

DYNAMICS AND MODELS OF THE EMERGENT CERTIFIED SOCIAL ENTERPRISES SECTOR IN ROMANIA

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Abstract

The paper studies the sector of certified social enterprises in Romania as relatively new players in the social economy field. Certified social enterprises are researched from two perspectives. First, the dynamics in the past years using secondary data analysis based on official data in the Unique Register of Social Enterprises June 2023 Version. Secondly, the paper focuses on identifying the dominant models of certified social enterprises based on the theoretical framework for social enterprise typology proposed by Marthe Nyssens and Jacques Defourny in 2016. Our research results indicate a small number of certified social enterprises in the emergent sub-sector of the Romanian social economy. Overwhelmingly (90%), the accredited entities are defined as other categories of legal persons (limited liability companies - SRLs), and their establishment and certification are mainly related to ESF funding. The dominant model of certified social enterprises in Romania is the Social Business Model, followed by the Entrepreneurial Non-Profit Model.

Keywords

social economy; social enterprise; insertion social enterprise; Romania.

Introduction

Social enterprises represent a relatively new actor that has joined the social economy sector's traditional actors (associations and foundations, cooperatives, credit unions, and mutuals). A paradigm shift in economic thinking and development strategies generates its emergence. It refers to a different way of doing business and providing services of general interest through the social mission. Most approaches in the scientific literature on the topic share the view that "social enterprises combine entrepreneurial dynamics to provide services or goods with the primacy of a social mission" (Defourny & Nysses, 2023, p. 163). EMES International Research Network developed the first theoretical framework of social enterprises analysis based on three

sets of indicators covering issues related to the following dimensions: the economic and entrepreneurial dimension of social enterprise, the social dimension of social enterprise, and their governance-related dimension (Borzaga & Defourny, 2001).

Substantial scholarly efforts were made recently by researchers from all over the world in advancing the research on social enterprises and social economy, efforts made in parallel with the recognition of the role of the social economy at EU and global levels as a potential alternative economic system. In this sense, we mention the significant contributions of the academics and researchers who are members of the EMES International Research Network and Centre of Research and Information on the Public, Social, and Cooperative Economy (CIRIEC) International. As for the recognition of the social economy at the EU level, we highlight as being an important milestone the European Action Plan for the Social Economy (European Commission, 2021) and the newly published Proposal for a Council Recommendation on developing social economy framework conditions (European Commission, 2023), aiming to support the member states in integrating the social economy into their policies and creating supportive measures and a favorable environment for the sector.

A first operational definition of social enterprise agreed upon at the EU level has been proposed in the Social Business Initiative of the European Commission (COM, 2011), which is now available online on the institutional website of the European Commission - Internal Market, Industry, Entrepreneurship, and SMEs: "a social enterprise is an operator in the social economy whose main objective is to have a social impact rather than to make a profit for its owners or shareholders. It operates by providing goods and services to the market in an entrepreneurial and innovative way and uses its profits primarily to achieve its social objectives. It is responsibly and openly managed and, in particular, involves employees, consumers and stakeholders affected by its business activities." (European Commission, 2023)

In Romania, the social economy is still an emerging sector compared to other European countries, although it has experienced some development in the last period. The social economy sector in Romania enjoys only a moderate level of recognition, "coexisting alongside other concepts such as the non-profit sector, the voluntary sector and social enterprises" (Monzon & Chavez, 2017, p. 34). We mention that aggregate data available at the national level from official sources (Ministry of Justice, Ministry of Finance through the National Institute of Statistics) covering the whole social economy sector are only available up to the 2015 level. Since 2015, after the entry into force of the Law on Social Economy (219/2015), only data on social enterprises certified under the law has been regularly collected in the Unique Register of Social Enterprises (RUEIS), which the National Employment Agency of the Ministry of Labour and Social Solidarity administrates. In June 2023, RUEIS included 2,904 certified social enterprises. The number of social enterprises established in Romania so far can most likely be correlated with European funding dedicated to social enterprise start-ups: the Sectoral Operational Programme for Human Resources Development (2007 - 2013) and the Human Capital Operational Programme (2014 - 2020), the latter having as mandatory granting condition the certification as a social enterprise.

The sector of certified social enterprises emerged in 2015, with the Social Economy Law No. 219 adopted in July 2015. The law provided the legal and regulatory framework for social enterprises in Romania, specifying the criteria for social enterprise certification and for social insertion enterprises to obtain the social label. The Social Economy Law was recently amended and completed by Emergency Ordinance No. 33 of March 30, 2022. However, the sector's reform initiated in 2022 is very slow. The administrative recognition by obtaining the social enterprise certificate and/or the social label for insertion social enterprises is not yet accompanied by substantial mechanisms and support measures for certified social enterprises (e.g., dedicated national grants, operationalization of the socially responsible public procurements, reserved contracts, tax breaks, etc.).

We will refer in our research to the terms "social economy and "social enterprise" as they are defined in the Social Economy Law No. 219 adopted in July 2015, and explained as: *"Social economy is the set of private activities of an economic and social nature, serving the general interest, the interests of a community and/or personal non-patrimonial interests, by increasing social inclusion and/or providing goods, services and/or works."* (Social Economy Law, 2015, art.2) The following categories of entities are recognized as part of the social economy (they can obtain the social enterprise certificate): cooperative societies, credit cooperatives, associations and foundations, mutual aid houses for employees and pensioners, agricultural societies, agricultural cooperatives, and any other category of legal entities, regardless of the field of activity, which comply, according to the legal acts of establishment and organization, cumulatively, with the definition and principles of the social economy laid down by law.

Social enterprise is *"any legal person governed by private law which carries out activities in the field of social economy and holds a social enterprise certificate."* (Social Economy Law, 2015, art. 6f). The social enterprise certificate is granted based on the provision in the acts of establishment and operation of cumulative compliance with a set of criteria laid down by law: *"act for a social purpose and/or in the general interest of the community; allocate at least 90% of the profit/surplus made to the social purpose and the statutory reserve; undertake to transfer the assets remaining after liquidation to one or more social enterprises; and apply the principle of social equity towards employees and administrators, ensuring fair wage/remuneration levels, between which there cannot be differences exceeding the ratio of 1 to 8"*.

Research objectives and methodology

The main research objective of our study is to investigate the actual size and dynamics of the certified social enterprises sector in the period 2016 - 2023 using secondary data analysis. We employ the official data provided in the Unique Register of Social Enterprises (RUIES) June 2023 Version (the last version available), which the National Employment Agency of the Ministry of Labour and Social Solidarity administers. Data are available online, in editable format (Excel), permitting processing by the authors in the base of the juridical category, the county where certified social enterprises operate, the type of certification (social enterprise certificate and social insertion enterprise label), and its status (valid, suspended, expired or withdrawn certificate). Considering

Excel limitations, we have used SPSS to analyze the official data provided in June 2023 by RUIES. This permitted us to investigate various associations between some categorical variables using the Chi-Square Test and to run a descriptive procedure for a basic financial analysis of the certified social enterprises sector.

A secondary research objective is identifying Romania's dominant models of certified social enterprises. This identification will be made based on the results of the processing completed by the authors considering the juridical category of the entities included in the RUIES June 2023 Version and based on the theoretical framework social enterprises typology proposed by Marthe Nyssens and Jacques Defourny in 2016. According to this well-known typology in the scientific literature on the topic, the main social enterprise models are the entrepreneurial non-profit organization model, the social cooperative model, the social business model, and the public sector social enterprise model (Nyssens & Defourny, 2016).

Certified social enterprises sector: size and dynamics

As of June 2023, The Unique Register of Social Enterprises includes 2,577 entities with valid social enterprise certificates out of the 2,908 included SEs (Figure 1), of which (90%) are entities defined as other categories of legal persons (most of them having the legal form of SRL - limited liability company) and only 10% entities from the traditional social economy sector (associations, foundations, cooperatives, credit unions), as reflected in Figure 2.

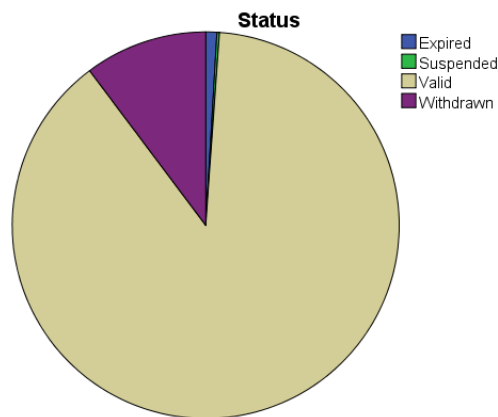


Figure 1. Distribution of certified social enterprises in June 2023, by the certificate status

(Source: Unique Register of Social Enterprises (RUEIS), June 2023; authors' processing)

89% of the registered SEs still have a valid certification, while 10% had their certificate withdrawn. The employment agencies withdraw the certificate of social enterprises in the following situations: at least one of the four criteria laid down by law is infringed or if, upon expiry of the suspension period, the social enterprise has not fulfilled the obligations following the control. Generally, these obligations refer to the annual activity report, which contains the annual social report, the yearly financial statement,

and their extracts. They are detailed in the Methodological rules for applying the provisions of Law No. 219/2015 on the Social Economy.

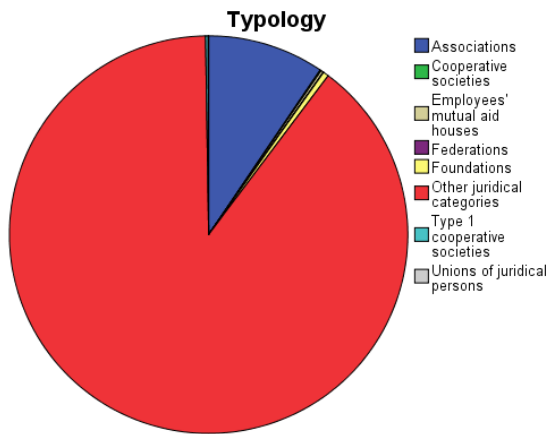


Figure 2. Distribution of certified social enterprises in June 2023 by juridical category
 (Source: Unique Register of Social Enterprises (RUEIS), June 2023; authors' processing)

The distribution of certified social enterprises in June 2023, according to the county in which they operate, reveals that Alba County has the most certified social enterprises (358), followed by Cluj (196) and Maramureş (172). Also, Brasov, Dolj, Prahova, Iasi, Arges, Dambovita, Constanta, and Sibiu counties are in the Top 10 counties by certified social enterprises number.

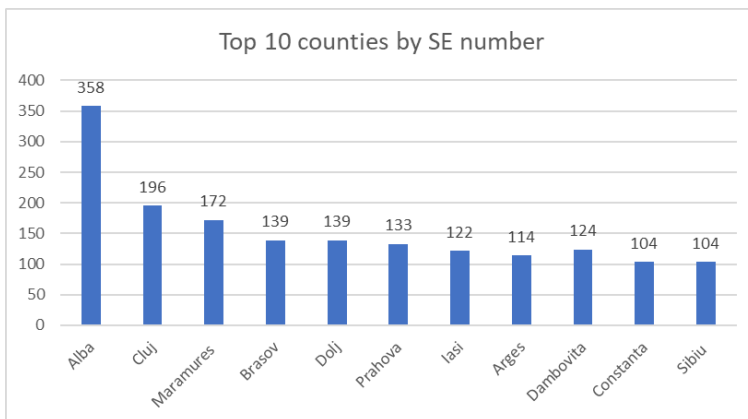


Figure 3. Top 10 counties in June 2023 by certified social enterprise number
 (Source: Unique Register of Social Enterprises (RUEIS), June 2023; authors' processing)

Considering the year of establishment of the certified social enterprises, we can observe peaks in 2015 and 2020 – 2022 (Figure 4). This evolution is due to European Structural Funds funding dedicated to social enterprises starting up in the respective years, which denotes a prevalent supply-driven development type of the certified social enterprises in Romania.

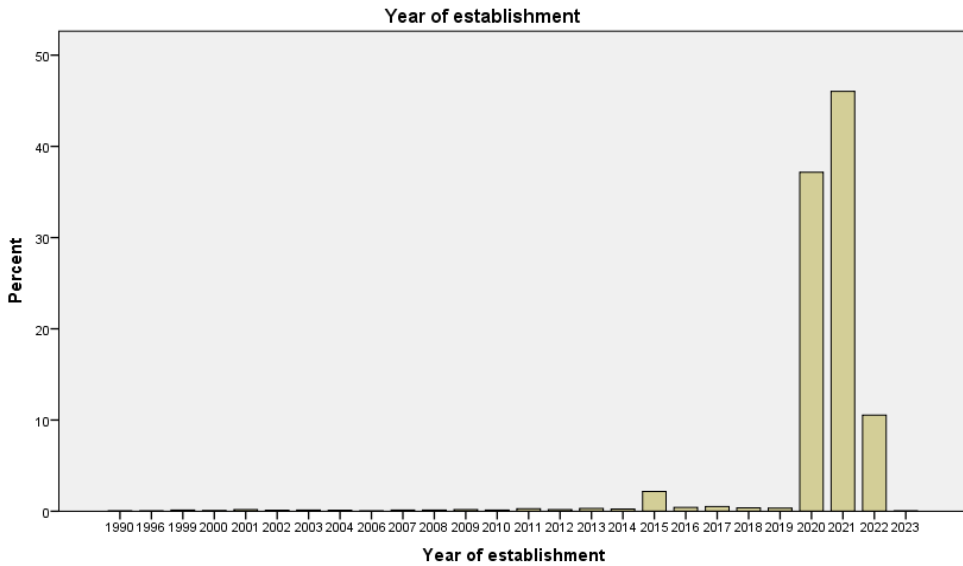


Figure 4. Years of the establishment of the certified social enterprises (Source: Unique Register of Social Enterprises (RUEIS) , June 2023; authors' processing)

Our analysis went deeper, investigating the association between urban and rural residency of the certified social enterprises and the county by performing a Chi-Square Test for Association using SPSS Statistics. Pearson's Chi-squared test confirmed a statistically significant association between the county and the residency (urban/rural) of the certified social enterprises (Table 1).

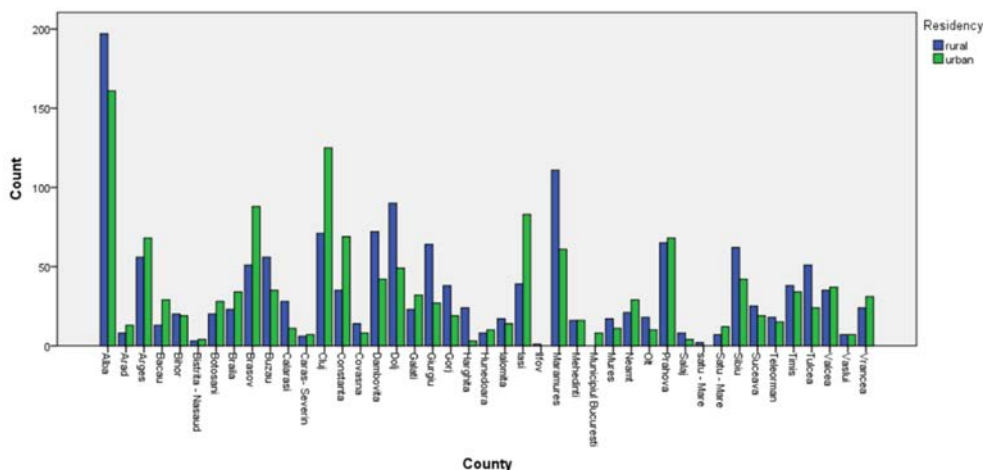


Figure 5. Certified social enterprises by June 2023 by residency (urban and rural)
 (Source: Unique Register of Social Enterprises (RUEIS), June 2023; authors' processing)

Table 1. Chi-Square Tests results
 (Source: authors' processing in SPSS)

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	187.020 ^a	42	.000
Likelihood Ratio	196.127	42	.000
N of Valid Cases	2908		
a. 8 cells (9.3%) have expected count less than 5. The minimum expected count is .48.			

Also, we ran an SPSS descriptives procedure for a financial analysis of the certified social enterprises sector to find a measure of central tendency (mean) and measures of dispersion (standard deviation, minimum, and maximum) for Profit/Surplus and Loss indicators (Table 2). This procedure permitted us to assess the financial sustainability of the certified social enterprises sector, finding 1,204 certified social enterprises (46,7% of the valid number of entities) that are financially sustainable and obtain profit/surplus. The average value of the Profit/Surplus was 38,473 Ron. However, the high standard deviation indicates much variance in the punctual values of the Profit/Surplus around this mean, they being generally quite spread out.

Table 2. Financial analysis – Descriptive Statistics
 (Source: authors' processing in SPSS)

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Loss	1253	30	447793	48594.30	57441.535
Profit/Excedent	1204	2	1202388	38472.94	94689.214

In conclusion, our investigations concerning the size and dynamics of the certified social enterprises in Romania revealed a small size of this emergent sub-sector of the Romanian social economy. Overwhelmingly (90%), the accredited entities are defined as other categories of legal persons (limited liability companies), and their establishment and certification are related to ESF funding. Currently, the administrative recognition of certified social enterprises is not accompanied by substantial dedicated facilities, incentives, or support measures. This situation is reflected by the rate of financial sustainability, almost 50%, and by the fact that many social enterprises obtain small profits. Moreover, it has the effect that only a very small number of existing social economy organizations chose to certify. This could be easily seen if we relate the number of social enterprises in the RUIES as of June 2023 (2,908 certified social enterprises) to the number of social economy organizations with economic activity as of the last year for which macro-level aggregated data are available: in 2015 there were 10,236 social economy organizations with economic activity: 5,302 associations and foundations with economic activity, 2,412 credit unions of employees, 219 credit unions of pensioners and 2,303 cooperatives (according to Kivu et al., 2017; Monzon & Chaves, 2018, Lambru & Dobre, 2021). Therefore, only a small number of these social economy organizations with the potential to be certified in 2015 have chosen to obtain administrative recognition as a social enterprise. Further research accompanied by public policy efforts should be done in Romania concerning the main pillars of a profound reform of the support measures dedicated to social enterprises.

Dominant models of certified social enterprises

As shown above, most certified social enterprises (90%) are defined as other categories of legal persons (most of them have the legal form of limited liability company - SRL). NGOs (associations, foundations, federations, and unions) represent 10% of the certified social enterprises. Therefore, considering the theoretical framework of social enterprises typology proposed by Marthe Nyssens and Jacques Defourny in 2016, in Romania, the dominant model of certified social enterprises is the social business model, followed by the entrepreneurial non-profit model.

We will explain these two models' characteristics below, underlining the specific challenges of the Romania social economy case.

The Social Business Model

This model is characteristic of social enterprises, understood as companies that develop business activities for a social purpose or mission model (Nyssens & Defourny, 2016). According to cited authors, when launched by profit-oriented enterprises, "social entrepreneurship" initiatives take the form of a movement towards the general interest, leading to the creation of a "combined value" (economic and social) through a better balancing and integration of economic and social objectives and strategies. When business activities are developed in a "social or societal domain" (e.g., personal care services for older people, environmental protection, or fair trade), the general interest dimension can be seen as embedded in the very nature of production. The same authors point out that many arguments show that such incorporation ensures the primacy of the social mission or at least a clear combined value creation, regardless of ownership structures, governance, and profit allocation.

In Romania, this model of social business is found among the majority of certified social enterprises set up with European POSDRU funding (initially named “structures of social economy”) and POCU funding, which, as mentioned above, are primarily SRLs that have developed business activities and have assumed a clear social mission. The prevalence of this model reflects, in fact, the preference for the SRL juridical category, which is justified in the Conclusions of the POSDRU Retrospective Evaluation Report 2007-2013, DMI 6.1 Social Economy Development by the fact that most of the beneficiaries of de minimis aid opted for the limited liability company form of organization for reasons such as lower cost of setting up, shorter registration time, and simplified management structure compared to that of an association and/or foundation.

Considering that this model is prevalent, we provide a case only by way of example, which is in line with previous research made by us in the specific field of circular social economy: Oilright SRL is a recently established social enterprise whose mission is to protect the environment in the context of the climate crisis and to ensure the professional integration of vulnerable people (from vulnerable backgrounds). OilRight offers a clean and handy alternative for collecting used cooking oil from Timisoara and its surroundings. The oil is processed and then transformed into scented candles with the help of the vulnerable people involved. OilRight produces eco-chic scented candles and kits where customers can produce three candles from their used cooking oil. The products can be purchased at www.oilright.ro, from the Timisoara office, and through distributors. We have chosen to present this example to highlight that in Romania, some social economy initiatives have a high contribution to the circular economy and the green transition, and the sector of circular social enterprises has started to become visible (Barna et al., 2021, 2022).

The Entrepreneurial Non-Profit Model

This model refers to non-profit organizations that develop income-generating activities to support their social mission. According to Nyssens and Defourny (2016), income-generating strategies can take different forms: any social mission-unrelated commercial activity whose surplus supports the social mission; any subsidiary set up by a non-profit organization to develop a commercial activity and generate profits that go back to the parent organization; and any market activity focused on the social mission developed by the organization.

This model is well-known in Romania as the first social economy initiatives developed in entrepreneurial NGOs, which most often developed market activities centered on social missions or even social enterprises. Also, we mention that Romania's most awarded social economy initiatives fit into this model.

An example of the entrepreneurial NGO model is the well-known "Alături de Voi" Romania (ADV) Foundation from Iasi, which is a non-governmental social economy organization founded in February 2002 by Holt International Children's Service USA, whose mission is the inclusion of people with disabilities and other vulnerable groups. ADV Romania has set up three social enterprises over time. In 2008, UtilDeco, a work integration social enterprise, was created and has created over 150 jobs, more than half of which are for people with disabilities and other vulnerable groups. UtilDeco offers document archiving and storage, work and protection equipment production,

printing, and SSM services. In 2016, the social enterprise Job Direct, the first Job Placement and Workplace Assistance Agency in Romania, was established. It specializes in employing people with disabilities in the labor market. It offers assessment, testing, counseling, vocational training, mediation and job placement services, and job coaching for job retention. In 2017, the social enterprise WISE.travel, a tour operator in the field of tourism, was established. It supports NGOs and social businesses in developing communities. ADV has received many awards over time (e.g., ADV was in the first three finalists of the Social Economy Awards 2021, Social Innovation Category; 2019 - 1st Award for the WISE travel project at the Civil Society Gala, within the "Economic and Social Growth Section," etc.), and also its president (e.g., she was included in Top Innovators Social Inclusion - Ashoka Social Innovators Map 2022 and in Top 100 Women in Social Enterprise Initiative 2022; "Social Entrepreneur of The Year" Prize in 2017).

We emphasize that these dominant models apply only to the emergent sector of certified social enterprises. We mention that in Romania, many *de facto* social economy enterprises are not interested in applying for certification or label in the absence of significant national support measures and mechanisms dedicated to the certified social enterprises. Previous studies at the national level, which covered the whole social economy sector, showed that NGOs (mainly the associations) are the most important social economy actors (Barna, 2014; Kivu et al., 2017). Even if there is no comparable data due to the lack of recent data aggregated at the macro level regarding all types of actors in the social economy in Romania, it can be easily observed that the current number of SRLs certified as social enterprises (2,617 entities in 2023) is still below the number of associations and foundations with economic activity reported to the national level in the last year for which there are available data (5,302 entities in 2015). Therefore, the entrepreneurial NGO model is, in fact, the most representative model of the Romanian social economy, while the social business model is representative of the emergent sector of certified social enterprises, a sub-sector of the social economy mainly characterized by supply-driven European funding development. Further research on scientifically grounded comparisons regarding the number of entities as new reports appear at the national level will be done.

Conclusions

Social enterprises represent a relatively new player in the field of social economy, an area that has gained increasing public recognition as a potential alternative economic system. The launch of the 2015 Social Economy Law in Romania substantially contributed to the domain's visibility and determined a new step in developing the social enterprises sector, following the institutionalization processes (Lambriu & Petrescu, 2021).

The size and dynamics of certified social enterprises in Romania were studied based on secondary data available in June 2023 in the Unique Register of Social Enterprises managed by the National Employment Agency subordinated to the Ministry of Labour and Social Solidarity. Of the registered social enterprises, 89% have a valid certification, while 10% had their certificate withdrawn. The paper details the distribution of certified social enterprises by juridical category as well as the top 10 counties by certified social enterprise number. Almost 90% of the accredited entities are defined as other categories of legal persons (most of them having SRL juridical

form). Most of the certified social enterprises were set up in 2021, followed by 2020, mainly due to financial support from the European Social Fund. Secondary analysis concluded towards a small size of this emergent sub-sector of the Romanian social economy, with a rate of financial sustainability of almost 50%, which obtained relatively small profits. Further research efforts will be made to explain the rationale for a profound reform of the mechanisms and support measures for certified social enterprises in Romania, which could stimulate the sector's development.

Considering that in June 2023, the most certified social enterprises (90%) are entities defined as other categories of legal persons (generally SRLs), and NGOs represent 10% of the certified social enterprises, based on the typology of Nyssens and Defourny (2016), results that in Romania, the dominant model of certified social enterprises is the social business model, followed in a small proportion by the entrepreneurial non-profit model. We intend to enlarge the current research results by mapping the models of certified social enterprises based on Kim Alter's social enterprises' typology and operational models. Moreover, when aggregate data at the national level is available for the whole social economy sector, our research will be extended beyond certified social enterprises to all social economy actors (associations and foundations, cooperatives, and credit unions).

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