

THE IMPACT OF SOCIAL BUSINESS ON THE ECONOMY: THE CASE OF LITHUANIA

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Abstract

This article discusses the links and dimensions of social business and other activities as a form of social enterprise. In addition to the theoretical discussion, the practical benefits of social business are analyzed. The benefits for social business were assessed using social performance and impact assessment studies, which assessed changes in key areas such as a change in income, change in housing, change in criminal activity, change in health, and change in income. The benefit-cost ratio and return of social business were determined by conducting the following studies: evaluation of the results of work in a social enterprise using two questionnaires, evaluation of the impact of work in a social enterprise using two research groups, and two questionnaires. The cost-benefit analysis made it possible to assess the benefits and costs of social business and to assess the benefits or value of one euro spent on social business. In this study, the benefit-cost ratio was calculated. The article aims to substantiate the impact of social business on the country's economy, which allows us to calculate the benefits of social business according to the established criteria. Research has shown that work experience, housing, and family and dependents have led to a higher probability of employment, and convictions have significantly reduced the likelihood of employment. Meanwhile, other characteristics such as income level, gender, age, and native language did not have a significant impact on the likelihood of employment in social business. Assessing the averages of different variables in the primary and secondary (secondary) survey, their difference shows a positive result of work in social business. The results of the study also revealed that working in a social business enterprise significantly changed the attitude of employees to work as a social institution and increased their positive attitudes towards the future. The impact assessment study, based on the double-difference method, confirmed the data obtained in the results study and was used in the cost-benefit analysis. The significant positive increase in gross income and labor income over the last month, as well as the number of avoided arrests and changes in stable housing and reduced number of persons counseled on alcohol and drug addiction, led to a positive current net benefit per person employed in the social enterprise for all groups. It amounts to EUR 1.63 per year, with a return of EUR 0.63 per euro spent on social enterprise support.

Keywords

Social business; impact; benefit; the cost-benefit analysis.

Introduction

Social business is associated with phenomena such as the social economy and social innovation, and thus the social business is receiving increasing interest from different stakeholders. Social business initiatives are increasing in Lithuania. Legal regulation is beginning to be formed - the Concept of Social Business has been issued, and the Law on Social Business is awaiting approval. Social business events, which are already becoming traditional, are taking place, for example, the Social Business Forum, where reports are read and experiences are shared by both practitioners and representatives of the academic community.

During the research of social business, a problem was raised: how can the impact of social business on the country's economy be measured and what is it like in Lithuania?

The object of research – social business.

Aim of research – justify the impact of social business on the country's economy.

Research methods - Mathematical, statistical processing, and questionnaire evaluation methods were used in the study to evaluate the impact of social business on the economy. The assessment of the impact of social business on the economy is based on a cost-benefit analysis, a multidimensional regression.

Social business is still a new phenomenon, especially in Lithuania. Social business is undoubtedly important, with getting attention from different stakeholders. Research focuses on the uniqueness of this business in relation to operating principles (Šalkauskas & Dzemyda, 2013; Kvieska, 2015), social business models (Kuklytė, Vveinhardt, 2016; Yunus, Moingeon, & Lehmann-Ortega, 2010; Pol & Ville, 2009, Simanavičienė, 2017), Ridley Duff and Bull (2011) developed a comprehensive description of social business, managerial specifics, and place in a cross-sectoral environment. Alter (2007), Martin and Osberg (2007), Defourny (2001) have contributed greatly to the definition of social business. The social business model is examined by Gucku, Dees, and Anderson (2003), Sommerrock (2010), Guclu et al. (2002), and Perrini and Vurro (2006). However, in Lithuania, we have very few social business organizations that meet the EU criteria (Stroputė & Kairytė 2016). The benefits of social business have already been understood not only by scientists but also by entrepreneurs and politicians who appear on their own. European Union policy promotes the creation of such businesses, education, and information for the general public on social business. One of the key elements in accelerating the start-up of such businesses and in increasing public interest is to demonstrate the benefits of such initiatives. So far, no evaluation system in Lithuania would show the value and impact of such social business initiatives.

Ridley Duff and Bull (2011) prepared a comprehensive description of social business with literature analysis, managerial specifics, and place in a cross-sectoral environment. Alter (2007), Martin and Osberg (2007), Defourny (2001) contributed the most to the definition of social business. The social business model is examined by Gucku, Dees, and Anderson (2003), Sommerrock (2010), Guclu et al. (2002), and Perrini and Vurro (2006). Despite all the existing work, the social business model is not sufficiently

explored to single out the essential components of the business model. According to Yunus (2010), social business is a new type of enterprise that differs from traditional forms of enterprise organization, the main goal of which is to maximize their profits.

M. Wildmannova (2018) points out that the concept of social business is based on public-private partnerships in the provision of public services and the promotion of public employment policies.

The European Commission (2013) provides the following definition of a social enterprise: "A social enterprise is a social economy entity whose main purpose is to have a social impact and not to make a profit for its owners or shareholders. It operates by providing goods and services to the market on the principles of entrepreneurship and innovation and uses its profits primarily to achieve social goals. It shall be managed in an open and accountable manner, in particular involving employees, consumers, and stakeholders affected by its commercial activities." This definition shows that the social economy in particular is a good example at the micro-level and how market economy principles dominate, while at the same time having a social impact rather than a profit.

Lithuania in 2015 approved the Social Business Concept (2015). It states that social business is a business model in which, through the use of a market mechanism, profit-making is linked to social goals and priorities, based on the provisions of socially responsible business and public-private partnerships, and social innovation is applied. The concept stipulates that social business may be carried out by for-profit enterprises whose main economic activity is social benefits, and non-profit organizations that apply business models in their activities.

The existing Law on Social Enterprises in Lithuania encourages the growing number of socially disadvantaged workers in social enterprises that comply with the law and this restricts the freedom of such enterprises, they become more dependent on subsidies, and the growing number of such workers leads to increasing government spending. According to the European Commission (2014), such use of public funds is inadequate. Rising costs are not supported because they do not solve the essence of the problem, provide unequal opportunities for the representatives of the target group.

Research methodology

As González (2017) argues, social value creation is related to social impact. Other scholars (Gregori, 2019; Jiao, 2011; Cohen, Smith, & Mitchell, 2008; Kuratko, 2016; Gordon, 2018; Margion, 2018; Choi, 2014) state that creating a positive economic, social or environmental impact on society is considered a prerequisite for social or sustainable entrepreneurship.

Cost-benefit analysis is a key method of economic analysis that allows the economic impact of certain measures or initiatives to be identified and assessed by assessing the direct and indirect economic costs and benefits (Boardman et al., 2011; Cordes, 2012). These economic costs and benefits are expressed in monetary terms. In this way, the net benefits of the initiative can be assessed by comparing its different alternatives. The purpose of a cost-benefit analysis is to determine whether the initiative benefits society and whether it is needed. Cost-benefit analysis is also useful in that it provides a

common methodological framework for assessing the impact of a particular initiative on various aspects.

When developing the research methodology of the impact of social business on the economy, it is important to single out the main entities related to the benefits of social business. The main entities are: employees of social business enterprises, social business enterprises, taxpayers, not related to social business and the whole society, therefore the benefits and costs can be assessed by individual entities and the return on social business costs can be calculated by individual entities.

Benefits of social business are evaluated through the results of working for social enterprises and assessing their impact, which will assess changes in these important areas:

- Change in income (change in labor income, change in taxes and state support, etc.);
- Change in housing (change in housing costs and change in the quality of life, better housing status);
- Change in criminal activity (scale of detention and imprisonment);
- Health change (assessment of health status, drug addiction status);
- Revenue change (from the collection of information from enterprises on business revenue and support received for social business).

Costs are obtained by interviewing social enterprises and collecting data on the costs associated with business costs and the costs of carrying out a social mission.

Thus, the benefit-cost ratio of social business and the return are determined by the following studies:

- Evaluation of the results of work in a social enterprise, using two questionnaires: a survey of persons employed in a social enterprise a year ago (primary survey) and a survey of the same persons who had already worked in a social enterprise for a year (secondary survey);
- Impact assessment of work in a social enterprise, using two research groups and two questionnaires: primary and secondary of persons employed in the selected social enterprise a year ago (target group) and primary and secondary including but not employing potential employees in the same company (control group) surveys.

This study will allow a quasi-experimental study to determine how working in a social enterprise (SB) affected the lives of individuals in the year after they applied to the SB for employment compared to individuals who also applied to the SB for employment but were not recruited.

The cost-benefit analysis (CBA) will allow us to evaluate the benefits and costs of social business and to evaluate the benefits of the created value of one euro spent on social business. This study will calculate the benefit-cost ratio obtained by dividing the current net benefit of social business by the cost of social business. For evaluation of benefits, the results of the work social business and the results of the impact assessment studies and the information gathered from the social enterprises participating in the study will be used to assess the benefits.

- When assessing the aggregate benefits of working in a social enterprise over the year, the averages obtained with the help of regression were estimated and assessing the

variations of demographic characteristics and employment barriers among the respondents.

- The outcome and impact assessment study will assess changes. The outcome study identified changes in self-efficacy and life stability and a change in attitudes to work one year after employment in a social enterprise. Multivariate regression was also used to determine which factors (descriptive variables or characteristics) related to SB work experience have the greatest impact on those changes. Meanwhile, the impact assessment study seeks to assess whether changes in individuals' self-efficacy and life stability after one year in a social enterprise were greater than changes in self-efficacy and life stability in individuals who did not find work in a social enterprise but were listed as potential employees a year ago. Two-tailed t statistics were used in the analysis to assess whether the observed changes in means were statistically significant ($p \leq 0.5$) and a chi-square test to determine statistically significant differences in distributions. If significant differences in distributions were found, a double t-test was used to identify statistically significant differences between the distribution of individual categories.

The main assumptions of the cost-benefit analysis are:

- The full benefits of a working SB can be assessed in the year in which the individual started working;
- SB expenses are covered from cash reserves and do not require borrowing and interest;
- 8 percent discount rate applied;
- Capital investments are integrated as flows;
- To estimate the average cost per employee per month, the discounted monthly cost for the whole period is added and divided by the number of people expressed in months of employment during the survey period;
- To estimate the average cost per employee, the average cost per employee per month is multiplied by the average number of months worked by individuals in social enterprises.

The benefits are identified in 5 main areas: income, housing stability, criminal activity, health, and SB income from the SB survey.

The social business benefit per employee is calculated by adding together all the benefits of employment in SB (income, stable housing, health, criminal activity) assessed in euros for the whole society, SB employee, SB, taxpayers not related to social business. The benefits were assessed by assessing changes in outcomes in each and all social enterprises involved in the study and changes in impact assessment.

The total monetary benefits of social business to the public, SB employee, SB, taxpayers, discounted and recalculated per employee can be compared to SB discounted costs per employee to quantify the benefits and costs or to assess the benefits to society of one euro spent on SB (formula 1), SB employee (formula 2), SB (formula 3) and taxpayers (formula 4) or return (formula 5) and other indicators of economic analysis such as internal rate of return, payback period.

$$\text{Benefits per euro spent}_{\text{Society}} = \frac{\text{Benefits per employee are calculated for society}}{\text{SB Costs per employee}} \quad (1)$$

$$\text{Benefits per euro spent}_{SB \text{ employee}} = \frac{\text{The benefit per employee, calculated for the SB employee}}{\text{SB Costs per employee}} \quad (2)$$

$$\text{Benefits per euro spent}_{SB} = \frac{\text{The benefit per employee, calculated for the SB}}{\text{SB Costs per employee}} \quad (3)$$

$$\text{Benefits per euro spent}_{\text{Taxpayer}} = \frac{\text{The benefit per employee, calculated for the taxpayer}}{\text{SB Costs per employee}} \quad (4)$$

$$\text{Return} = \text{Benefits per euro spent}_{\text{Society}} - 1 \quad (5)$$

Assessing the benefits of social business: research results

The study lasted from September 2018 to September 2019. The study involved 3 companies meeting SB status. Four samples were drawn during the study: employed and non-employed in the initial survey conducted in September 2018 and employed and non-employed in a follow-up survey conducted in September 2019. The study was conducted by interviewing individuals directly.

Primary and secondary surveys showed that the share of employed people with stable housing did not change significantly, but remained high enough (96%). Among employed respondents, the share of paid employees increased from 74 percent in the last month up to 96 percent (significant difference).

There has also been a significant increase in the share of paid employees in the last six months and in the share of time spent working in recent years. No homelessness was recorded among the employed in SB. Among employed in SBs, a significant increase in gross income (from EUR 417 / month to EUR 525 / month) and a significant increase in labor income (from EUR 149 / month to EUR 480 / month) were recorded. accordingly, the share of labor income in total income also increased significantly (from 36% to 92%).

The share of income from state benefits did not change significantly and amounted to 10-19 percent. The share detained by people working in SB in the last year has dropped significantly from 59 percent up to 11 percent. The number of avoided arrests after one year of work in SB was 2.4 cases.

The depression index among those working in SB decreased significantly, and physical health indicators did not change significantly, although the proportion of respondents who said they felt excellent increased.

The number of consultations on drug or drug addiction has not changed significantly (26-29% of respondents have attended consultations in the last year).

Working in SB changed the attitudes of employees to work as a social institution. The number of those who believe that work is the only source of money has dropped from 56 percent up to 37 percent (significant difference). There has also been an increase in the proportion of respondents who think they would work even in the absence of economic necessity from 15% up to 30% (the difference is significant). Respondents'

attitudes on career prospects did not change significantly during their work in a social enterprise.

The work in SB significantly influenced respondents' beliefs about their further social integration. The share of those who are confident that they will have private housing has increased from 7% up to 30% (significant difference). The proportion of those convinced to leave illegal activities has increased from 7% up to 37 percent (significant difference). The share of those who are confident that they will be in good mental condition has increased from 59 percent up to 74 percent (significant difference). The proportion of those who believe that they will rarely use drugs increased from 52 percent up to 74 percent (significant change).

The social business benefit per employee is calculated by adding together all the benefits of employment in SB (income, stable housing, health, criminal activity) assessed in euros for the whole society, SB employee, SB, taxpayers not related to social business.

Based on the data presented in Table 2 and the data on business income obtained from the business survey, a cost-benefit analysis is carried out below.

The results of the benefit assessment per employee are presented in Table 1.

Table 1. Key indicators measured in monetary terms (per SB employed)

Indicator	Double difference rate	Rate per year, EUR	Benefit, EUR (undiscounted)
Stable housing in the last year (change in the share of persons with stable housing)	0.0873	810 *12= 10800	849
Total income during the last month (monthly income change in Eur)	30,63	30,63*12=367,6	368
Labor income during the last month (change in monthly labor income)	311,17	311,17*12=3734,04	3734
Avoided detentions	1,1650	19566	22794
Alcohol or drug addiction counseling (percentage change in counseling)	-0,0597	16200	967

Applying Table 1 determined nominal values and additional data from the overlap analysis (double difference), discounted present values were calculated. For example, discounted 3734 Eur / y. the value is 3577 Eur / y. Monetary values have been recalculated accordingly. As a result of employment, in SB employee loses part of the state subsidies, and his taxes and contributions increase. It is estimated that on average the state subsidies (social benefits) decreased by 36 EUR / month, and the paid taxes and contributions increased by 87 EUR / month, thus the SB employee lost a total of 123.5 EUR / month. The estimated annual discounted effect is 1420 Eur / y. The income of SB employees from family members and friends decreased, while that of other respondents increased, therefore the double-difference reaches 244 Eur / month. The discounted annual effect is 2808 Eur / y.

Due to the lack of permanent residence, the state has to cover the cost of living (it is assumed that they amount to 810 EUR / month). Taking into account the value of double difference, the obtained discounted annual effect value is 81.3 Eur / y. (It should be noted that the majority of respondents in both study groups had stable housing).

Housing costs per year (discounted value) for SB employees increased by EUR 124 / year. The quality of life index increased by 0.07, so the annual effect is 630 Eur / y. (discounted value 591 Eur / year). The impact of criminal activity on society has been assessed as the ratio of the number of detentions avoided to the costs of detention and imprisonment. The estimated discounted annual effect is 21106 Eur / y.

Due to health changes, the annual discount benefit is 93 Eur / year. Due to the reduced use of drugs, SB employees have a positive impact. The average annual discounted effect is 908 Eur / y.

Table 2. Cost-benefit analysis (per SB employee employed), EUR

Variables	Society	SB Employee	SB as a business enterprise	Taxpayers not directly related to SB	Friends and relatives of the SB employee
Incomes					
Labor income	3577	3577	0	0	0
Taxes and government subsidies	0	-1420	0	1420	0
Other income	0	-2808	0	0	2808
Housing					
Amounts paid for housing	43	-124	0	81	0
Quality of life	591	591	0	0	0
Criminal activities					
Criminal activities	21106	0	0	21106	0
Health					
General health	93	93	0	0	0
Addiction to drugs	908	908	0	0	0
SB incomes					
Business income	29004	0	29004	0	0
State support	0	0	2305	-2305	0
Total SB costs	-21034	0	-21034	0	0
Present net worth	34288	817	7970	22607	2808
Benefit for one SB employee employed	1,630	0,039	0,379	1,075	0,133
Return	0,630				

The society receives a positive net benefit of € 1.63 per SB employed, and the return on an SB spent per euro is € 0.63. The current net benefit is positive for all groups in society due to one SB employed per person.

Conclusions

The results of the empirical study revealed that work experience, having housing, family, and dependents led to a higher probability of employment, and a criminal record significantly reduced the probability of employment. Meanwhile, other characteristics such as income level, gender, age, and native language had no significant effect on the likelihood of SB employment. Assessing the averages of different variables in the primary and secondary survey, their difference shows a positive result of work in SB: a significant increase in the share of employees in the last month and the last six months, a significant increase in gross and earned income and a share of total income in earnings; over the past year, the share and number of arrests and the depression index among SB employees, has decreased significantly and the share of respondents who say they feel great has increased. The results of the study also revealed that the work in SB significantly changed the attitude of employees to work as a social institution and increased their positive attitudes towards the future. The impact assessment study, based on the double-difference method, confirmed the data obtained in the results study and was used in the cost-benefit analysis. The significant positive increase in gross income and labor income over the last month, as well as the number of avoided arrests and changes in stable housing and reduced alcohol and drug substance counseling, led to a positive current net benefit of one employed SB for all groups in society. It amounts to EUR 1.63 per year and the return on one euro spent in support of SB is EUR 0.63.

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