).

#### **4.2.1. Nonprofit self-financing in the Czech Republic, Slovakia, and Austria**

The impulse for the research was a 1995 scientific project at John Hopkins University in Baltimore (USA) comparing the nonprofit sectors of 22 countries, including the Czech Republic, Slovakia, and Austria, in terms of the size and power of various indicators.

NGOs have not yet reached a level of economic and managerial professionalism where it would be possible to exist solely on sources from self-financing activities (membership fees, sales of services and products, the use of tangible and intangible assets, and the use of investment appreciation). To reach such a level is not usually the goal of an NGO, as it would contradict several principles of their financing (including multi-sourcing and the non-distribution constraint). We wanted to prove that self-financing may be in compliance with the non-distribution constraint (Valentinov, 2008); e.g. it is a suitable method of fundraising for NGOs. We explored whether and to what extent self-financing had an effect on the non-distribution constraint.

The goal of the study was to identify the particular benefits and risks of NGO self-financing based on relevant empirical findings from the Czech Republic, Slovakia, and Austria. We presumed that despite the comparable size of the countries, as well as their shared past in the Austro-Hungarian monarchy, the influence

of economic and non-economic factors led to different developments in NGOs and their funding, including self-financing (Vaceková & Svidroňová, 2014).

The study provided new insights and created an empirical basis for further scientific study and research work in this field.

Primary data was obtained by the sociological method of a structured questionnaire. The data acquired in the Czech Republic in 2013 were part of the findings of the Masaryk University project „CZ.1.07/2.3.00/30.0009 Employment of Newly Graduated Doctors of Science for Scientific Excellence”. For Slovakia, the data were the findings of primary research conducted in 2012 as part of the dissertation „Self-financing and sustainability strategy of nonprofit organizations” (Svidroňová, 2012). Source data for Austria were the findings of the project „Different sources of funding of nonprofit organizations” (Schober, 2010) conducted in 2010 by the Competence Center for Nonprofit Organizations and Social Entrepreneurship, WU Wien.

In order to achieve comparable findings, the same research steps were taken (Benčo & Vaceková, 2012):

- Selected relevant NGOs from a database or the Internet;
- Established personal contact with selected NGOs at the management level;
- Sent an e-mail to established contacts with a link to an online questionnaire;
- Sent a reminder two weeks after the link was sent.

Using the results from the research in the Czech Republic, Slovakia, and Austria, we focused on NGO self-financing in terms of its benefits and risks.

Nonprofit organizations can be classified in terms of the founder or proprietor, as government (nonprofit state) and nongovernment (nonprofit private) organizations, i.e. NGOs. We focused on the following types of NGOs in the Czech Republic:

- civic associations (46% of respondents);
- foundations (6% of respondents);
- foundation funds (2% of respondents);
- public benefit organizations (21% of respondents);
- church or religious associations (25% of respondents).

We started the survey in the Czech Republic in 2013. We have just finished the preliminary research phase, including pilot testing. Of the 250 NGOs surveyed, we currently have answers from 67 respondents.

In Slovakia, the four main types of organizational-legal forms are very similar to the Czech ones:

- civic associations;
- foundations;
- non-investment funds;
- organizations providing public benefit services.

Of the 670 surveyed NGOs, we obtained data from 182 respondents. The sample structure is shown in table 24. It is the final number of respondents; a Chi-square test proved the representativeness of our sample at the significance level alpha of 0.05 (p-value of 0.129 > alpha):

**Table 24.** Surveyed NGOs and representativeness in Slovakia

Legal form	Absolute number	Relative number
Civic association	152	83.52%
Foundation	6	3.29%
Non-investment fund	3	1.65%
Organization providing public benefit services	17	9.34%
Other (church associations, Red Cross, etc.)	4	2.20%
Total	182	100.00%

Source: Svidroňová & Vaceková, 2012.

In Austria (266 respondents), there were the following legal forms of NGOs:

- „Verein” (association);
- „Stiftung” (foundation);
- „gemeinnützige Kapitalgesellschaft” (public benefit organization);
- „Genossenschaft” (cooperative).

As in the Czech Republic and Slovakia, the most represented and therefore the dominant legal form is the association.

The presented results are very detailed for Slovakia; in the Czech Republic and Austria, the results are less complete and detailed. This is due to the differing scopes of the surveys and the different sample sizes in the selected countries. The surveys themselves were conducted in each country under specific circumstances, so the NGO samples are not comparable in terms of time and size; this was not the aim of the surveys. We analyzed and interpreted the available primary data in order to formulate several theoretical and practical solutions and recommendations for NGO self-financing. We had data from two completed surveys (Austria and Slovakia) and one preliminary survey from the Czech Republic. Therefore, the analysis did not reach the same depths in the three selected countries; also, we did not try to interpret any statistical causalities and results that would have compared the three different research samples. Such analysis was not the scientific goal of the study, and it would have been irrelevant.

The study defines the benefits and risks of NGO self-financing, focused on an empirical approach. It indicates the differences between NGO self-financing and commercial/business activity. On the basis of relevant outcomes of primary preliminary research in the Czech Republic, Slovakia, and Austria, we proved



that self-financing is more than a business activity in the common market conception. We also showed that self-financing may not be inconsistent with the non-distribution constraint.

Table 25 shows the main sources used in NGO funding. The data was from primary research in Slovakia (182 respondents) and Austria (266 respondents) and from preliminary research in the Czech Republic (67 respondents).

**Table 25.** Sources of funding of NGOs in the Czech Republic, Slovakia, and Austria

Type of funding	Source of funding	Czech Republic	Slovakia	Austria
Quasi-equity: nonprofit income	State, state subsidies, municipal budgets	67%	42%	91%
	State/public contracts	*	4%	n/a
	Individual donors/companies	66%	60%	56%
	Grants (private foundations)	48%	45%	34%
	Assignations of 2% of tax income	n/a	92%	n/a
	Memberships fees	24%	62%	51%
	Sale of own products and services	69%	58%	63%
	Sponsorship	1%	n/a	53%
Quasi-equity: commercial income	Foreign sources, including EU grants and subsidies	22%	13%	41%
	Asset rental	28%	15%	19%
	Investment appreciation	3%	8%	21%
Borrowed capital	Clearing of reserves	0%	0%	22%
	Bank loans	*	0%	22%
Other	Pre-financing agreements	0%	0%	6%
	Other sources	1%	8%	n/a

Source: Svidroňová & Vaceková, 2012.

In the Czech Republic, public funding was widespread, closely followed by funding from individual donors and companies. However, sales of their own products and services was the most significant source of funding. As other sources, one respondent reported a fund-raising campaign, which could be considered as a special way of raising funds from individuals and companies for a specific purpose.

In Slovakia, other sources of funding were not further specified; therefore, we cannot assign these points to nonprofit or commercial income. The structure of funding was dominated by private and individual sources; self-financing and public funding were also significant. Foreign sources were represented by for-

eign foundations that supported Slovak NGOs; as such, they were considered to be nonprofit income. None of the respondents reported bank loans or foreign capital, supporting the fact that loans have not yet been established as a common source of NGO income in Slovakia.

The funding sources in the Austrian NGOs corresponded to the presumed model, i.e. public finance was clearly the most reported source. Other frequently used sources were fees for services and products, donations from individuals, sponsorship, and membership fees.

In all three countries, the nonprofit income as a part of quasi-equity prevailed. Quasi-equity was essential for achieving the goal of the study. As table 25 shows, nonprofit income can be generated from self-financing activities that are not necessarily of a commercial character, e.g. sales of own products and services that are in compliance with the core work. The differences resulting from the breakdown of incomes into nonprofit and commercial are indicated, especially in the context of maintaining the non-distribution constraint principle of NGOs in the implementation of self-financing activities.

### ***The Czech Republic***

The data mapping the self-financing activities in the Czech Republic were obtained during preliminary research conducted in the spring of 2013. The data generally showed that self-financing is not a recent trend. Most respondents (75 to 90%, depending on the age of the organization) chose some form of self-financing in the early years of their existence. In general, 79% of the NGOs that took part in the preliminary research raised funds through self-financing.

We asked the respondents to identify the problems (risks) connected to NGO self-financing. They cited business risks, risks of conflict with the organization's mission, risks of organizational and professional unpreparedness, and the risk of excessive dependence on only one financial source.

We interviewed respondents on self-financing as a commercial activity. In general, most of the NGOs (approximately 75%) expressed the opinion that it was not an activity distracting from the main mission; this confirmed the assumption expressed in the section devoted to „quasi-equity” (i.e. nonprofit incomes vs. commercial incomes).

To confirm the importance and benefits of NGO self-financing, we examined the intention of respondents to use self-financing in the future: 98% answered positively. The results of the preliminary research confirmed that even if the total volume of other financial sources, especially public and private sources, was greater in the majority of NGOs, self-financing activities were an absolutely essential part of fundraising for most NGOs.

**Slovakia**

The results were obtained in the course of research about the funding of NGOs in Slovakia (Svidroňová & Vaceková, 2012). Self-financing was used by 87.4% of NGOs in Slovakia. The least-used funding sources were state/public contracts (only 2.20%). This suggested that there still were not suitable conditions for NGOs to provide public services. This makes it necessary to search for other sources; private funding as represented by grants was at a higher rate, as were membership fees. Self-financing within one organization was reported by 25.4%, which is higher than the estimation presented as an „ideal” diversification of funding sources (Kuvíková & Vaceková, 2009). Although this represents a quarter of the total sources of an NGO, the value of 25.4% is still lower than the European average of 36.9% (Vaceková & Svidroňová, 2014).

For Slovakia, there was evidence that even newer NGOs use self-financing (table 26):

**Table 26.** Use of self-financing according to the age of NGOs in Slovakia

Length of existence	up to 5 years	6 to 10 years	11 to 20 years	more than 20 years
Length of use of self-financing				
we do not use self-financing	7	2	12	2
1 year	13	2	1	1
2 to 5 years	32	11	9	1
more than 5 years	–	26	37	26

Source: Svidroňová & Vaceková, 2012.

As table 26 shows, organizations less than five years old also use self-financing. For example, 13 organizations younger than five years used self-financing for one year, and 32 such organizations applied self-financing activities for two to five years. Young organizations therefore also recognized the need to diversify sources and they used self-financing in order to gain financial stability.

To evaluate the impact of self-financing on the non-distribution constraint of NGOs, we explored whether respondents considered that self-financing activities detracted attention from the mission and core work of the organization. Of the respondents, 68% stated that self-financing was not a distraction from the mission. More than 21% of them said that it was not a distraction, but they had some objections to self-financing (e.g. NGOs should not develop business activities), or they were unable to decide because they said it depended on other factors, such as the legal form of an NGO. Less than 11% of organizations believed that self-financing was a commercial activity that distracted from the mission and core work of NGOs. We concluded that NGOs must be able to distinguish between

a commercial activity and an activity that requires a business-like way of thinking and focus on self-financing in compliance with the mission and core work.

### ***Austria***

The Austrian NGOs surveyed had very strong state support and the use of public funding was very significant. The most used source of funding in the Austrian NGOs was public sources, used by 91% of respondents (Schober et al., 2010). This involves long-term contractual relationships which greatly influence the acquisition of new sources of funding. The question of how much effort NGOs have to put in to keep these sources whilst obtaining new financial sources and fulfilling their missions comes to the fore. The need to fulfill the mission and keep the non-distribution constraint must be a priority when conducting any activity that brings money in for NGOs.

A partial aspect of this issue also includes an earmarked purpose for sources and accountability to the source provider. Compared with other sources of funding, the highest effort must be made by NGOs when applying for EU funds, state funds, and contributions and donations from companies and individuals. This explains the research results, which showed the clear desire of NGOs to gain a larger part of their funds through their own activities. It also confirms the importance of self-financing, which can offer the highest level of independence and freedom in the decision-making process.

The importance and benefits of self-financing are supported with the findings from the Austrian research on NGO funding focused on the freedom of use of financial sources. The highest purpose-fixed sources provided the least freedom to decide about the use of these sources in fulfilling the mission. The highest level of influence of a source provider was observed in contractual support from the state and the EU (the source provider strictly controls the use of provided money). The least influence and control was in the income from financial investments and renting assets, which are self-financing activities. Self-financing had a positive effect on achieving the generally beneficial purposes for which NGOs were founded and can be in compliance with non-distribution constraint.

#### **4.2.2. Benefits and risks of self-financing**

It is strategically advantageous for NGOs to focus on self-financing activities that are in accordance with the core work of the NGOs and their missions. From a narrow point of view, self-financing is raising funds from sources defined in the „quasi-equity” section as „nonprofit income”. The benefits and risks of self-financing can be defined as follows:

**1. Benefits:**

- Increased income; an additional source of funding;
- Increased diversification of funding increases NGO sustainability;
- Increased flexibility (income raised by self-financing is not limited by donor conditions);
- Improved strategic and long-term planning;
- Improved financial management and discipline;
- Positive impression on donors (NGO is able to co-finance a project with its own funds);
- Empowered board of advisors using their business and managerial skills for self-financing;
- Broadened portfolio of products and/or services, thus broadening the client base;
- Increased NGO self-confidence after successful use of self-financing activities.

**2. Risks:**

- Divergence of organizational sources;
- Focusing on business and not on the mission of NGO;
- Profit reinvested into profitable activity, rather than into core work;
- Loss or debt;
- Loss or damage of NGO reputation;
- Changed motivations of employees and in demands on staff;
- Competitive environment of the commercial sector (with self-financing, NGO enters the commercial market);
- Distribution of products and services (NGOs have limited capacity for servicing the market);
- Problem with servicing large target group (in situations of growth). (Svidroňová & Vaceková, 2013)

The experience of NGOs in all three countries clearly indicated the need to use forms of self-financing in the interest of stability, although this should not be the only way or sole source of income. When raising funds using the demonstrated forms of self-financing, NGOs must reckon with certain risks. These are more numerous, larger, and more challenging than those to which profitable companies are exposed. For each form of self-financing, there is a rule that the further the organization diverges from its mission, the greater the risk it takes if the plan is unsuccessful.

The entry of NGOs on the standard market (with profitable businesses) has created some problems, shown together with the calculation of statistical variables reflecting their importance in table 27 below (scalability assessment: 1 = very serious problem, 2 = serious problem, 3 = minor problem, 4 = slight prob-

lem, 5 = I cannot judge), and symbols a) to e) refer to problems. The description of the problems is in the text below table 27:

- a) „vulnerability” of the NGO if the organization relies on one-sided funding depending on the success of its market activities or other forms of self-financing (average importance  $1.81 \pm 1.143$ ),
- b) the potential risk that the organization „forgets” its mission and that making a profit becomes a priority (average importance  $2.11 \pm 1.229$ ),
- c) strong competition from the private sector (average importance  $2.34 \pm 1.187$ ),
- d) the organization may overestimate its ability and capacity to implement and develop self-financing activities (average importance  $2.44 \pm 1.168$ ),
- e) among other issues: limited legal options for self-financing; high risk of abusing the self-financing possibilities; legislative barriers that do not allow any (or very few) business activities to certain types of nonprofit organizations (e.g. foundations); unclear explanation of the rules on the funding of NGOs; lack of capital and knowledge; lack of „a culture of support for the nonprofit sector” in the form of purchasing its products and services (Vaceková, 2009).

**Table 27.** Problems connected with funding NGOs through self-financing

Indicator / Problem	a)	b)	c)	d)	e)
Mean	1.81	2.11	2.34	2.44	0.21
Median	2.00	2.00	2.00	2.00	0.00
Standard deviation	1.143	1.229	1.187	1.168	0.577
Minimum	0	0	0	0	0
Maximum	4	4	4	4	3

Source: Vaceková, 2009.

We tested these problems, especially the problem in point b) distracting from the mission, which was reported in 2009 and 2012 in the Slovak NGOs, and in the Czech NGOs in 2013. Although we cannot provide the current statistical calculation the same way as in table 24 due to a change in the response scale (in 2009, a 1 to 5 scale was used; in later surveys, respondents answered a yes/no/other option), we can conclude that while the problem of the potential risk that the organization „forgets” its mission and that making a profit takes first place was considered serious (importance 2.11); in research in 2009, it had lost importance. The vast majority of respondents now think that self-financing does not distract from the core work and mission fulfillment: in Slovakia, 86% of respondents thought that self-financing did not distract from the mission and core work, 11% of NGOs thought that it did, 3% of the respondents (4 NGOs) stated that it depended on other factors, e.g. the legal type of NGO using the

self-financing. In the Czech Republic, the preliminary research showed similar results: 81% of the respondents claimed that self-financing did not distract from the mission and core work, and that in fact, the mission and core work of NPOs were supported by self-financing; 13% of NGOs thought that self-financing was a purely commercial activity, and 6% of respondents could not decide. These results were obtained during preliminary research; they will be expanded in upcoming primary research. Despite the problems associated with self-financing, this method of funding is currently viewed as one path to financial stability and independence for NGOs. Independence is understood not only from the point of view of its financial aspects. It is also independence from the environment where the NGO is and independence when the organization needs to decide the direction of its activities. This independence is directly connected with financial independence.

By exploring the self-financing activities of NGOs in three different countries we tried to bring some empirical evidence showing that the commercial activities of nonprofit organizations must be understood in a broader context than that of a „business” and that the commercialization of NGOs can be in compliance with the non-distribution constraint.

Therefore, the goal of the research was to identify particular benefits and risks of NGO self-financing based on relevant empirical findings from the Czech Republic, Slovakia, and Austria. We fulfilled this goal by presenting the partial results of primary research; we confirmed that self-financing is a suitable method for raising funds and also a way to gain financial stability, independence and, in the end, long-term sustainability for NGOs.

In the subchapter, we showed that NGO self-financing can be connected to their core work and does not have to be in conflict with the non-distribution constraint. The fulfillment of the NGO mission supported by commercial activities in accordance with the established core work can be considered an appropriate method to achieve financial independence and stability which should be undertaken by NGOs. We can conclude that the benefits of self-financing prevail over its risks. The scope of the survey that we introduced here, could be a suitable basis and a starting point for further scientific activities in the field of the commercialization of NGOs.

### **4.3. Commercialization of nonprofit organizations**

Over the last few decades, the increase in external environmental challenges faced by NPOs has attracted the attention of researchers, and the commercialization of NPOs became a prominent issue in modern multidisciplinary studies. Researchers dealing with the topic of NPO commercialization have argued



that NPOs must assume entrepreneurial postures in their operations (Sharir & Lerner, 2006; Weerawardena, McDonald & Sullivan Mort, 2010), adopt innovative practices (Jaskyte, 2004; McDonald, 2007; Weerawardena & Sullivan Mort, 2006), focus on outcomes targeted by government policy, and pursue innovative means of delivering superior value to the target market in order to capture a competitive advantage (Weerawardena, McDonald & Sullivan Mort, 2010).

Some researchers have claimed that NPOs should become more market oriented (Nicholls & Cho, 2006) in order to manage the increased competition. Although the application of market principles to NPOs is hardly new, the concept has been expressed in diverse terminology (LeRoux, 2005). Salamon (1993) called it the „marketization of welfare”; Weisbrod (1988) termed the increasing tendency of nonprofits to develop new enterprises, charge fees, and produce goods for sale as the „commercialization” of the sector.

The term „marketization” is used to refer to nonprofits becoming „more market driven, client driven, self-sufficient, commercial, or businesslike” (McKay et al, 2011). Marketization has thus a broader meaning than nonprofit commercialization, which is described as „a process in which NPOs are geared toward sales revenues rather than donations or government grants” (Weisbrod, 2004). There are two paths to commercialization (Enjolras, 2002): it may occur as the result of the development of commercial activities to finance the production of mission-related output or as the result of a transformation of the relationship between the organization and its members from participation to consumption. The narrow definition is that commercialization of nonprofits occurs when these organizations „decide to produce goods and services with the explicit intent of earning a profit” (Tuckmann, 2000).

The economic determinants and effects of nonprofit commercialization have been the subject of wide-ranging theorizing and research, a significant portion of which raises critical concerns about the effects of commercialization on the ability of nonprofits to achieve their missions. According to some authors, commercialization converts nonprofits into „for-profits-in-disguise” (Weisbrod, 2004), puts civil society at risk (Eikenberry & Kluver, 2004), results in mission deflection (Minkoff & Powell, 2006), and brings about mission-market tensions (Young, 2003).

Opponents of NPO commercialization (Weisbrod, 2004; Eikenberry & Kluver, 2004; Minkoff & Powell, 2006; Young, 2002) generally agree that while it is often driven by good social and financial intentions (Guo, 2006), it can involve tremendous complicity and controversy due to the contradiction between the moral adherence to social goals and the increasing engagement in profit seeking (Weisbrod, 2004; Phills & Chang, 2005).

In contrast, supporters of commercialization (Brinckerhoff, 2000; Salamon, 2002; Valentinov, 2008) suggest that it is a promising way for NPOs to achieve



self-sufficiency. Moeller and Valentinov (2012) state that „many NPOs are located in hostile environments and face highly insecure prospects for survival”. Thus, „commercial activities provide a self-regulatory mechanism that enables, rather than hinders, NPOs to perform their missions in environments where the supply of critical resources is insecure” (Moeller & Valentinov, 2012).

Both sides have undoubtedly recognized the growing significance of the entrepreneurial activities of NPOs; however, it is still unknown whether these activities are rooted in different sets of motivations and how they affect NPO missions, funding streams, and service delivery.

The entrepreneurial motivation of NPOs is characterized by specific features derived from the non-commercial status of these organizations in society. Historically, the bottom-line focus on the mission rather than on entrepreneurial activities has been a defining feature of NPOs (LeRoux, 2005). A review of the literature revealed the lack of a well-developed discussion of entrepreneurial motivations and the effects of the non-distribution constraint principle on those motivations.

Knowledge about how entrepreneurial motivations could affect NPOs and how the non-distribution constraint affects these motivations are equally important in theory and practice. According to Salamon and Anheier (1992), the non-distribution constraint is a key feature of NPOs. The trustworthiness theory argues that the non-distribution constraint weakens the incentives of non-profit entrepreneurs to maximize profits at the consumer’s expense. In fact, the non-distribution constraint has „only a weak effect on entrepreneurial choice” (Brhlikova & Ortmann, 2006) as shown by the model of entrepreneurial choice proposed by Glaeser and Shleifer (2001). Revisiting specific economic theories of NPOs (the public goods theory, the consumer control theory, the trustworthiness theory, and the supply side theory) is helpful for understanding why „individuals prefer to satisfy some of their consumption preferences through involvement in NPOs” (Valentinov, 2008) rather than through regular exchange transactions in the marketplace.

A lack of strong empirical support has led some economists to contest these theories. Although case studies of nonprofit entrepreneurship abound (Young, 1985), there are fewer quantitative studies that examine the circumstances behind the entrepreneurial motivations of NPOs. The existing evidence seems to suggest that NPOs do not have a priori motivations for entrepreneurship, but rather adopt these activities as „a coping strategy when financial circumstances threaten to limit the scope of their service provision” (LeRoux, 2005).

According to the resource dependency theory, nonprofits use commercial income as a replacement for lost government grants and private revenue (Crimmins & Keil, 1983; Eikenberry & Kluver, 2004; Young, 2003; McKay et al, 2011). Drawing on this theory, Eikenberry and Kluver (2004) maintained that when public and private supporters falter, one strategy that NPOs pursue is the use of

market approaches to generate revenue. However, nonprofit scholars have provided little empirical evidence for or against this thesis. Kerlin & Pollak (2011), favoring institutional theory, showed that there was little evidence that the increase in commercial revenues between 1982 and 2002 was associated with declines in government grants and private contributions. Other nonprofit literature has also favored the institutional theory (Meyer & Rowan, 1977; Scott, 1995). This perspective suggests that the survival of an NPO requires conforming to the institutional environment in which it exists (Kerlin & Pollak, 2011).

The increase in commercial activities in the nonprofit sector raises the question of whether NPOs are merely „for-profits-in-disguise” (Weisbrod, 1988; Weisbrod, 2000; Weisbrod, 2004). These „false” nonprofits may maximize profits that they then „distribute in disguised form (as higher wages and perks), or they may maximize revenues that lead to power and prestige for their managers. They are lured into the nonprofit sector by the tax and subsidy advantages that they gain therefrom” (James, 2000). Another interesting phenomenon here is the „false commercialization” that occurs when NPOs carry out commercial activities with the sole and explicit aim of covering the costs of fulfilling the nonprofit mission for which they were founded.

Generally, even if the relevance of the issue remains high on international research agendas (Weisbrod, 2000; Weisbrod, 2004; Salamon & Anheier, 1992; Guo, 2006; Enjolras, 2002), empirical research in the area remains scarce because of the lack of relevant data (Guo, 2006). Salamon examined the extent to which the nonprofit social service sector was commercialized, estimating that the income that NPOs received from entrepreneurial activities increased by more than 600% between 1977 and 1996 (Salamon, 2002). However, there have been few or no detailed empirical analyses on the motivations or particular effects of NPO commercialization. There have been attempts to provide empirical findings to illuminate the issue. One attempt was made in 2000, when the Pew Charitable Trusts commissioned two authors to survey the landscape of enterprise in the nonprofit sector (Massarsky & Beinhacker, 2002). Respondents were asked to comment on whether they viewed their organizations as entrepreneurial, and if so, what entrepreneurial strategies they were using. They were also asked about their reasons for initiating business ventures. The research outcomes showed that financial return is not the only entrepreneurial motivation for NPOs. Of the respondents operating business ventures, 39% said that their entrepreneurial activities also served their constituents by providing employment, training, and therapeutic opportunities; 34% claimed that the ventures generated positive community relations; and 23% said the ventures helped to revitalize the neighborhood and community (Massarsky & Beinhacker, 2002). However, no rigorous empirical analysis on the relation between the commercial activities and other attributes of NPOs was provided.

The relevance of the issue has been recognized in (post-)transitional countries, where NPO resources have become a noticeable concern (Pospíšil et al, 2012; Svidroňová & Vaceková, 2012; Svidroňová & Vaceková, 2013; Vaceková, 2014). Preliminary empirical data mapping the self-financing and commercial activities of NPOs were collected in the Czech Republic and Slovakia (Vaceková, 2014). The data generally reveal that nonprofit commercialization is not a recent trend. Over 75% of Czech and 87% of Slovak NPOs used some form of self-financing activities, including commercial ones, even in the early years of their existence, confirming the importance and benefits of the entrepreneurial activities of NPOs. Over 75% of Czech and 89% of Slovak NPO representatives expressed the opinion that self-financing is not an activity that distracts from the main mission.

#### **4.3.1. Data on nonprofit commercialization in the Czech Republic**

In the Czech Republic there is no publicly available database with individual data about NPOs and their resources that would enable a detailed analysis of the economic (market) behavior of NPOs to be worked out with representative outcomes. We can get a basic idea of the development of individual types of revenues in the Czech Republic, including nonprofit commercial revenues, from the internationally comparable and publicly available data from Czech Statistical Office (CSO) issued by the Satellite Account of NPOs (SANI) for NPOs in all institutional sectors of the national economy (CSO 2013a) for the period from 2005 to 2011. The Czech Republic is one of the few countries that also draws up a satellite account for NPOs as a part of their national accounting.

The internationally comparable and publicly available data from the Annual National Accounts (ANA) for NPOs serving households (CSO, 2013b) for 1995 to 2012 is also a potential source of information. In addition to the 17-year time series, the ANA monitors and presents NPOs serving households separately from the households themselves, which is a practice that not many European countries yet follow; however, this source is not suitable for our purposes because the national economy is classified according to institutional sectors. The institutional sector of NPOs serving households contains data only on the NPOs that are non-market producers, i.e. they cover less than 50% of their operational costs (production and services) from their own revenues. The entities that cover more than 50% of their operational costs from their own revenues may be followed in SANI only under the institutional sectors of non-financial businesses and financial institutions. It is not even possible to provide a qualified opinion on the commercialization of NPOs serving households as a part of the nonprofit sector because of the 50% criterion. If any entity exceeded the 50% criterion in the course of time, it would be included in another institutional sector without the

ANA time series user obtaining any information on the reclassification of the entity itself or the scope of the impact on the structure and size of the NPO funding sources. Hence, it would be improper in terms of methodology to come to any conclusions on the commercialization of NPOs on the basis of data from ANA.

We worked especially with data from CSO that were collected as part of an annual statistical survey of NPOs carried out with the NI 1-01 (a) questionnaire for the purpose of developing SANI and ANA. The data were not presented publicly anywhere and they were available in their aggregate form only by specific request, a request which we made for the purposes of this research.

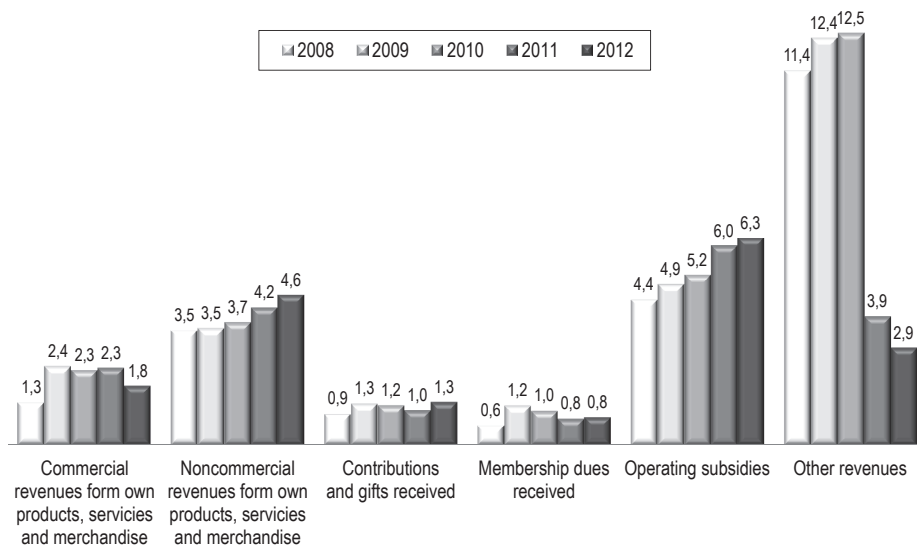
We worked with three selected typical groups of NPOs, regardless of the institutional sector to which they belong:

- 1) foundation entities, represented by organizations with the legal form of a foundation or an endowment fund in the Czech Republic;
- 2) civic associations, represented by organizations with the legal form of an association and its organizational unit;
- 3) nonprofit providers of public services, represented by organizations with the legal form of a public benefit organization in the Czech Republic.

These are three major groups of NPOs in the Czech Republic that vary in terms of their resources. We divided each of the studied groups into large entities and small entities according to the methodology used for the data collection by means of the NI 1-01 (a) questionnaire in the Czech Republic. Large NPOs are NPOs employing more than nine natural persons. These entities are annually surveyed in the form of a census by means of the NI 1-01 (a) questionnaire.

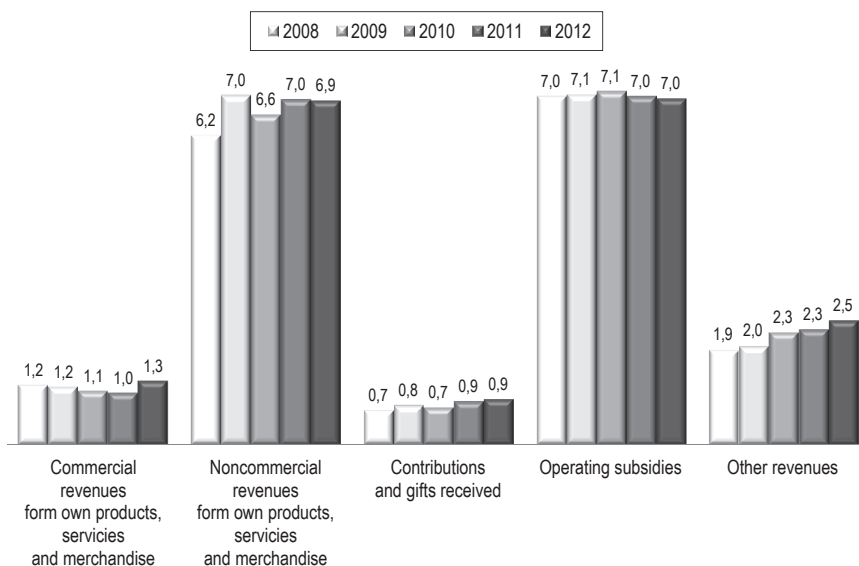
SANI has provided data for all NPOs in a time series since 2005, when NPOs employing more than nineteen natural persons were considered to be large NPOs. A change was introduced in the methodology of data collection in 2008, whereby NPOs employing more than nine natural persons were considered to be large. For this reason, we used only the data for the time series from 2008 to 2012, for which we have representative data for large NPOs in a five-year time series that are exact, comparable in time, and complete (see figures 12–14).

The presented results indicate that nonprofit commercial revenues were not an important funding source for Czech NPOs, not even during the financial crisis. A legislative change directly influencing the commercialization of Czech NPOs was included in the new Civil Code, valid since January 1st 2014. It enables the development of entrepreneurial activities and may produce a considerable change in the structure of revenues. Thus we can expect growth in nonprofit commercial revenues in the Czech nonprofit sector.



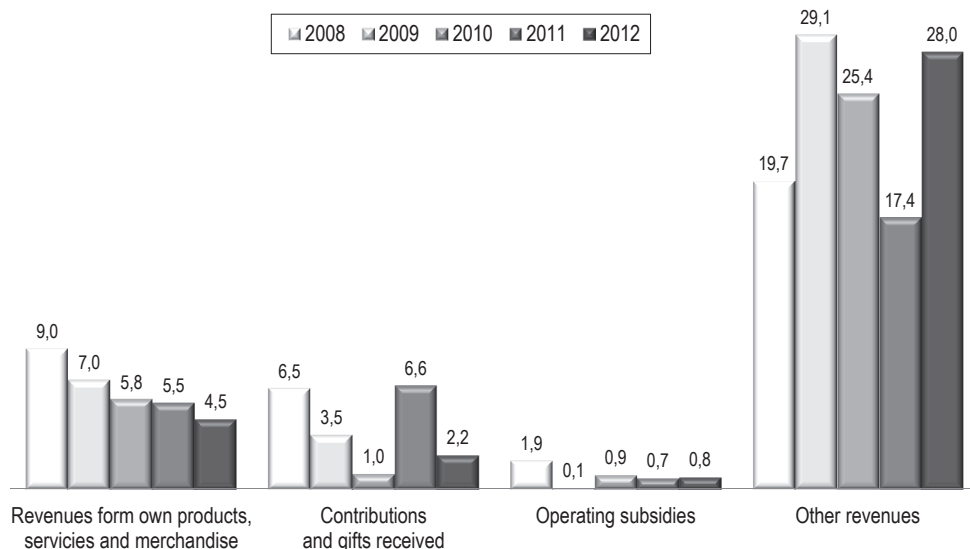
**Figure 12.** The structure of resources of large civic associations from 2008 to 2012 per unit (data in Mio.CZK, 1 Euro = ca. 27 CZK)

Source: Based on specifically requested CSO data from the annual statistical survey of NPOs using the NI 1-01 (a) questionnaire (c.f. Vaceková & Prouzová, 2014).



**Figure 13.** The structure of resources of large nonprofit providers of public services from 2008 to 2012 per unit (data in Mio.CZK, 1 Euro = ca. 27 CZK)

Source: Based on specifically requested CSO data from the annual statistical survey of NPOs using the NI 1-01 (a) questionnaire (c.f. Vaceková & Prouzová, 2014).



**Figure 14.** The structure of resources of large foundations from 2008 to 2012 per unit  
 Source: Based on specifically requested CSO data from the annual statistical survey of NPOs using the NI 1-01 (a) questionnaire (c.f. Vaceková & Prouzová, 2014).

To provide a more complete overall picture of the utilization of nonprofit commercial revenues at foundation entities, civic associations, and nonprofit providers of public services, we also present the data for small NPOs. Small NPOs are NPOs employing nine or fewer natural persons or even having no paid employees. Small NPOs are surveyed in the form of a census or a very extensive selective survey carried out using the NI 1-01 (a) questionnaire once every five years when a certain legal form of units is selected for such a survey in the given year. For example, in 2008, generally beneficial companies were surveyed in the form of census; in 2009, foundations and endowment funds; in 2010, professional organizations/chambers, other chambers, associations of legal persons, and hunting communities; in 2011, church organisation, political parties, and political movements; and in 2012, associations and their organizational component were surveyed in the form of a very extensive selection procedure. For this reason, we are unable to work with a time series or to contribute to the discussion on the development of nonprofit commercial revenues at small NPOs before the five-year cycle repeats. As regards small NPOs, we present only the situation in the selected years for which we were able to obtain accurate and complete data.

The development of total revenues for small civic associations (employing nine or fewer natural persons) could not be studied due to the data collection methodology. In 2012, they amounted to 0.2 mil. CZK (approximately 7,400 Euro) per unit. In contrast to large civic associations, the most important income resources were received operational subsidies (600,000 CZK / approximately 22,200 Euro per unit), accounting for 32% of the total revenues. Revenues from their own products, services, and merchandise, of which more than half were non-commercial revenues, achieved the same level.

The development of total revenues for small nonprofit providers of public services could not be studied due to the data collection methodology. In 2008, they amounted to 1.5 mil. CZK (55,500 Euro) per unit. As with large nonprofit providers of public services, the most important funding resources (accounting for more than 40% of the total revenues) were commercial and non-commercial revenues from their own products, services, and merchandise, of which 80% were non-commercial. Another important funding resource were operating subsidies.

As regards small foundation entities, the development of revenues cannot be studied in light of the methodology of data collection. In 2009, they amounted to 1.9 mil. CZK (70,400 Euro) per unit. The most significant revenue resource continued to be property incomes and other revenues; their share in the revenues for 2009 was 56.3%; the assets of small foundation entities were up to 1.07 mil. CZK (40,000 Euro) per unit due to the high number of foundation entities that received contributions from the Foundation Investment Fund falling under this category. Small foundation entities studied in 2009 showed a 10.5% share of the revenues that were almost completely non-commercial revenues from their own products, services, and merchandise, corresponding to the findings on large foundation entities. We found a considerable difference in contributions and gifts, where this funding resource amounted to a 31.6% share of the total revenues of small foundation entities; we recorded a decrease to 3% in the large foundation entities.

#### **4.3.2. Data on nonprofit commercialization in Slovakia**

In this subchapter, we examine the commercial activities of nonprofits in Slovakia on the basis of data from several sources and databases: the Slovak Statistical Office, the Ministry of Interior of Slovakia, the Slovstat database, the Financial Directorate of Slovakia, and tax offices. To obtain the data was quite difficult because the Slovak Statistical Office does not follow the activities of NGOs separately in terms of their main and business (commercial) activities. Likewise, the Ministry of Interior of Slovakia and its Department of Internal Affairs and the Department for Business do not have information about the number of nonprofits which undertake any business activities. The Ministry of



Interior is merely a registry office for certain types of legal forms of NGOs; it does not keep a record of NGO activities. The obtained data were collected from several sources used to map out the commercialization of nonprofit organizations in Slovakia. Given that some data was not comprehensively recorded in any of the mentioned offices and there were no official statistics or records on NGOs engaged in commercial activities, this review is incomplete.

For each nonprofit organization that decides to fulfill its stated mission, the necessary resources must be obtained. Income from its own activities, whether main (self-financing) or business (commercial), is increasingly important due to the changing structure of various foreign funding sources and insufficiently developed domestic donations from individuals and companies in Slovakia. Table 28 shows the income of nonprofit organizations serving households between 2008 and 2013; this reflects revenues from the sales of their own products and services, including income from business activities, and nonprofit organization total revenues in euros.

**Table 28.** Income of nonprofit organizations for 2008-2013

Year	Income from sales of own products and services	Total costs	Total revenue	Income from sales of own products as a percentage of total revenues
2008	242,299,000	838,594,000	879,933,000	27.54%
2009	237,476,390	876,764,732	915,754,499	25.93%
2010	202,576,395	895,668,206	928,773,845	21.81%
2011	212,842,024	818,565,140	871,322,914	24.43%
2012	183,592,440	898,757,171	944,564,412	19.44%
2013	208,237,981	950,563,820	984,441,377	21.15%

Source: prepared by the authors, based on internal data of the Slovak Statistical Office, 2015.

As can be seen from table 28, the income for nonprofit organizations from the sales of their own products and services is neither increasing nor decreasing. In 2008, this income totaled nearly €243 million; in 2010 it decreased by €39,722,605. In 2011, revenues again rose to the level of €212,842,041; in 2012, there was a decrease of €29,249,584. In 2013, the amount increased again to €208,237,981. The total revenue development had a sinusoidal character. The highest total revenue was in 2013, at the level of €984,441,377. Paradoxically, while in 2008, the amount of income from sales of their own products and services was the highest, the total revenue for the organizations was the second lowest in the observed period.

The income from sales of their own products and services as a share of the total revenues of nonprofit organizations shows what percentage of the total



revenue was created by the income from business activities. Nonprofit organizations achieved the maximum income from business activities in 2008 (27.54%). By 2010, this decreased to 21.81%. In 2011, there was an increase by 2.62%. In 2012, the income from business activity was the lowest (19.44%). In 2013, there was a renewed increase to 21.15%.

Table 29 shows the number of tax returns filed for nonprofit business activities in Slovakia, i.e. the number of nonprofit organizations that undertook any business activity that was subject to taxation.

**Table 29.** Number of nonprofit organizations expressed in number of tax returns from business activity

Year	Number of tax returns from business activities	Total number of nonprofit organizations	NGOs with commercial activities as a percentage of the total number of NGOs
2008	1,081	39,874	2.71%
2009	1,199	42,395	2.83%
2010	1,388	44,176	3.14%
2011	1,487	46,273	3.21%
2012	1,573	45,480	3.46%
2013	1,653	49,101	3.37%

Source: prepared by the authors, based on internal data of the Financial Directorate of Slovakia, 2015.

Every year, an increasing number of tax returns are filed for the business activities of nonprofits; an average of about 114 more tax returns per year. The average growth in nonprofit organizations using commercialization is 0.13% per annum. This can be considered as proof that nonprofit organizations use commercialization more and more to generate revenues, but the percentage share says that this form is still underdeveloped in Slovakia.

Table 30 displays business revenues including operating, financial, and extra income for the period between 2008 and 2013. In 2008, the income from business was €194,833; by 2013, it had decreased by €136,427, despite the annually increasing number of tax returns and the increasing number of nonprofit organizations doing business. In 2011, the nonprofits had revenues of €58,738; in 2012, their amount increased by €8,506. In 2013, there was a drop to €40,322. This decline may have been due to a slight decrease associated with nonprofits doing business in 2013 accompanied by a steady increase in the total number of nonprofits in Slovakia.

**Table 30.** Business revenues of nonprofit organizations in thousands €

Year	Business revenues
2008	194,833.53
2009	93,959.71
2010	58,405.77
2011	58,738.48
2012	67,245.15
2013	40,322.65

Source: prepared by the authors, based on internal data of the Financial Directorate of Slovakia, 2015.

From a macroeconomic point of view, the commercialization of nonprofit organizations is not very widespread in Slovakia. Approximately 3% of nonprofit organizations deal with some type of business activities. From 2008 to 2013, the business revenues averaged €85,584. For those organizations that use commercialization in addition to their main activity, business revenues were about 20% of the total revenue.

### 4.3.3. Potentials of nonprofit commercialization

Following a theory and research review and the presented data analysis that indicated particular issue areas in relation to nonprofit commercialization, we suggest focusing on three main research areas (cf. Vaceková & Prouzová, 2014) in Slovakia and the Czech Republic.

First, subsequent research should investigate the motives behind the entrepreneurial activities of NPOs. There are several theories and some partial empirical findings dealing with the commercialization of NPOs; however, a relatively small amount of research has been devoted to exploring the actual motives of NPOs for their increased reliance on profit-based resources. Following Kerlin and Pollak (2011), we suggest examining whether there has been an increase in nonprofit commercial revenues, and if so whether declines in government grants and private contributions are behind the increase. Moreover, the entrepreneurial motivation among Slovak and Czech nonprofits when confronted with the non-distribution constraint should be understood. We suggest exploring how „false commercialization” or „for-profits-in-disguise” could be conceptualized and empirically identified.

Second, potential research should explore the overall effect of the process of commercialization on NPO goals and their fulfillment. It has been argued that the process of commercialization leads to the significant emancipation of NPOs,

both in terms of financial independence and in the ability to focus on their goals without needing to fulfill the agendas of donors (public agencies, companies, etc.) Advocates of the opposite perspective have argued that commercialization in itself constrains NPOs and forces them to focus on sub-fields or on areas that may be attractive to potential customers rather than relating to the NPO's main mission. Most studies thus far have been descriptive, providing some insights into understanding this phenomenon but not offering a comprehensive explanation that takes all of the possible factors into account. To explore the overall perceived impact of NPO commercialization would be of great importance in Slovakia and the Czech Republic.

Third, potential research should assess the impact of NPO commercialization on their goals/mission scale. To bring theoretical innovation to the research area, we link the issue of nonprofit commercialization with the concept of „social dilemma” (Pies, 2009; Pies, 2012; Suchanek, 2007), which is prominent in constitutional economics and economic ethics. The shorthand definition of social dilemmas is „situations in which collective interests are at odds with private interests” (Kerr, 1983). The focus of this suggested future research is related to social dilemmas: does commercialization lead NPOs to focus on a smaller audience and on the advancement of narrow interests in order to increase the resources from particular profit activities? Or does this process rather compensate for some type of (lacking) resources while keeping NPOs on track in providing public services, defending broad public interests, and responding to the needs of society at large? The social dilemma approach to NPO commercialization has not yet been pursued (Valentinov, Nemeč & Vaceková, 2015).

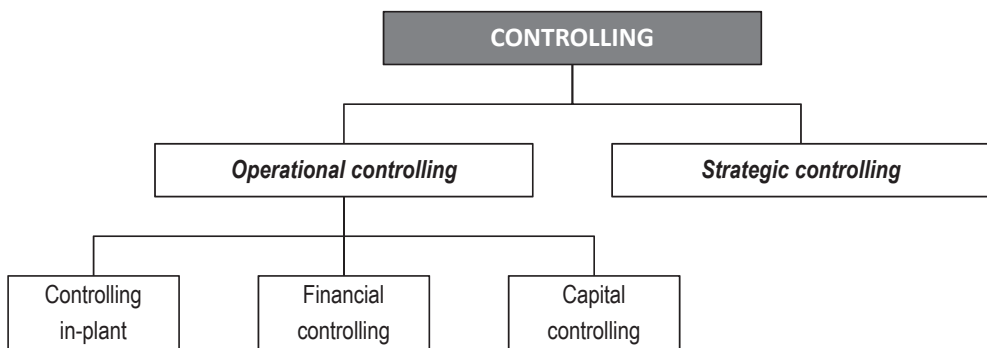
#### **4.4. Financial controlling in nonprofit organizations**

One condition for a successfully functioning organization is financial provision. The financial question of the existence of nonprofit organizations is connected with particularities derived from their service and non-commercial status in the society. Nonprofit organizations currently face tougher forms of competition than ever before, which inevitably requires the successful management of the difficult task of mastering and applying modern methods of gaining new financial resources in order to ensure the offer of public services in a range that corresponds with society's needs.

Financial management can be seen as the dominant management task, focused on all of the economic ties of an organization, including basic activities such as financial planning, financial decision making, financial operations management, financial analysis, and financial controlling (Lament, 2011; Lament, 2012). These activities are important for acquiring financial capital, contributing

to its suitable allocation and usage, reallocating financial gains, and recording and analyzing financial processes.

In the nonprofit environment, financial controlling as a modern management tool is gaining in importance. Authors often differ in how they define the term „controlling”. Over time, the number of views has increased and crystallized. In terms of timing, we can distinguish the controlling that is focused on long-term management, i.e. strategic controlling, and that which concerns short-term management, i.e. operational controlling (figure 15).



**Figure 15.** Controlling structure

Source: Vaceková, 2013.

The aim of financial controlling is to secure the liquidity and financial stability of an organization. The term „financial controlling” mostly applies to the cash flow management outside of an organization. It points out problems, sends warning signals, and gives managers advice for making the right decisions. Financial controlling offers important advantages and contributions, such as increased financial sources, as well as their proper allocation and administration.

#### 4.4.1. Utilization of financial controlling in Slovak nonprofit organizations

We used empirical data to assess the current state of the implementation of financial controlling and its tools in nonprofit sector organizations in Slovakia. We assumed that it was necessary to apply the chosen controlling tools that were commonly used in the profit sector to the conditions of the nonprofit sector (Vaceková, 2011). In the interest of long-term sustainability, nonprofit organizations have to take on modern management methods, and under the current difficult economic conditions, the utilization of controlling is an essential condition for the success of any organization (Kuvíková & Vaceková, 2010).

The data used were obtained in a pilot primary research (pre-research) using the sociological method of a structured questionnaire. We created two types of questionnaires – one for the governmental (state) nonprofit organizations and one for the nongovernmental nonprofit organizations. Sequentially, we classified the organizations according to chosen criteria such as the area of their activities, their legal form, the age of the organization, the number of its employees, and the seat of the organization.

We built the questions following the same structure for both types of questionnaires. The pre-research part of the questionnaires was divided into two topics. In the first one, we wanted to determine whether the nonprofit organizations had already implemented financial controlling. Next, we asked the organizations that had not yet implemented financial controlling if they were interested in its implementation in the future and how it could be used. Then we asked the nonprofit organizations that had already implemented financial controlling about the reasons for its implementation and the advantages of its utilization. We were also interested in who was responsible for the financial controlling in the organization. In the second part of the questionnaire, we focused on the utilization of selected tools of financial controlling and on activities that were performed by the nonprofit organizations while implementing these tools.

We sent the questionnaires to 260 respondents from nongovernmental nonprofit organizations and to 300 respondents from governmental nonprofit organizations using a chosen method of electronic distribution. For the research purposes, we gained 53 completed questionnaires from the nongovernmental nonprofit organizations and 65 from the governmental nonprofit organizations. The number of respondents who took part in the pre-research was verified in several ways. According to Blišťan (1999) the minimum range of the sample can be determined by the following formula:

$$n_{min} = \frac{g_2(u) - 1}{4\delta(s)^2} + 1 \quad (1)$$

When considering the relative error of standard deviation  $\delta(s) = 0.1$  and normal distribution with  $g_2 = 3$ , the recommended minimum number of respondents was 51. Both our sample files met this condition. The sample of respondents reflected the current state of the structure of NGOs in Slovakia. The appropriateness of the structure and scope of the sample were confirmed by the statistical significance of the results of tests carried out by selected methods of analysis of qualitative data.

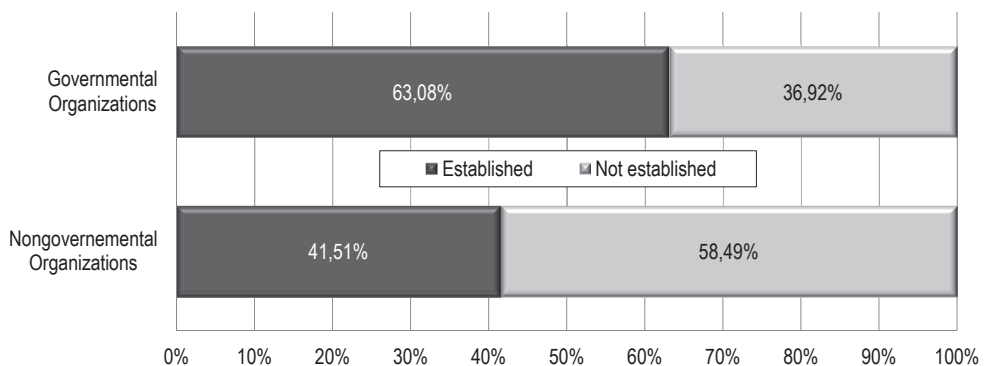
We placed the questionnaires on the internet using Google domain's functions. Respondents were directed to the questionnaire by a hypertext link in an e-mail. In the direct electronic data collection, the primary data were saved in

MySQL database, from which they were exported to the Microsoft Excel program. For a follow-up statistical evaluation, these primary empirical data were transformed into a symbolic code language. It was necessary to develop a system of categorizing the examined empirical phenomena and a coding key (Kuvíková & Vaceková, 2009). During the data processing, we applied some relevant mathematical-statistical methods using the SPSS program.

At the beginning of our pre-research, we investigated the state of controlling used in the nongovernmental nonprofit organizations and in the governmental nonprofit organizations.

More than half of the nongovernmental nonprofit organizations involved in the pre-research (58.49%) had not yet implemented financial controlling. Only 41.51% of the nongovernmental nonprofit organizations had applied financial controlling.

The situation in the governmental nonprofit organizations was reversed. There, the respondents who had established a system of financial controlling predominated, representing more than 60% (figure 16).



**Figure 16.** State of utilization of financial controlling in nonprofit sector organizations

Source: Vaceková, 2013.

We tested the nongovernmental nonprofit organizations and the governmental nonprofit organizations by the chosen statistical methods of data dependence analysis. The aim was to find whether there was any dependence between the utilization of financial controlling and some pre-established criteria: legal form, average evidentiary number of employees, year of organization's constitution, and seat of organization (table 31).

**Table 31.** Analysis of dependence of financial controlling utilization on chosen identifying criteria

Dependence of financial controlling utilization	Dependence test	Dependence rate
	Fisher's Exact Test/Sig	Cramer's V
on the legal form	0.004b	0.353
on the number of employees	0.010b	0.331
on the age of the organization	0.160b	0.207
on the seat of the organization	0.892b	0.162

Source: Vaceková, 2013.

We examined whether there was dependence between the utilization of financial controlling and the legal form of the nonprofit organization.

We used Fisher's exact test to test the dependence of two variables. The test reveals if there is a dependence between the studied characteristics at a level of significance of  $\alpha = 0.1$ . To verify the dependence, it is necessary to sum up the partial probabilities. If the sum of the probabilities was smaller than the level of significance ( $p \leq \alpha$ ), the significance of the relation between the studied characteristics and the existence of some dependence is proved. We calculated the strength of this dependence using Cramer's V coefficient (it takes values from 0 to 1), where a correlation of 0.1 to 0.3 meant a weak dependence, 0.3 to 0.5 a medium-strength dependence, 0.5 to 0.8 a strong dependence, and a correlation higher than 0.8 meant that there was a very strong dependence between the studied characteristics.

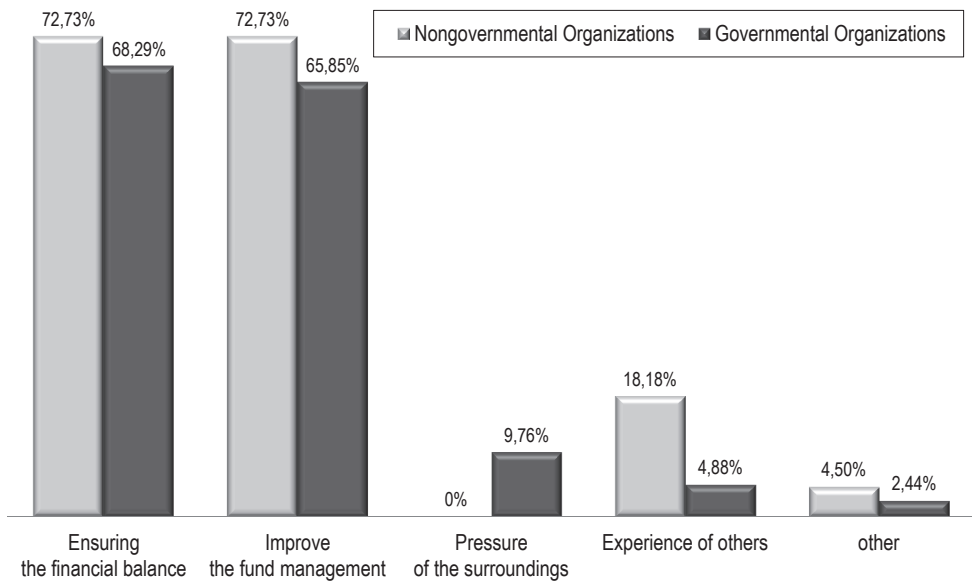
According to Fisher's exact test (table 31), there was a dependence between the legal form of a nonprofit organization and the utilization of financial controlling, because the Fisher's test value was 0.004, which is lower than 0.1. According to Cramer's V coefficient (0.353), it was a medium-strength dependence. There was an implemented system of financial controlling mostly in the organizations with the legal form of nonprofit organizations offering public services and foundations. Civic associations that took part in our pre-research had not yet implemented a system of financial controlling. In the examined budgetary and subsidiary organizations, financial controlling was used by more than half of the respondents.

We examined whether there was a dependence between financial controlling and other identifying criteria such as number of employees, age of organization, and the seat of the organization. The dependence was confirmed only for the number of employees and the size of organization. Based on Fisher's exact test (0.010) and the degree of dependence (Cramer's V), there was a medium-strength dependence between these two indicators. This means (according to the

results of the pre-research) that there was a difference in financial controlling utilization in voluntary, small, and big organizations. Organizations operating solely on the principle of volunteerism had not implemented financial controlling. The situation in the organizations that had one to five employees was balanced; financial controlling was commonly used in the organizations with six or more employees.

### *Reasons for implementing financial controlling in nonprofit sector organizations*

There were various reasons for implementing financial controlling. We examined the reasons separately in nongovernmental nonprofit organizations and in governmental nonprofit organizations. The reasons are shown in figure 17.



**Figure 17.** Reasons for implementing financial controlling

Source: Vaceková, 2013.

The most common reason for implementing financial controlling according to the nongovernmental nonprofit organizations that took part in our pre-research was to ensure financial balance and to improve fund management (both 72.73%), which is a fact that we want to emphasize. For NGOs, it is necessary to manage the gained funds efficiently. This is followed by the experience of other organizations (18.18%) and other reasons (4.50%), e.g. overview of finances.



None of the NGOs considered the pressure of the surroundings to be a reason for implementing financial controlling.

In governmental nonprofit organizations, the most common reason for implementing financial controlling was financial stability (68.29%) followed by improving fund management (65.85%), pressure of the surroundings (9.76%), and the experience of other organizations (4.88%). The other reasons that were stated by 2.44% of government organizations including the imposition of the obligation of the founder.

Based on the pre-research results, the biggest difference between governmental and nongovernmental nonprofit organizations is in the pressure of the surroundings. This may be due to the fact that the governmental nonprofit organizations are under a greater compulsion to implement controlling in order to make the use of their resources more economical. The governmental nonprofit organizations are linked to the budget of their founder and they are financed mostly from public resources.

### ***Information obtained from financial controlling***

In addition to examining what led the organizations to implement financial controlling, we were interested in whether the implemented system of financial controlling could help manage the organization. All the organizations with implemented systems of financial controlling answered this question positively. More than 66% of respondents considered that financial controlling would help absolutely; 33.87% of respondents thought that it would help only partly.

It is important to know how organizations capitalize on the information obtained from financial controlling. Therefore, in the pre-research we focused on how the controlling information system could help in specific situations (table 32).

**Table 32.** Significance of information obtained from financial controlling

Significance of controlling Type of NGO	Information obtained from financial controlling	Important for management activities	Ensures financial stability	Sends warning signals	Helps to manage funds	Gives advice	Helps in monitoring financial plans
NGOs	Average	0.636	0.773	0.455	0.591	0.318	0.455
	Standard error of the mean	0.105	0.091	0.109	0.107	0.102	0.109
Governmental NPOs	Average	0.585	0.683	0.195	0.575	0.073	0.333
	Standard error of the mean	0.078	0.074	0.63	0.079	0.041	0.076

Source: Vaceková, 2013.

Based on the primary data, the information obtained from financial controlling in most NGOs serves to ensure financial equilibrium ( $0.773 \pm 0.091$ ). This information is also important for management activities ( $0.636 \pm 0.105$ ), it helps to manage funds ( $0.591 \pm 0.107$ ), it shows warning signs, and it helps in monitoring financial plans ( $0.455 \pm 0.109$ ). The fewest respondents agreed that information obtained from financial controlling assists in and coordinates recommendations for the future of the organization. In governmental nonprofit organizations, the information is more useful for controlling financial plans ( $0.333 \pm 0.076$ ) than for showing warning signs ( $0.195 \pm 0.063$ ).

### *Person responsible for financial controlling*

We focused on the person responsible for utilizing various financial controlling tools. We wanted to find whether there was a dependence between the person responsible for using some selected tools and the legal form of the organization.

Based on the dependence test (table 33), there was a medium-strong dependence between the financial manager and the economist as the person responsible for the financial controlling and the legal form of the organization. The legal form of the organization determines whether the financial manager or economist is responsible for financial controlling in the organization. An economist is the most preferred responsible person in budgetary and subsidiary organizations.

**Table 33.** Dependence of a person responsible for carrying out the financial controlling on selected identification criteria

Dependence	Test of dependence	Degree of dependence
	Fisher's Exact Test/ Sig	Cramer's V
Controller vs. legal form	0.629b	-
Financial manager vs. legal form	0.018b	0.438
Economist vs. legal form	0.05b	0.480
Chairman, director vs. legal form	0.156b	-
Other responsible person vs. legal form	0.860b	-
Economist vs. number of employees (size of org.)	0.000b	0.641
Economist vs. age of organization	0.024	0.384

Source: Vaceková, 2013.

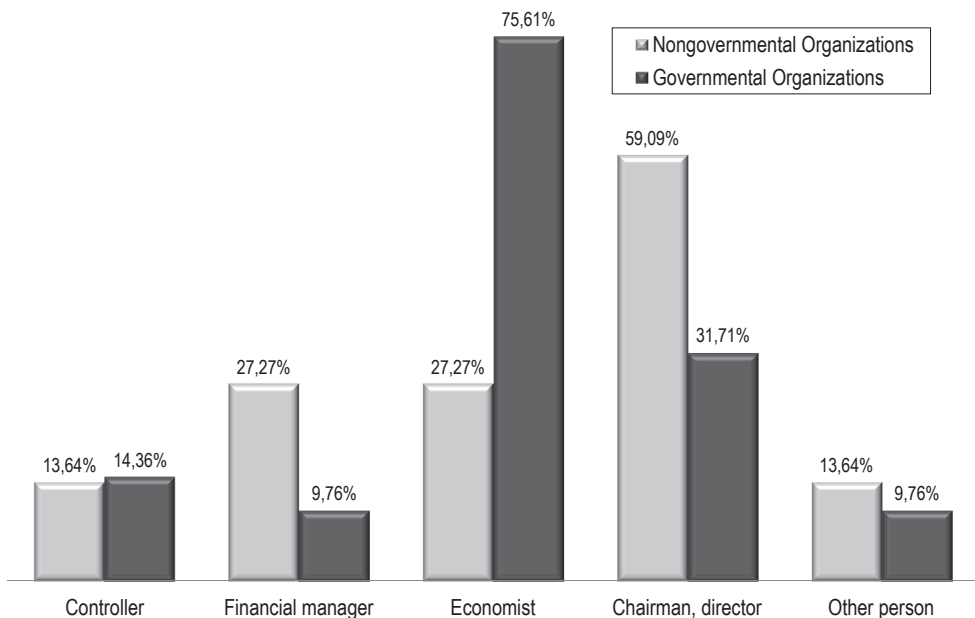
We examined the dependence of the person responsible for utilizing financial tools on the size of the organization (number of employees) and on the age of the organization. We found a strong dependence between the size of the organization (number of employees) and the person responsible for the financial

controlling and a medium-strong dependence between the economist as a person responsible for the financial controlling and the age of the organization. The size of the organization and the age of the organization determine whether an economist was responsible for financial controlling in the organization.

Based on the pre-research outputs, an economist was responsible for utilizing financial controlling in the organizations established before 2000. In the organizations that were established after 2000, some other person was responsible for financial controlling, for example a director, controller, or financial manager of the organization.

In the nongovernmental nonprofit organizations, usually a director or a chairman was responsible for financial controlling (59.09%), then a financial manager or an economist (27.27%), and finally a controller (13.64%). Another person responsible for financial controlling, e.g. volunteers who understand the issue, a project manager, or an inspector, was stated by 13.64% of respondents.

In governmental nonprofit organizations, an economist was responsible for financial controlling (75.61%), then a director or a chairman of the organization (31.71%), then a controller (14.63%), and finally a manager of the organization or another responsible person, such as a financial manager or some other competent employees (9.76%) – figure 18.



**Figure 18.** Person responsible for utilizing financial controlling and its tools

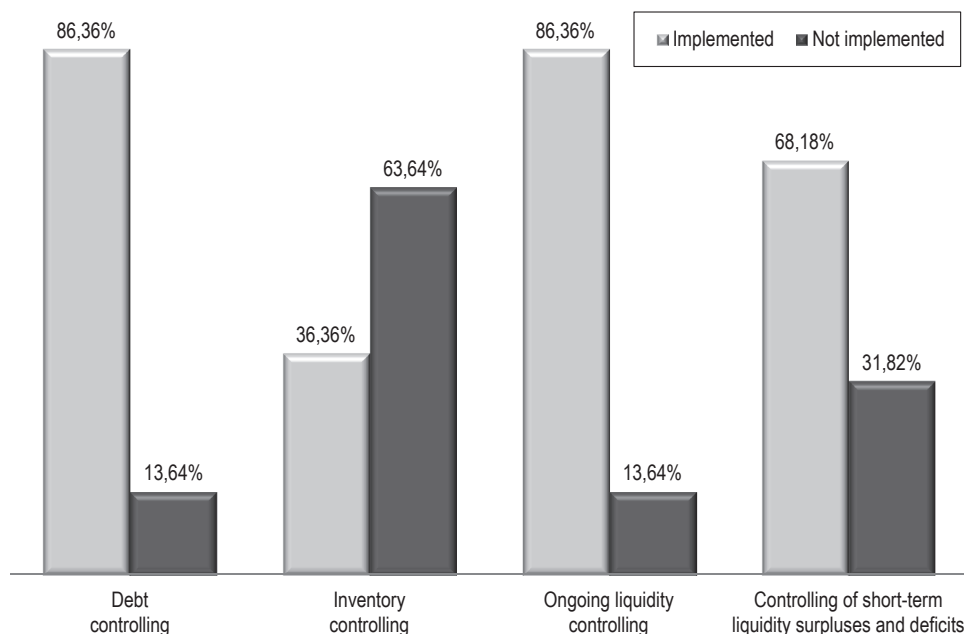
Source: Vaceková, 2013.

Based on the pre-research results, we can conclude that in nongovernmental and also in governmental nonprofit organizations there are various people responsible for utilization of financial controlling and its tools.

### *Financial controlling tools*

The next part of our pre-research focused on the utilization of some financial controlling tools: debt controlling, inventory controlling, controlling of working capital, ongoing liquidity controlling, and controlling of short-term liquidity surpluses and deficits. Figure 19 gives an overview of the use of these tools in the nonprofit organizations that participated in our pre-research.

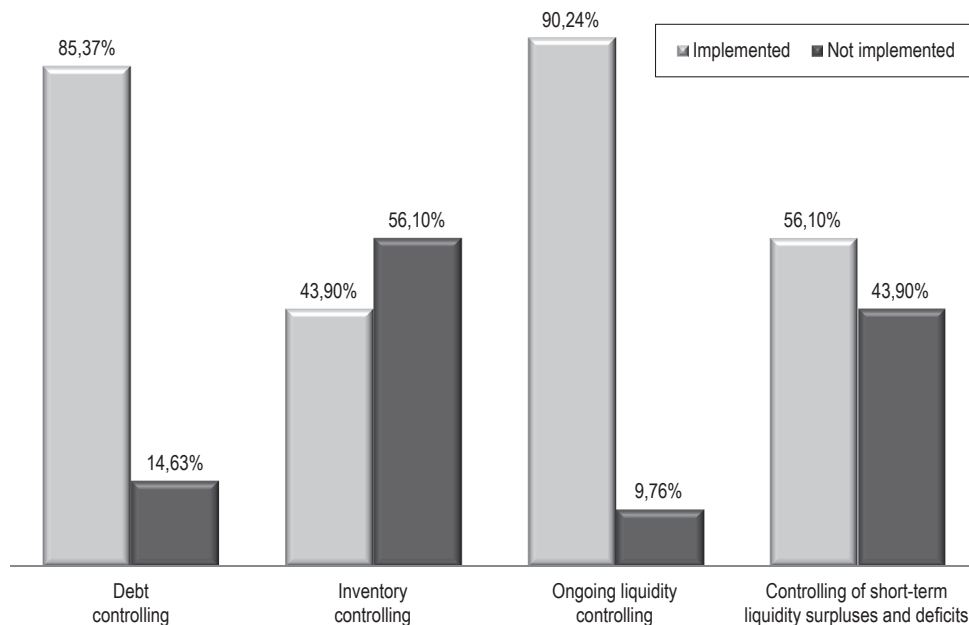
Debt controlling and controlling of ongoing liquidity were applied equally by 86.36% of nongovernmental nonprofit organizations (figure 19) where financial controlling was implemented. Controlling of short-term liquidity surpluses and deficits as a part of the financial controlling was used in 68.18% of the organizations. The least-used financial controlling tool was inventory controlling, used only by 36.36%.



**Figure 19.** The utilization of financial controlling tools in Nongovernmental Organizations.

Source: Vaceková, 2013

An overview of the financial controlling tools used in governmental nonprofit organizations is shown in figure 20.



**Figure 20.** The utilization of financial controlling tools in governmental nonprofit organizations

Source: Vaceková, 2013.

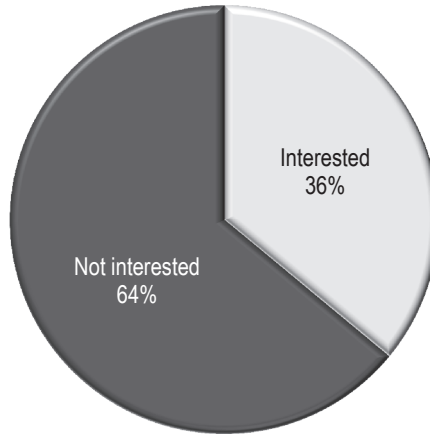
Ongoing liquidity controlling was applied by 90.24% of the governmental nonprofit organizations that use financial controlling, followed by debt controlling (85.37%). Controlling of short-term liquidity surpluses and deficits was used in 56.10% of organizations. The least-used financial controlling tool was inventory controlling, applied by 43.90% of the governmental nonprofit organizations.

Nongovernmental and governmental nonprofit organizations that have implemented a system of financial controlling do not have to use all the possible financial controlling tools.

### ***Barriers to implementing financial controlling***

A financial controlling system had not yet been implemented by 58.49% of nongovernmental and 36.92% governmental nonprofit organizations that participated in our pre-research.

We were interested in whether the organizations that did not use a financial controlling system were considering implementing one in the future and in what barriers they might face in this process (figure 21).



**Figure 21.** Interest of nonprofit organizations in implementing financial controlling  
Source: Vaceková, 2013.

The results of the pre-research showed that only 35.38% of the nongovernmental nonprofit organizations that did not apply a financial controlling system were interested in implementing one in the future. Among the governmental nonprofit organizations, the interest in implementing a financial controlling system in the future was even lower: only 12.5%. This could be because governmental nonprofit organizations are connected to the budget of their founder, who decides about the implementation and the use of financial controlling system.

More than half (58.49%) of the nongovernmental nonprofit organizations had not implemented any financial controlling system. We tried to find the barriers to implementation and their significance.

We used the Friedman test to assess the correspondence of medians for  $k$  variables ( $k > 2$ ) based on the average and total orders for each variable separately. The basic idea of this test is that if there is no difference between the selection yields, there is no difference between the average orders (Řezánková, 2010). Table 34 presents the results of the Friedman test.

According to the results of Friedman test, there is a significant difference between the barriers. Most organizations (74.19%) considered the lack of financial resources to be a barrier. Human resources and the lack of information about financial controlling were equally barriers to 54.84% of the respondents. The lack of material resources and insufficient information systems were equally

barriers to implementing financial controlling for 16.13%. Nongovernmental nonprofit organizations also identified some other reasons, such as lack of interest in implementing financial controlling and inefficiently implemented financial controlling due to a low number of employees.

**Table 34.** Friedman test for correspondence of barriers to implementing financial controlling in NGOs

Barriers to implementing financial controlling	Average rating	Absolute frequency	31		
Lack of financial resources	4.61	Chi-square	53.261		
Lack of human resources	4.03	df	5		
Lack of material resources	2.87	Asymp. Sig.	.000		
Insufficient information system	2.87	Monte Carlo Sig.	Sig.	.000	
Lack of information about financial controlling	4.03		99% Confidence Interval	Lower Bound	.000
Other	2.58			Upper Bound	.000

Source: Vaceková, 2013.

Implementing financial controlling in nonprofit organizations brings these organizations some significant benefits connected to the functions of financial controlling. Nonprofit organizations cannot carry out their activities without sufficient financial support. Therefore, they should consider applying new management methods, appropriate means of financial security, and more efficient use of funds (e.g. Kozuń – Cieślak, 2011). The growing competition for donations, grants, and subsidies simultaneously force organizations to more efficiently use their resources. For these reasons, selected financial controlling tools should be implemented in governmental and nongovernmental nonprofit organizations.





# CHAPTER 5

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## **Social innovations as future trend in nonprofit sector research**

Innovation was previously associated primarily with the business sector. The aim of introducing innovation was therefore primarily profit. However, the concept of social innovation is increasingly popular. The purpose of a social innovation is rather different; its effects and impacts are on society. The bearers of social innovations are usually social enterprises.

### **5.1. Social entrepreneurship in the Czech Republic and Slovakia**

The main criterion in the Czech Republic according to which an entrepreneur can be considered a social entrepreneur is the employment of disadvantaged people or people at risk of social exclusion or already socially excluded people, including (Boukal, 2013, p.162):

- people with disabilities – people who are disadvantaged in comparison to other members of society because of a health disability (Act No.108/2006 Coll.);
- children, teenagers, and young adults – people endangered by social pathologies leaving institutions at the age of 15 to 26 years;
- ethnic and national minorities, people from different socio-cultural environments;
- foreigners – people from other countries legally residing in the Czech Republic for at least one year;
- the homeless – people having no accommodation, living in emergency housing, people leaving facilities designed for institutional or protective care, and people who have ended a term of imprisonment;
- victims of crime, victims of domestic violence, victims of trafficking, commercially abused people (Kolibová, Václavíková & Bělová, 2010);
- caregivers of a person who is at risk of social exclusion;
- people who have been diagnosed with substance abuse;

- people registered as job seekers with the Employment Office of the Czech Republic for more than one year;
- other unspecified people socially excluded or endangered over three months before entering into the employment relationship.

In Slovakia, a social enterprise may also be established to create quality employment or job opportunities especially for people who are disadvantaged in the open labor market. The Act on Employment Services no. 5/2004 Coll. defines disadvantaged job seekers as:

- citizens under 26 years of age who completed the appropriate level of education as a vocational preparation in full-time study within the last two years and have since had no regular paid employment;
- citizens over 50 years of age;
- citizens in the register of job seekers for at least 12 consecutive calendar months (i.e. long-term unemployed);
- citizens who have completed education lower than secondary education under a special regulation;
- citizens who had no regular paid employment for at least 12 consecutive calendar months before registering as a job seeker;
- third-country nationals who have been granted asylum or protection;
- citizens living as single adults with one or more dependents or citizens living as single adults with at least one dependent school-age child;
- citizens with disabilities.

In the Czech Republic, many definitions are used to characterize social enterprise. Each definition includes very similar elements. „In terms of Schumpeter's definition of enterprise, a social enterprise is a socially oriented enterprise, implemented through an innovative intent, and achieved through economic activity in the presence of real economic risks” (Schumpeter & Bottomore, 1987). This definition is based on the European concept, as understood by the European Commission and the OECD, and the social enterprise is primarily considered to be a small business (Hunčová, 2007). Social enterprise generally provides specific services that are beneficial to the society as a whole, and it is principally engaged in increasing employment, but also in protecting against risks to members and local communities (ibid). Dohnalová and Průša also attributed to social enterprises the obligation to match the characteristics of the European context. „Social enterprises represent a subset of social economic entities, which match the defining elements (economic and social characteristics) compiled on the basis of surveys by the European research company EMES” (Dohnalová & Průša, 2011).

According to Boukal, the term social enterprise can be replaced with the concept of a social company, which is characterized by several similar features. „Social companies deal with so-called social entrepreneurship. They are business subjects which operate on the market and offer job possibilities for the under-

privileged” (Boukal, 2013, p. 161). The people who are defined as disadvantaged should be provided with adequate working and psychosocial support at work (EQUAL online, 2008). The founders of social companies may be nonprofit organizations, which constitute a separate legal entity operating as social companies. There is no legislative definition for social companies yet; they are governed by the standards set by the bearers of the idea of social companies (ibid).

Significant developments in the field of social economy and social enterprise were collected and completed in 2008 by the EQUAL initiative. The research information was used in public administration, helping emerging businesses and all those who were interested in the social economy (Social companies online, 2007). At the same time, social enterprise was defined as a „subject of social entrepreneurship, i.e. a legal or natural person with the appropriate trade license. A social enterprise is an enterprise with prevailing social objectives, whose economic surpluses are reinvested in order to achieve these objectives within a company or community, and which is not governed by the need to maximize earnings of shareholders and owners” (ibid). The definition of a general company is incorporated into the definition of social enterprises. This definition is common for all business entities, but when fulfilling the objectives of a social enterprise, the profit is not for the enrichment of a business entity, but it is used in the company to meet the set objectives, which include in particular the integration of socially or physically disadvantaged people into the business venture (Boukal, 2013).

A business is defined in the Commercial Code (Act No.513/1991 Coll.) as a „continuous activity carried out independently under the entrepreneur’s own name and on their own responsibility for profit.” This definition applies for both the Czech Republic and Slovakia.

Slovakia has a definition of social enterprise similar to the one used in the Czech Republic and by EMES. Some Slovak authors who are considered to be experts in the field of social economy had additional definitions, presented here, and social enterprise was also defined by Slovak legislation.

Social entrepreneurship is „a special kind of business based mainly on non-profit and non-market or partial market relations between pluralist providers who operate in the public interest” (Korimová, 2008, p. 63). The subjects of social entrepreneurship often act as an intermediate labor market with work positions that do not require high qualifications to ensure that citizens excluded from the current labor market can acquire a job. Social entrepreneurship is seen as a „classic business with a main activity in a social field and with some social principles” (Korimová, 2008, p. 67).

Syrovátková (2008) defined a social enterprise as a business with primarily social objectives, whose surplus value is reinvested in the enterprise. Social enterprises have three common characteristics:

- 1) focus on entrepreneurship;

- 2) social objectives;
- 3) social ownership.

Social enterprises are oriented toward a market production of goods and services and operate in a competitive environment. They aim to be viable, sustainable, and profitable businesses. These enterprises have clearly and explicitly defined social objectives, e.g. job creation, education, and training for low-skilled or unskilled citizens, and provision of social services and local services for a community. They are accountable to their members and the wider community for their social, environmental, and economic impact. Social ownership of the social enterprise enables groups of users, clients, and local communities to participate in governance and decide on important issues concerning the enterprise.

Amendment to Act no. 5/2004 Coll. on Employment Services officially allowed social enterprise institution in the Slovak legislation. The amendment is a relatively new instrument of active policies on the labor market for strengthening cohesion and social inclusion. This instrument was modeled on systems of social entrepreneurship in other countries and on experience from projects that were completed in Slovakia. The amendment was prepared by the Ministry of Labor, Social Affairs, and Family in order to improve conditions for the development of social economy and social entrepreneurship. The amendment came into effect on September 1, 2008, and created the legal possibility of establishing social enterprises in Slovakia.

Under the Act on Employment Services, a social enterprise is a legal or natural person who:

- provides support and assistance to employees who, before taking up employment, were disadvantaged job seekers when looking for employment on the open labor market;
- is registered in the register of social enterprises maintained by the Central Office of Labor, Social Affairs and Family;

and further:

- the share of employed staff who were disadvantaged job seekers must represent at least 30% of the total number of employees;
- at least 30% of the funds derived from the income of the main activities that remain after payment of all business expenses for the relevant period according to tax return are annually used to create new job positions or improve working conditions.

The status of social enterprise is recognized by a decision by the Central Office of Labor, Social Affairs, and Family following a written request from a legal entity or an individual for an indefinite period. The application for the status of social enterprise includes a business plan with a calculation of expected revenue, expenses, and profit before distribution, as well as documents proving the fulfillment of

the above conditions, an extract from the business register or another document proving permission to conduct business, a proof of ownership or lease of premises, proof of material equipment for carrying out business activities, and proof of cooperating entities and staff for fulfilling the main activity of social enterprise.

For the purposes of employing disadvantaged job seekers, a social enterprise cooperates with local offices of labor, social affairs, and family and with other legal entities or individuals that promote or perform the integration of disadvantaged job seekers in the labor market.

There is a special group of social integration enterprises, called Work Integration Social Enterprise (WISE) that are different from the social enterprises described above, and are primarily focused on employing socially or physically disadvantaged people in the labor market. Many European countries have already developed specific programs to support this type of business, because it is necessary to tackle long-term unemployment. Often, only social integration enterprises are perceived as social enterprises (Defourny & Nyssens, 2010).

According to Hunčová, a social integration enterprise is characterized in the following way: „WISE is a social enterprise for integrating socially excluded individuals. It is a participatory, democratic, nonprofit and not-for-profit economy, enabling the employment of handicapped people and providing social services, especially of a personal nature, including retraining, job mediation, support of entrepreneurial initiatives, and the like. A specific social company providing employment in an affected region may be a self-employed person” (Hunčová, 2007, p.19).

The thematic network TESSEA, which brings together entrepreneurs, nonprofit organizations, and other institutions, regards a social integration enterprise as „a subject of social entrepreneurship”, i.e. a legal entity established under private law or a natural person who complies with the principles of a social integration enterprise. A social integration enterprise pursues the public benefit goal of the employment and social inclusion of disadvantaged people in the labor market, and this goal is formulated in the founding documents. It is created and developed on the basis of the concept of the threefold benefit: economic, social, and environmental (TESSEA online, 2011, p.15).

The EMES research team identified 160 social enterprises in 10 countries meeting the EU classification of social integration enterprises according to their activity (online EMES, 2004).

- WISE focused on the employment of significantly disadvantaged groups whose employment opportunities are limited. The aim is to create long-term jobs supported by public funds.
- WISE creating long-term self-financed jobs, which are financed from public funds in the initial phase. The medium-term goal is to achieve self-financing capacity and to support employees in order to enhance their skills and competencies.

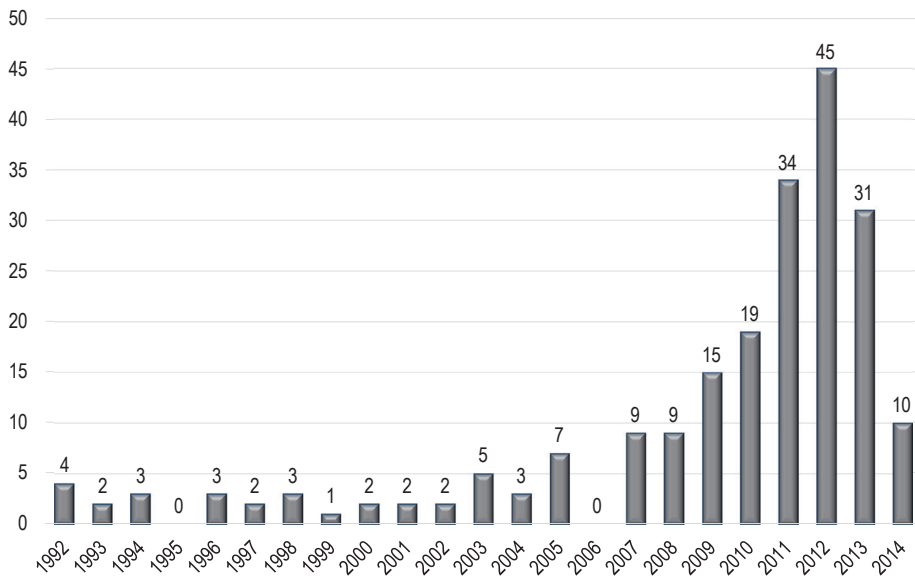
- Transition WISE are a type of short-term project under which jobs or training are provided to disadvantaged people in order for them to increase their skills and subsequently find a job on the open labor market.
- WISE aimed at re-socialization, which is adapted to people with mental illness or severe disabilities; the goal of these companies is their involvement in structured activities and in helping to establish social contacts.

The Czech Republic has not yet put any legislative definition of social entrepreneurship into effect. As it is not possible to strictly define criteria that a social enterprise should meet, it is also impossible to find a registry for all the social enterprises in the Czech Republic. The company P3 - People, Planet, Profit deals with mapping the current status of social enterprises, and a directory was published on its website, the Czech Social Entrepreneurship. The directory was created in the fall of 2012, the basis for including enterprises was a list of social enterprises that was created under an earlier TESSEA project.

The directory was last updated via telephone interviews in the last quarter of 2013. In March 2015, the directory had 211 social enterprises. For greater clarity, social enterprises are categorized according to the field of activity, place of business, social benefit, and the target group. The directory is very helpful in providing a realistic picture of the operation of social enterprises in the Czech Republic. However, not all social enterprises are registered in it; a company that is considered to be a social enterprise has to complete a simple questionnaire and register itself, it is subsequently added to the registry only after receiving approval.

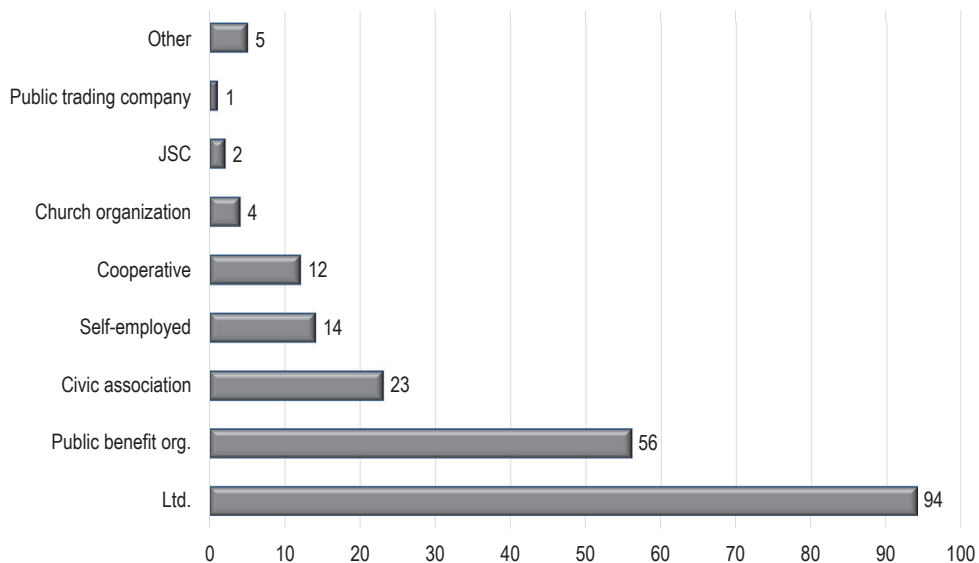
In addition to the register, we provide data from the Directory of Social Enterprises (Czech Business online). The directory provides an overview of social enterprises, divided by region, business area, place of activity, social responsibility, and target groups. The social enterprises listed in the directory were analyzed to create an overview of the development of social enterprises based on the year of foundation and legal status (figure 22).

The claim that the number of social enterprises has increased exponentially in the last decade can be confirmed by an analysis of their development. The first social enterprises were established as early as 1992, when four were created. There were no significant changes in their development until 2007. In 2007 and 2008, nine social enterprises were established. After the economic crisis (2008-2009), the number of social enterprises started to increase. From 2009 until the first quarter of 2014, it was possible to draw subsidies from the ESF (European Social Fund) and ERDF (European Regional Development Fund), and therefore the number of social enterprises increased rapidly, with a record number of 45 social enterprises established in 2012. With the end of the entitlement to the subsidy, the number of start-ups was limited and only 10 were created in 2014. The total number of registered social enterprises is currently 211.



**Figure 22.** Number of social enterprises

Source: prepared by the authors, based on data from the Directory of Social Enterprises, 2015.



**Figure 23.** Social enterprises according to their legal form

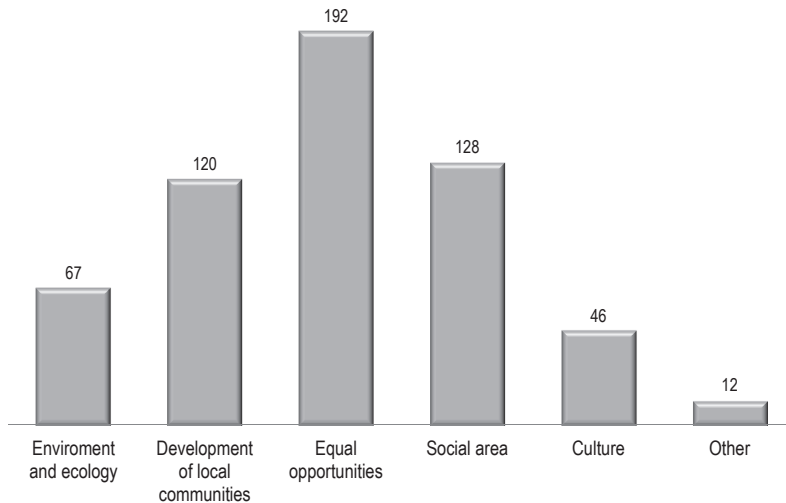
Source: prepared by the authors, based on data from the Directory of Social Enterprises, 2015.



Most social enterprises have an „Ltd.” legal form. Until the end of 2014, Ltd. was the largest group (94 social enterprises in figure 23). The second largest group included 56 public benefit organizations. This legal form was abolished in 2014, so its change into a different legal form should be expected. There are 23 social enterprises with the legal form of a civic association, 14 self-employed, and 12 cooperatives. Five social enterprises reported that their legal form is „other”. Two of these companies have the legal form of „social cooperative”, which is not specified in the directory, or the registered companies stated „other”, but they fall under one of the specified forms.

Social enterprises operate in various areas; often several areas are reported as realms of activity for one social enterprise.

According to the social enterprises registered in the directory, 47 companies are active in horticultural services, greenery, property maintenance, and cleaning work. The second most frequently chosen area was the „other” category; a more detailed examination showed that companies chose at least one specified area and additionally indicated the „other” category. For example, one company dealing with the sale and leasing of ships, claimed „transport, transport equipment and spare parts” as its scope of business and additionally selected the „other” category. The business scope of this category cannot be strictly defined; enterprises chose this category if they thought that the delimited categories will not cover their total scope of business (based on the questionnaires the companies fill in for themselves). The least represented areas of business are „audiovisual - technology and services” and „electronics - production and sale” – see figure 24.



**Figure 24.** Social enterprises according to their social beneficial effects

Source: prepared by the authors, based on data from the Directory of Social Enterprises, 2015.



Social enterprises most often state that their social contribution is in the area of equal opportunity (employment of socially or physically disadvantaged people) in combination with a focus on the environment and ecology, and the social or cultural development of local communities. A social contribution was reported by 192 enterprises. A total of 120 businesses are involved in the development of the local community; 128 social enterprises deal with the provision of social counselling and social assistance. A total of 46 companies claimed culture as their public contribution.

In order for a company to be considered socially integrated, it is necessary for it to employ a fixed proportion of socially or physically disadvantaged people.

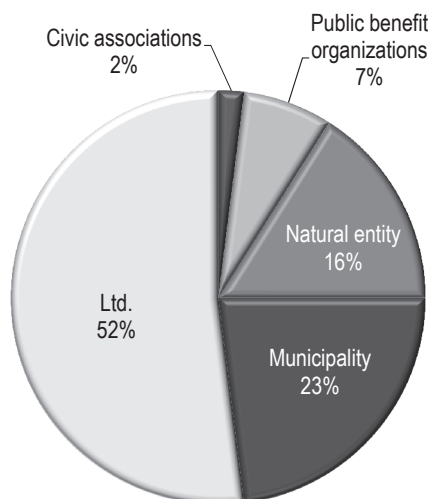
The largest target group specified in the area of equal employment opportunities was people with disabilities, with 143 enterprises targeting this group. The second largest group was the unemployed, with 68 companies focused on employing these socially disadvantaged people. Social enterprises are least focused on integrating people with addictions to the regular labor market.

The positive development of social enterprises in Slovakia was interrupted by non-transparent legislation in 2008 and funding that led to the preferential treatment of some social enterprises while others were unable to continue in their activities. Therefore, the officially registered social enterprises, as defined in the Act on Employment Services, are not viewed very favorably in Slovakia, as can be seen in the following text where we present the number of social enterprises, which is much lower than in the Czech Republic. Despite this, there are several examples of good practices that fulfill the mission of social economy and these enterprises do help in their environment. Also, between 2002 and 2014, many international scientific conferences at the Faculty of Economics at Matej Bel University in Banská Bystrica, were organized on the topic of social economy, social entrepreneurship, and social enterprise, which helped to establish a theoretical base for further social economy development.

The publicly available register of social enterprises presents a basic overview of social enterprise characteristics in Slovakia. It includes characteristics such as legal forms, economic activities within the social business, addresses, etc. The register of social enterprises is maintained by the Central Office for Labor, Social Affairs, and Family; the most recent data are from March 2014. At that time, there were registered 44 active enterprises, 8 suspended enterprises, and 42 cancelled social enterprises that carried out social entrepreneurship in Slovakia in various legal forms. We will focus on the active social enterprises.

Based on an analysis of the register of social enterprises, the biggest share of social enterprises took the form of a limited liability company (Ltd.), with 23 enterprises (52%). The second largest group was social enterprises established by municipalities at the local government level as council enterprises (10 enterprises, 23%). Civic associations (1) and public benefit organizations (3), which

should be the main bearer of the social economy in our view, due to their similar features (see table 3 comparing social enterprises and NGOs), were not used very much as a legal form. An overview of the number of different legal forms of social enterprises operating in Slovakia is presented in figure 25.



**Figure 25.** Overview of the legal forms of active social enterprises in Slovakia, 2015  
Source: prepared by the authors, based on data from the Central Office for Labor, Social Affairs, and Family.

Generally, social entrepreneurship is not very widespread in Slovakia. If we look at the overview of all the economic subjects and social enterprises, social enterprises have only a minor share of the total number of economic subjects (0.01%, table 35).

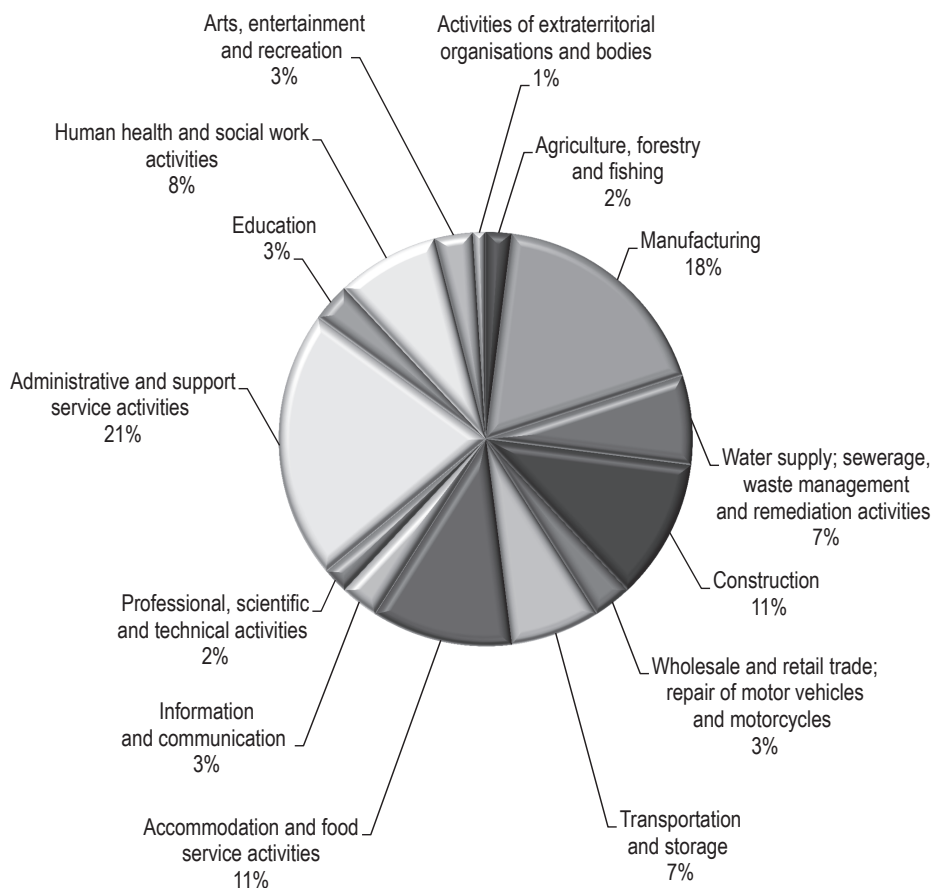
**Table 35.** Summary of economic entities and social enterprises by legal form

Legal Form	Number of entities	Active social enterprises	Share of active SE of the legal form
Limited liability company	177,261	23	0.01%
Self-employment	337,182	7	0.00%
Cooperative	1,542	6	0.39%
Subsidized organization	659	4	0.61%
Civic association	39,740	1	0.00%
Public benefit organization	1,630	3	0.18%
TOTAL	558,014	44	0.01%

Source: prepared by the authors, based on data from the Statistical Office of Slovakia and the Slovstat database, 2015.

Within the different legal forms, the number of social enterprises represented by nonprofit organizations is also very low. In the past, there were more public benefit organizations (PBOs); in the current register there are nine social enterprises with the legal form of PBO. Only three of those social enterprises are active; two are recorded in the register as suspended and four as canceled.

The register of social enterprises publishes information about the economic activities of Slovak social enterprises according to the statistical classification SK NACE (Statistical Classification of Economic Activities in the European Community). An overview of these activities is shown in figure 26.



**Figure 26.** Overview of the economic activity of the active social enterprises in Slovakia, 2015

Source: prepared by the authors, based on data from the Central Office for Labor, Social Affairs and Family.

The economic activity of social enterprises in Slovakia is relatively widely diversified. The most prevalent activities are administrative and support services, manufacturing, construction, accommodations, food service, human health services, and social work services.

## **5.2. Innovations in the context of social economy and nonprofit organizations**

This chapter is based on works of Mikuš, T. & Svidroňová, M. (2014), Mikušová Meričková, B. & Svidroňová, M. (2014), Nemeč, J., & Svidroňová, M. 2015 and Mikušová Meričková, Nemeč & Svidroňová (2015).

According to Lubelcová (2011), innovations play two social roles: instruments of economic growth and instruments of social development. Connecting these two roles is a new challenge for the increasingly important social innovations.

Social innovation, both as a concept and as a group of tools, includes a number of activities. From a broader perspective, social innovations can be defined as any new strategies, concepts, terms, or organizations that disseminate and promote the improvement of conditions for the functioning of civil society (Markowska-Bzducha, 2013). The most important feature that distinguishes social innovation from the general concept of innovation is their targeted social impact. This means that social innovations can result into qualitative changes in the basic social structures (Wolak-Tuzimek, Duda, 2014).

The European Foundation for the Improvement of Living and Working Conditions (2013) defines social innovations as new ideas in products, services, or models. These new ideas address social problems, fulfill social needs, and create new social relationships between groups in society, at the level of community, municipality, or region. Social innovation can be formed by new stakeholders participating in a decision, by a change in social service delivery affecting the status of specific target groups, or by changes in social welfare ([www.europedirectsnv.eu](http://www.europedirectsnv.eu)).

Social innovation can be described as an innovative solution to a social problem that is more effective, more efficient, more sustainable, and more just than existing solutions; this innovative solution creates value from which society benefits more than participating individuals (Center for Social Innovation, Stanford Graduate School of Business, Stanford University).

Lubelcová (2011) stated that innovation can be called social innovation if it is focused on the area of unmet social needs and unsolved problems. Another criterion that determines social innovation is the manner of implementation: social innovation is implemented on a cross-sectoral principle and a principle of social partnership. The social impact of social innovation is reflected in the outcomes and impacts it brings: social value brought by social innovations is

distributed to society as a whole. The impact of social innovations on the whole society also creates confidence from the users of services in the service provider who implements the innovation. The main objective for social innovations is achieving positive social change.

Mikušová Meričková (2014) recognized three basic forms of innovations that provide solutions to social problems. These are:

- support for local development;
- transfer of technology development; and
- initiation of an active approach to solving social problems by the marginalized and low-income groups themselves.

One of the main features of social innovation is the involvement of local citizens in solving the problems that occur in a given community and the use of their knowledge and skills. CSI (Centre for Social Innovation) stated that a social innovation is not always about new ideas, but about implementing ideas that have already been successfully applied elsewhere, mostly in the fields of education, health care, social services, and public policy decision-making processes. Social innovations can spread through ideas, values, software, and tools, but not all innovations take the form of a particular product or service. Social innovations based on the amount of resources, including social capital, and their impact can affect more areas of society. CSI defines social innovation as a link between the public, private, and academic sectors, along with the linking of imaginative socio-economic activities, local knowledge, cross-sectoral cooperation, and capacity development of cooperative networks.

In terms of innovation as an economic solution, there are interesting approaches to the delivery of public services. The works of Cullis & Jones (1992), as well as of other authors including Osborne & Gaebler (1993), created an effective base for current approaches to „middle stream” public economics, using terms such as „public governance”, „public-private-civil sector mix, partnerships, competition, and cooperation”, and „co-creation”. The basic principle of these approaches is based on responding to two core questions:

- 1) How can public services be produced?
- 2) How can public services be funded?

There is no simple answer to these questions that would be valid everywhere all the time. In the 1980s, New Public Management presented some answers in the form of contracting public services (Mikušová Meričková & Nemeč, 2013; Mikušová Meričková & Nemeč & Soukopová, 2014). Innovative answers to these questions, intended to enhance public values such as effectiveness, efficiency, and legitimacy, can be found through collaboration with different stakeholders, delivering interesting social innovations (Bekkers et al, 2013). Innovation in public services is possible in the environment of a new concept of government

that is defined as the sum of interactions between cooperating actors from the public and private sectors solving social problems (Osborne & Brown, 2005). The emphasis is on the citizens and on building a civil society (Pollitt & Bouckaert, 2011). For innovation in the public sector to be successful, there must be consistency between the character of the innovation and the environment where the innovation takes place. The innovation process requires legitimacy (Wilson, 1989), political sustainability (Moore & Hartley, 2008), strong democratic values (Bason, 2010), and respect for the needs of the citizens (Korteland & Bekkers, 2008). Innovation in the public sector is a social innovation that should bring economic value as well as legal and democratic values to the provision of public services.

In relation to public services, innovation can be understood as developing public services to better meet public needs by modifying the status of actors in the system of public service provision (Mulgan & Albury, 2003). These actors should be willing and able to learn, to improve their work, and to cooperate with each other (Von Hippel, 2007). The innovation of public services must meet the needs of the public or the needs of society or a particular community whose members are involved in the process of creating and implementing the innovation.

In social innovation, the production of public services is considered to be an open process, with the end users involved in the design and development of goods and services (Chesbrough, 2003; Silva & Buček, 2014; Von Hippel, 2007); it is also considered to represent a change in the relationships between the involved stakeholders (Bekkers et al, 2014). One of the central elements in the concept of social innovation is the active participation of citizens and grassroots organizations in order to produce social outcomes that really matter (Bason, 2010, Soñta, 2010).

The participation of citizens in the development and subsequent implementation of an innovation is of great importance in terms of the success of the public service innovation process (Borins, 2008; Fuglsang, 2008; Von Hippel, 2007).

Public service delivery that involves citizens, not only as consumers but also as producers of services, can increase the scope of public services as well as the quality of public services through perceived consumer satisfaction. This approach to public service delivery is described in modern public management theories as „co-creation” (Voorberg, Tummers, Bekkers, 2013).

The participation of citizens, as the final consumers of public services, plays a very important role in the innovation process. Innovation aims to create public services following the needs of its consumers, the citizens. Therefore, the direct participation of citizens in the innovation process and in introducing the innovation into practice is of great importance in terms of the success of the innovation process (Borins, 2008; Fuglsang, 2008; Von Hippel, 2007). From this point of view, we can speak of co-creation itself as a public service innovation or a social innovation.

Co-creation is regarded as a promising concept against austerity, ageing, and the eroding legitimacy of public institutions (Pestoff, 2014). There are three types of co-creation (Von Hippel, 2007):

- 1) co-initiation, in which citizens act as initiators;
- 2) co-design, in which citizens are invited to co-design; and
- 3) co-implementation, in which citizens are invited to implement public services (instead of public organizations).

According to Sørensen and Torfing (2011), public innovation takes place through collaboration with different stakeholders. As a result, innovation is always relative to its context. This consists of elements such as the political and administrative context, the legal culture within the public sector, state governance and civil service tradition, and resource allocation and resource dependency (Bekkers et al, 2014).

According to theories of decentralization (Bailey, 1999), local governments that are closer to the citizens are expected to serve local needs. This should mean that in the area of social innovations, local self-governments are the level at which a lot of co-creative innovations occur (Hsieh & Fu, 2014). Co-creation usually happens when citizens are invited to initiate and design public projects or services with local governments and public organizations to solve social problems and unmet needs. But what if citizens are not used to participating in such projects? What if they are not used to participating at all? In Slovakia and the Czech Republic, historical state and governance traditions greatly influenced the process of co-creation. The communist political power dominance over all subsystems of public administration and a strong centralized state did not support the involvement of citizens in policymaking. After the fall of communism in 1989 and the split of Czechoslovakia into two independent countries in 1993, the nonprofit sector started to bloom in Slovakia and the Czech Republic. This opened the opportunity for citizens to group and to express their opinions on public affairs. Several research projects have proved that nonprofit sector organizations, mostly civic associations, initiated co-creation and social innovations projects. They supported citizens in participation and built an active citizenship (see following chapter 4.7 Social Innovations in Public Services in Slovakia).

There is a risk that the de-monopolization of public services and alternative service arrangements with NGOs as service producers are perceived by public officers as a threat (based on an organization's experience negotiating with an authorized government representative for civil society). This puts NGOs in an unfavorable light in the government view. But co-creation should not be seen as a „total solution” replacing existing services; instead, co-creation initiatives should be considered as alternatives for existing public services or as additional services.



### **5.2.1. Social innovations in public services in Slovakia**

The case studies presented in this chapter were part of the „Learning from Innovation in Public Sector Environments” (LIPSE) research project, studying the drivers and barriers to successful social innovation in the public sector. In these case studies, we focused on the participation of different stakeholders in public service provision at the level of local self-governments and on different types of co-creation, including the relevant drivers and barriers that account for the success or failure of co-creation processes in two fields: welfare and the environment. We used qualitative methods to analyze co-creation during innovation in public services provision. To develop an inventory of relevant practices in which citizens or other stakeholders are involved, we conducted an extensive analysis of relevant policy documents, databases, and websites. We also conducted more than ten expert interviews, leading to the compilation of ten case studies. There are five examples of co-creation in the welfare sector and five cases in the environmental sector, summarized in table 36.

The purpose of the first part of our analysis was to create a list of eligible cases within the public welfare policy sector and within the rural/urban regeneration policy sector that could be compared to each other. We followed three main selection criteria when identifying eligible cases:

1. **Citizens were involved as co-designers or initiators:** From a systematic review of the literature on co-creation and co-production within the public sector, we concluded that three different types of citizen involvement can be distinguished: citizens as co-implementers, citizens as co-designers, and citizens as initiators. Since we are interested in co-creation during social innovation processes, we focused our research on the involvement of citizens as initiators and co-designers. Thus, within the selected cases, citizens were involved at least at the start of the co-created initiative.
2. **Cases are from the public welfare or rural/urban regeneration policy sectors:** We conducted our research in two different policy sectors: the welfare sector and the rural/urban regeneration sector (environment). Innovations within the welfare sector were aimed at improvements within the social infrastructure, including innovations aimed at a specific target group (the elderly, juveniles, immigrants, etc.). Within the rural/urban regeneration sector, we focused on innovations within the physical infrastructure. In these cases, innovations were primarily aimed at improving the livability of neighborhoods, for example through housing or the (re)decoration of public spaces. By urban regeneration, we mean (topographical) areas that have to deal with a changing population due to social and economic developments (e.g. a growing number of elderly citizens).



**Table 36.** List of cases of co-creation at the local government level

Case	Goal of co-created initiative	Main actors/stakeholders
1. Conciliation councils	Help citizens to solve any kind of conflicts, especially ethnic conflicts	Citizens, NGO PDCS, C.S. Mott Foundation, municipalities in given areas
<b>2. Kojatice Social Housing</b>	<b>Provide social housing for Roma with a certain maintenance guarantee thanks to Roma co-financing and co-building</b>	<b>University students, Roma citizens, local self-government and its mayor, NGO ETP Slovakia</b>
3. Godmothers	Provide material and non-material support to young mothers in social need for inclusion in the society	NGO „Sanca pre nechcenych”, SPP Foundation, VUB Foundation, Orange foundation, municipalities that decided to support the project
4. Electronic Guard	Improve the lives of elderly disabled citizens with telecare and related assistive technologies	Involved local governments, private IT company YMS, private telecommunication company Orange
5. Martin Relaxation Path	Improve lives for elderly citizens by building an accessible public relaxation infrastructure – nature path	Municipality of Martin, several citizen initiatives (Joga v dennom živote, DIAMART – club of people with diabetes, and the Martin Pensioners Club)
6. „Green Patrol” in Bratislava	Increase citizen participation and responsibility for clean green areas, better quality urban environment	„Green Patrol” citizen initiative, municipality of Bratislava and its local parts, inhabitants of Bratislava
7. „Green Patrol” Interactive Portal	Improve and maintain the quality of the urban environment, improve collaboration among citizens, participating organizations, and the city	„Green Patrol” citizen initiative, municipality of Bratislava, citizens in the social network
8. Trash Out	Improve the physical environment and collaborate among all sectors	Involved local governments, environmental NGOs (Greenpeace, Let’s Do It, Enviweb cz, Emerald Planet, Priatel’ia zeme, Greenoffice sk), waste management companies, Ministry of Environment of Slovakia and the environmental fund of Slovakia
9. Mobile City	Facilitate citizen participation and improve the physical environment	Private company Datalan, a.s, municipalities in Bratislava’s self-governing region and their inhabitants
<b>10. PrieStory</b>	<b>Complete low-cost physical infrastructure investment projects executed by volunteers living in the area, improve collaboration among sectors</b>	<b>Ekopolis Foundation, citizens, participating municipalities, CSOB bank, local companies (as sponsors providing additional funding)</b>

Source: Nemeč, J., Mikušová Meričková, B., Svidroňová, M. 2015.

3. **Possibility of specifying the outcomes of co-creation processes:** The kinds of outcomes co-creation processes have in social innovation are relatively unknown. In order to draw some conclusions about these outcomes, the selected cases needed to involve co-created initiatives that are no longer in their initial phase but have in fact delivered some results.

Based on an analysis of the investigated cases, we summarized the roles of the different participating actors in co-creation based innovations (table 37). We captured their roles in three different stages based on the three different types of co-creation defined above: Initiation (marked as 1 in the table 37), Design (2), and Implementation (3).

**Table 37.** The role of different actors in co-creation based initiatives in different stages of the co-creation

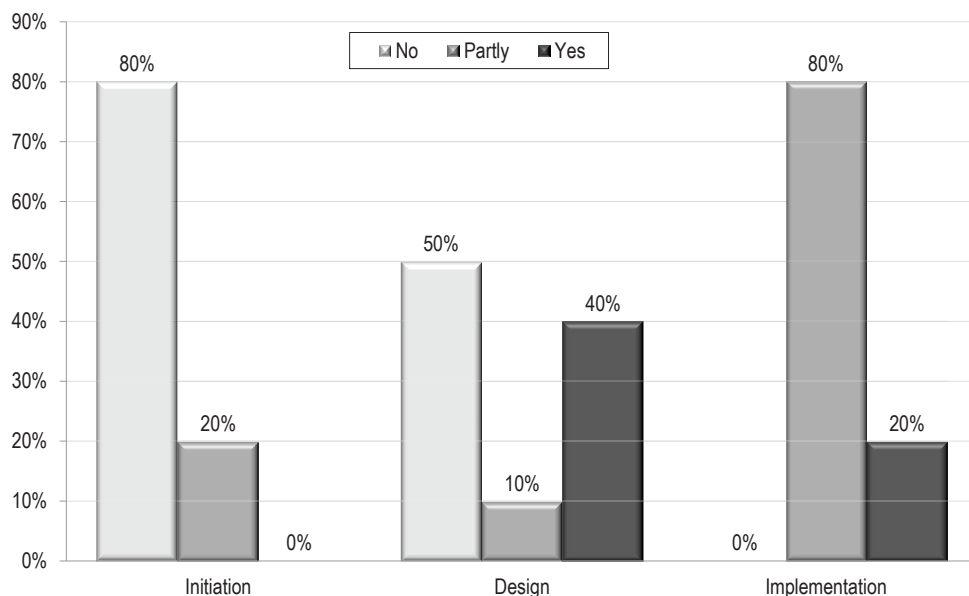
Role	Citizen initiative(s)			Formalized NGOs			Private sector			Local government		
	1	2	3	1	2	3	1	2	3	1	2	3
Project												
Conciliation councils	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	No	No	Partly
Kojatice	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	Partly	Partly	Yes
Godmothers	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	No	No	Partly
Electronic Guard	No	Yes	No	No	No	No	Yes	Yes	Yes	No	Yes	Partly
Martin Relaxation Path	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	Yes	Yes
Green Patrol BA	Yes	Yes	Yes	No	No	No	No	No	No	No	No	Partly
GP Interactive Portal	Yes	Yes	Yes	No	No	No	No	No	No	No	No	Partly
Trash Out	No	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	No	Yes	Partly
City Mobility	No	No	Partly	No	No	No	Yes	Yes	Yes	No	Yes	Partly
PrieStory	No	Yes	Yes	Yes	Yes	Yes	No	No	Partly	Partly	No	Partly

Source: Nemeč, J., Mikušová Meričková, B., Svidroňová, M. 2015.

Figure 27 demonstrates that from the list of analyzed cases, none of the local governments fully participated in the initiation of co-creation; only two municipalities were even partly involved. In the design stage, the situation is similar although slightly better; at least half of the municipalities participated in the co-design of an innovative public service solution either fully (four municipalities) or partly (one municipality). In the implementation of social innovation, two local governments participated fully and eight were partly involved.

Interviews with representatives of the involved actors/stakeholders revealed that „participating” municipalities usually stated that they were not aware of the project we were investigating, even though we found information about their participation in the documents or on the websites.

The answer „partly” in the table means that of the many local governments contacted, only a few participated in the co-creation process, or that their involvement during the project’s completion phase changed from positive to indifferent or negative. Data collected in our comprehensive research study indicates that local governments usually do not initiate co-creation and are not very active in the design and implementation phases. Figure 27 illustrates this more clearly.



**Figure 27.** Participation of local governments in co-creation in Slovakia

Source: Nemeč, J., Mikušová Meričková, B., Svidroňová, M. 2015.

We feel the core problem lies in the very limited interest of municipalities in participating in activities proposed and designed by other partners/actors. The actors who initiate co-creation in Slovakia can be divided into two types: the private sector and formal or informal third-sector structures (NGOs or citizens). NGOs, as formalized structures of citizens, have a rather strong position in co-created initiatives; further research should be done in this area (Kuvíková & Vaceková, 2009, Nemeč in Osborne, 2008; Svidroňová & Vaceková, 2012). The private sector is active especially in the area of information technologies, as the implementation of co-created initiatives in that field also improves their sales and profit.

Despite existing research from other countries (Bekkers et al, 2014) indicating that, among other factors, local governments are expected to use the quality of their services as a competitive advantage in order to attract citizens, this does

not work in Slovakia. As Veselý (2013) stated, accountability and responsibility are not very well developed characteristics of good governance at any level of government in Central and Eastern Europe. This fact, combined with lingering habits from the communist era, may explain the behavior of local self-governments in Slovakia. The values and principles of local politicians and bureaucrats are still influenced by the socialist understanding of the state at every level, national and local, as a „ruler” and not as a „servant” (see also Bunčák et al, 2008).

For many local politicians and bureaucrats, co-creation is not perceived as innovation or progress but as a burden, especially if it reveals some existing flaws in the system in which local governments function and in the ways they are organized. This seems to be the most important barrier, accounting for the failed co-creation processes at the local government level in Slovakia.

Based on the investigated cases in table 36, we can state that the role of local self-government in co-creation in Slovakia is rather limited; service delivery innovations are predominantly initiated by third-party organizations or citizens themselves.

The cause of this situation might be the traditions and types of governance inherited from Slovakia’s socialist past, and it cannot be changed immediately. Even in developed countries, both bureaucrats and elected politicians who make decisions about innovations in the public sector tend to reject risk (Osborne & Brown, 2005); political thinking does not match economic thinking (Mulgan & Albury, 2003), and another problem facing the implementation of the innovation process is the short political cycle (Borins, 2008). In Slovakia, the limited will of local governments to innovate service delivery modes is also connected with a lack of responsibility and accountability. The dominant rather conservative approach is not a consequence of the legal and financial status of municipalities in the country: in Slovakia the local self-government law almost fully respects all the principles of the European Charter for Local Self-Government, and municipalities are legally and financially viable institutions (Fláška et al, 2014). In this situation, in which the type of governance and the governance traditions negatively influence the innovation process, short-term measures have very limited chances of changing the limited will of municipalities to develop and support co-creation. A possible solution seems to be in long-term changes based on changes in the roles of participating actors. Citizens should change from passive consumers of public services (in whatever quality and/or quantity) to active subjects of local and national democracy, and politicians and bureaucrats need to change from „rulers” to real policy makers and service delivery institutions.

The list of cases in table 36 suggests several interesting co-created innovation initiatives in Slovakia at the local government level. We present two selected case studies: **Kojatice Social Housing** and the **PrieStory Program** (in bold in table 36).

### 5.2.2. PriStory Program

We would like to draw attention to a positive case in which municipalities were interested in innovation and participated in the co-creation process. The impulse for this particular co-created initiative was absent and/or insufficient public facilities. The co-creation in the PriStory program was inspired by the approach used by Nadace Partnerstvi (Partnerstvi Foundation) in the Czech Republic, which itself used the experiences of the US nonprofit organization Project for Public Spaces.

The PriStory program involves the providers of a public service (municipalities/local governments), the co-designers of the public service (citizens), the public service innovation initiators (Ekopolis Foundation and Partners for Democratic Change Slovakia PDCS – NGO), and the public service innovation co-financer (CSO Bank – a private corporation). These relevant actors were identified by analyzing policy documents and by interviewing the initiators of the co-creation process – Ekopolis Foundation.

The co-creation process in this program has several important milestones:

1. Establishing local partnerships (approximately one month)
2. Preparation of planning (approximately two months)
3. First planning meeting (one weekend meeting)
4. Evaluation of the outcomes of the planning meeting and architectural design of the place (max. two months)
5. Second planning meeting (one-day meeting)
6. Construction of the new public space with the participation of volunteers (approximately three months)
7. Opening event of the new public space (one day)

The maximum duration of the program cycle is 12 months, within which all the steps and events have to be implemented.

The PriStory program fully meets our eligibility criteria for co-creation in public service:

- A) Citizens are involved as co-designers: In this public service innovation, citizens and governmental organizations participated, and NGOs and private organizations are also involved, because of their specific resources and/or skills. We refer to this multitude of actors as a *collaborative innovation network*.
- B) The case involves examples of co-creation in rural/urban regeneration: Innovation within the physical infrastructure is primarily aimed at improving the livability of neighborhoods by innovations in housing or in the (re)decoration of public spaces.
- C) The case produced results in order to enable the examination of the effects of co-created initiatives.

The PriStory program aims to involve people in improving the living environment, to increase public participation (which is one of the trends in public service delivery), and to strengthen the community. The program is implemented as an open competition where community groups are eligible to apply for grant and technical assistance. The role of the Ekopolis Foundation as public service innovation initiator is to provide financial and technical support.

To obtain the necessary information for the analysis, we conducted an interview with all types of involved stakeholders. The semi-structured interview protocol contained both open (inductive) and closed (deductive) questions; its objective was to scientifically study co-creation during social innovation. The questionnaire consisted of these parts: a description of the co-creation initiative; influential factors to the co-creation process; outcomes of the co-creation process; and space for respondents to express their opinions on anything relevant which was not covered in the questions. The interviews were conducted personally with all the above-mentioned stakeholders, who were promised anonymity and can be identified only as:

- PriStory program manager 1 (Ekopolis NGO, the co-creation in public service delivery initiator and the co-financer of projects)
- PriStory program manager 2 (Ekopolis NGO, the co-creation in public service delivery initiator and the co-financer of projects)
- Regional public library in Žilina representative 1 (co-creation project initiator, co-designer, co-producer of new public space)
- Regional public library in Žilina representative 2 (co-creation project initiator, co-designer, co-producer of new public space)
- Local self-government representative in Handlová (co-creation project initiator, co-designer, co-producer of new public space)
- Local self-government representative in Pohorelá (co-creation project initiator, co-designer, co-producer of new public space)
- Local citizen group representative in Handlová (co-creation project initiator, co-designer, co-producer of new public space)
- Citizen volunteer association Tilia representative in Rajec (co-creation project initiator, co-designer, co-producer of new public space)
- Citizen 1 as the public service co-producer of the new public space
- Citizen 2 as the public service co-producer of the new public space
- Citizen 3 as the public service co-producer of the new public space

The notion of public value becomes less tangible when public services are provided only by the public sector. In co-creation, the importance of the notion of value can be seen by looking at the private-sector origins of co-creation. Public service innovation needs to follow the logic of consequence and the logic of appropriateness. In the logic of consequence, value refers to the level of rational

accomplishments of a specific intervention, such as the quantity of output, quality of output, formal effectiveness, efficiency, and citizen satisfaction. Table 38 shows the first five effects in terms of the logic of consequence and the next six effects in terms of the logic of appropriateness, as illustrated by the PrieStory program.

**Table 38.** Schematic display of co-creation effects (PrieStory program)

1. Quantity of output	Between 2005 and 2011, 33 public spaces were redesigned.
2. Quality of output	The quality of public spaces increased (citizens as the co-designers were more satisfied with the service than before the co-created initiative).
3. Formal effectiveness	Absent public facilities were provided and citizen needs were better addressed.
4. Efficiency	Public facilities were provided in the least expensive way in term of public finances. Between 2005 and 2011, more than €174,000 was assigned through the Ekopolis Foundation; much more was given in terms of volunteer work, which is hard to measure and express in financial value; other donations came from the private sector, both financial and non-financial (i.e. material, know-how, etc.).
5. Customer satisfaction	By involving the citizens as co-designers, their needs were taken into consideration. As volunteers, the citizens played a vital role in the co-creation process, which led to greater satisfaction with the provided public facilities.
6. Accountability	A co-created initiative clarified who was accountable for what part of the service.
7. Equity	Co-creation led to a more equal distribution of public services.
8. Responsiveness	Public spaces were better able to meet citizen needs and criteria.
9. Fairness	Co-creation led to a more fair distribution of public services.
10. Trust	Trust in the public institutions increased.
11. Public Participation	Public participation was increased.

Source: Mikušová Meričková, B., Svidroňová, M., 2014.

Table 39 shows the effects in terms of the logic of consequence and in terms of the logic of appropriateness, as seen by interviewees who expressed their opinions of whether the target outcomes were reached.

The co-creation in the PrieStory program produced more efficient and more effective public service delivery in a rural/regeneration sector. The demands on the municipal budget decreased and citizen participation increased. In general, the co-created initiative had a positive impact on public service delivery in term of effectiveness, efficiency, and equity. Thus this case could serve as a strong motivator for other municipalities to join co-created initiatives.



Table 39. Evaluation of target outcomes per stakeholder per value (Priestory program)

Respondent/value	Logic of Consequence				Logic of Appropriateness				
	Concrete products	Effectiveness	Efficiency	Satisfaction	Increased Accountability	Increased Equity	Responsiveness	Fairness	Trust
Priestory program manager 1 (Ekopolis NGO, the co-creation in public service delivery initiator and the co-financer of projects)	Yes	Yes	Don't know	Yes	No	No	Don't know	No	Don't know
Priestory program manager 2 (Ekopolis NGO, the co-creation in public service delivery initiator and the co-financer of projects)	Yes	Yes	Don't know	Yes	No	No	Don't know	No	Don't know
Regional public library in Žilina representative 1 (co-creation project initiator, co-designer, co-producer of new public space)	Yes	Yes	Yes	Yes	Don't know	No	Yes	No	Don't know
Regional public library in Žilina representative 2 (co-creation project initiator, co-designer, co-producer of new public space)	Yes	Yes	Yes	Yes	No	No	Yes	No	Don't know
Local self-government representative in Handlová (co-creation project initiator, co-designer, co-producer of new public space)	Yes	Yes	Don't know	Yes	Yes	Don't know	Yes	Don't know	Yes
Local self-government representative in Pohorelá (co-creation project initiator, co-designer, co-producer of new public space)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Local citizen group representative in Handlová (co-creation project initiator, co-designer, co-producer of new public space)	Yes	Yes	Yes	Yes	Yes	No	Yes	No	Yes
Citizen volunteer association Tilia representative in Rajec (co-creation project initiator, co-designer, co-producer of new public space)	Yes	Yes	Yes	Yes	Yes	Yes	Don't know	Yes	No
Citizen 1 as the public service co-producer of the new public space	Yes	Don't know	Don't know	Yes	Yes	No	Yes	No	Don't know
Citizen 2 as the public service co-producer of the new public space	Yes	Yes	Don't know	Yes	No	Don't know	Yes	Don't know	Don't know
Citizen 3 as the public service co-producer of the new public space	Yes	Don't know	Don't know	Yes	Don't know	Don't know	Yes	Don't know	Don't know

Source: Mikušová Meričková, B. 2015. LIPSE report.



In the analysis, based on interviews, we identified some relevant drivers of the co-creation processes in the PrieStory program at the local government level:

- 1) A co-creation network was established with key stakeholders to secure their material, organizational, and financial support during the planning and implementation phases; this could be successfully accomplished without the support of local politicians and bureaucrats.
- 2) Citizens were involved through the local media, posters, and mainly public meetings led by an experienced facilitator to help to gain mutual agreement about the preferred purposes of the public service innovation.
- 3) Clear incentives and use of the abilities and skills of the citizens (volunteers) in the co-production of the public service strengthened the local community and the citizen awareness of public values.

### **5.2.3. Kojatice Social Housing**

Social housing in Kojatice is the fulfillment of a mission of the Slovak citizen association People in Need ([www.peopleinneed.sk](http://www.peopleinneed.sk)) dealing with social cohesion, humanitarian aid, and human rights protection. One of its programs focuses on housing for people dependent on social assistance. Some of the volunteers in this organization study architecture. They came up with the idea of building social houses for marginalized groups of citizens. No specific event sparked this initiative; it was just the idea of a small group of people for responding to the long-term need to support vulnerable groups of citizens. Formally, the social protection of vulnerable groups is the responsibility of the central government and of self-governments; however, their protection is insufficient, so the involvement of the civic sector is necessary. The problem addressed is the very low standard of housing for Roma citizens, which is the responsibility of local self-governments (housing is the responsibility of local self-governments as set by the Municipal Law). The central government and the Government Appointee for National Minorities have shown formal interest in this issue, but have limited opportunities to act. In this concrete case, the comprehensive central government's Roma policy and the municipal law established the obligation to support social housing from municipal budgets. However, these two pillars are not strong enough to respond to the really poor housing situation of Roma in Slovakia. Especially with cuts in public funding, the local self-governments lack sufficient resources to finance social housing for any group of citizens with social needs, meaning that their ability to solve the housing situation for Roma citizens is rather limited.

The main principle of the project is an individual approach and personal commitment of initiators and inhabitants. People involved in the project participated in the whole process: architects in communication with Roma citi-

zens created plans and technical documentation for the construction of houses based on the citizens' requirements and ideas; later, the citizens were trained in construction work, and for one year they saved money in a joint fund. In the forthcoming years, they will be involved in a microcredit system through which they will pay off the materials needed for building their houses. The total cost of one house is around €10,000, two thirds of which is provided by NGOs and the municipality (the municipality provides land and a small amount of funding); the rest is paid by the Roma citizens. The reason for the microcredit system is that Roma citizens have no chance to get an ordinary loan from a bank; the microcredit system is their only option. This system provides an interest-free loan between €1,000 and €1,400 to finance the construction of the houses. The loan comes with some training, including training in construction work that covers the basic of house building as well as what materials to use, how to save energy, etc. There is also training focused on financial literacy, so the Roma citizens would be able to pay off the loans. A very important part of the microcredit system is to motivate people and work with them on a regular basis.

Based on the description of this co-creation based initiative, it fulfills all of the eligibility criteria for co-creation in public service. We followed a survey protocol, as we did with the PrieStory program. We analyzed the extent to which co-creation was beneficial by comparing the interview results for these stakeholders:

- The initiators from the Faculty of Architecture, Comenius University Bratislava, who volunteered. Students initiated the co-creation as a part of their affordable housing research; they planned the houses based on the needs and abilities of the Roma citizens.
- The municipality of Kojatice and its mayor. The municipality provided some funding and the land for the housing (otherwise, building the houses on these premises would have been illegal).
- The housing inhabitants. The Roma citizens contributed to a common fund to partially finance the building of the houses and mostly they volunteered at the building site.
- Other actors (NGOs such as ETP and Pontis Foundation). These NGOs helped with funding and with setting up the micro-loan program.

The preparation for the social housing project started in 2005. It was very important to build up relationships with social workers and subsequently through them with the Roma citizens because of a high level of distrust between Roma citizens and the majority. The project itself started in 2011; the first houses were finished in the summer of 2013. The rest of the social houses are expected to be finished in 2015 and 2016. The involvement of the Roma citizens in building the new houses and financing their costs are important guarantees that the houses will be better maintained. There are eight Roma families involved in the project, and they may serve an inspiration to others.

This concrete situation, where Roma people live in really poor conditions (15 or 20 people living in one small derelict house without electricity, water, or sewage), appealed to the volunteers in the civic association. Because they were architecture students, obliged to deliver a practical project as part of their final exams, the idea arose of helping to improve the poor living standards in the dilapidated homes of Roma citizens in the east of Slovakia. According to the initiator (an NGO volunteer who was an architecture student), the goal was to build houses for Roma citizens who live in very poor social conditions. The main idea was to provide them with affordable housing with a minimum of support from the state, government, or other parties – and to motivate them to participate directly in building and financing their houses. The results are small simple houses financed by various sources (diversification of funding, multisourcing). According to one interviewed volunteer, the acceptable housing, the work experience when helping to build the house, and the partial financial responsibility were impetuses for positive changes in the Roma citizens' lifestyle. These changes made it easier to develop in other areas: quality housing meant less time was required for maintenance and better health, the increased sense of responsibility improved children's school attendance, and the new work experience improved the chances for employment.

Table 40 shows the first four effects in terms of the logic of consequence and the next five effects in terms of the logic of appropriateness, as seen by individual stakeholders who were asked whether the planned outcomes were achieved.

**Table 40.** Evaluation of outcomes per stakeholder per value (Kojatice case)

Respondent/ value	Logic of Consequence				Logic of Appropriateness				
	Concrete products	Effectiveness	Efficiency	Satisfaction	Increased accountability	Increased equity	Responsiveness	Fairness	Trust
Initiator 1	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Initiator 2	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Professional 1 (mayor)	Yes	Yes	Don't know	Yes	Yes	Yes	Don't know	Yes	Yes
Professional 2 (NGO)	Yes	Yes	Yes	Yes	Don't know	No	Yes	Don't know	Don't know
Roma inhabitant 1	Yes	Yes	Don't know	Yes	Don't know	Yes	Yes	Yes	Yes
Roma inhabitant 2	Yes	Yes	Yes	Yes	Don't know	Yes	Yes	Yes	Don't know
Roma inhabitant 3	Yes	Yes	Don't know	Yes	Yes	Yes	Yes	Yes	Don't know
Roma inhabitant 4	Yes	Yes	Yes	Yes	Don't know	Yes	Yes	Yes	Don't know
Non-Roma inhabitant 1	Yes	Yes	Yes	Don't know	Don't know	Yes	Yes	No	No
Non-Roma inhabitant 2	Yes	Yes	Yes	Don't know	Don't know	Yes	Don't know	No	Don't know

Source: Nemeč, J., Svidroňová, M. 2015

Some outcomes were evaluated as improved or reached by all stakeholders, including concrete products (quantity of output) and effectiveness. Other outcomes were mostly marked as achieved, although in several cases the stakeholders were not able to express their opinions. This happened mostly when the Roma inhabitants were interviewed and the questions were too complicated for them. Despite the effort of the researchers to explain the question, these stakeholders were not able to answer some questions. There were negative responses for a few outcomes, e.g. the NGO that provided the microcredit system did not think that the equity was increased by this co-creation initiative, and a non-Roma inhabitant thought that the project was unfair because there are no incentives to help build new houses for the majority and that all help is directed towards Roma citizens.

The outcomes of the Kojatice Social Housing are summarized in table 41.

**Table 41.** Schematic display of co-creation outcomes (Kojatice case)

<b>1. Quantity of output</b>	Between 2005 and 2014, seven houses were built
<b>2. Quality of output</b>	The quality of the housing was increased
<b>3. Formal effectiveness</b>	Housing services were provided and citizen needs were better addressed
<b>4. Efficiency</b>	Housing was provided in the least expensive way in terms of public finances
<b>5. Customer satisfaction</b>	By involving the citizens as co-designers, their needs were taken into consideration (planning with architects)
<b>6. Accountability</b>	A co-created initiative clarified who is accountable for what part of the service
<b>7. Equity</b>	Co-creation led to a more equal distribution of public services
<b>8. Responsiveness</b>	Social housing able to meet citizen needs and criteria better
<b>9. Fairness</b>	Co-creation led to a more fair distribution of public services
<b>10. Trust</b>	Trust in the public institution was increased
<b>11. Public Participation</b>	Public participation was increased

Source: Nemeč, J., Svidroňová, M., 2015

The co-creation in the Kojatice Social Housing project brought more efficient and more effective public service delivery in the welfare sector, specifically in social housing. The demands on the municipal budget decreased and citizen participation increased. In general, the co-created initiative had a positive impact on public service delivery in terms of effectiveness, efficiency, and equity. This case could be serve as a positive example for other municipalities to join co-created initiatives, especially to help solve the housing of poor citizens.

In general, the public sector in Slovakia has a very low interest in innovations in public services provision (see Innovation indexes and for example Murgasova, 2014; Kožiak & Suchý, 2014). In such a situation, the nonprofit sector (civic sector) is more often the source for social innovations (Kuvíková & Vaceková, 2009), especially in rural areas (Valentinov & Vaceková, 2015). All of the respondents were positive in their evaluation of the outcomes. The core outcome was an improved standard and style of living for the Roma citizens, who learned active participation, developed manual skills by building their houses, and attained basic education in financial literacy, opportunities that the Roma respondents appreciated.

From the point of view of the municipality, the co-creation process improved the delivery of its own public service. The mayor stated that the municipality is obliged by law to provide housing for its citizens, but it is not in their capacity to do so with their very limited public sources. The social housing project helped provide housing with lower costs and minimal burden to the public budget. Other outcomes were improved public space, improved image of the municipality, improved social relations in the region, and new forms of co-operation between different NGOs and other stakeholders (i.e. better use of social capital). The impact of this project in terms of social relations within the municipality was twofold, according to the mayor and non-Roma inhabitants:

The Roma population appreciated the project and it increased their trust in the mayor;

Non-Roma inhabitants were glad for the improved public space (better standard of life for the whole village) and that they were able to see that Roma citizens are ready to work if they are motivated (the opinion that Roma people are just lazy, passive recipients of social help with frequent criminality is a very common prejudice in Slovakia), but they also complained that the mayor helped only one group.

The issue of personal responsibility for the Roma citizens is interesting. They were trained in financial literacy and some other skills; however, their way of thinking is still influenced by the past (comprehensive welfare regime of socialism). The opinion of the interviewed professionals was that the personal responsibility of the Roma population improved, but on a limited scale.

All in all, the extent of the co-creation was beneficial to all stakeholders, and especially for the Roma citizens, through the provision of the public service of housing, and through education and training and the chance to integrate within the society.



# SUMMARY

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The concept of sustainability started to be used in the early 1970s, especially in the connection with recognition that any uncontrolled growth (population, production, consumption, pollution, etc.) is unsustainable in an environment of limited resources. The sustainability issue involves a discourse on the utilization of an organization's capacity to fulfill its mission in the most effective way. Long-term sustainability of nonprofit organizations enables the fulfillment of their mission for the longest possible time. In other words, the sustainability of a nonprofit organization means that it operates continuously as long as possible in its marketplace. It also means not exceeding the limits of the ecological, social, and economic stability of the environment.

Achieving the sustainability of nongovernmental nonprofit organizations has many dimensions and includes internal factors, such as the growth and capacity of the organization and the readiness to seize the opportunities, as well as the external factors, such as securing resources and support from the external and legislative environment. This scientific monograph showed the journey to sustainability for organizations operating within the nonprofit sector and social economy. The authors indicated the roles and positions of nongovernmental nonprofit organizations in the national economy in selected CEE countries. The presented research focused on economic theories of nongovernmental nonprofit organizations, on the historical development of nongovernmental nonprofit sector, on funding and commercialization of nongovernmental nonprofit organizations, and on the role of nonprofits as the carriers of social innovations. Each chapter concluded with empirical evidence from selected CEE countries; based on the stage of research, the authors provided data analysis supporting theoretical approaches in Slovakia, the Czech Republic, Austria, or even in all three countries.

Nongovernmental nonprofit organizations and the issue of their sustainability have received increasing attention in the scientific literature worldwide. However, a comprehensive picture of the nonprofit sector and sustainability-related issues based on primary research focused on selected CEE countries is missing. The lack of relevant literature shows a considerable research gap that strongly indicates the need for deeper insight. The monograph contributed to the scientific body of

knowledge by providing a comprehensive picture of challenges to and opportunities for nonprofit organizations in the specific historical, socio-economic, and political conditions of the Czech Republic, Slovakia, and Austria. The authors outlined potential areas of future research and confirmed the need for focusing on nonprofit sustainability, which is currently a subject of both professional and intense political debate at the international level.



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„Nonprofit organizations play an important and irreplaceable role in building a civil society. They are one of the main pillars of democracy because they fill the space between the public sector and the market. The sustainability of nonprofit organizations is its ability to fulfill its mission in the most efficient way. The monograph has shown the way to sustainability for nonprofit organizations. The development of various forms of nonprofit organizations is perceived by the authors as carriers of innovations in the social economy. It should be noted that the social economy is not a universal remedy for the problem of unemployment and social exclusion but it certainly is an opportunity for many people to return to an active social and professional life“.

Assoc. Prof. **Wojciech Sońta**, Ph.D.

„The topic of the monograph is highly relevant and up-to-date. The authors not only present a highly comprehensive and cutting-edge literature review; they also report their original research results which clearly illuminate the past, present, and possible futures of the nonprofit sector in Central and Eastern Europe. The methodology is sound and the results are innovative. I find it fortunate that the authors seek the integration of the nonprofit research with the issues of sustainability“.

PD Dr. **Vladislav Valentinov**