

# Are Social Enterprises in Romania EMES Social Enterprises?

Loredana ORHEI<sup>1</sup>

Joop VINKE<sup>2</sup>

Sharda S. NANDRAM<sup>3</sup>

## Abstract

*Recent efforts of the European Union to integrate new member states such as Romania expand to the social economy sector as well. Works by Hoogendoorn et al. (2010) and Kerlin (2010) regard Europe as accommodating two schools of thought related to social entrepreneurship: EMES and the UK – social enterprise. Both views place great emphasis on social enterprise as the main indicator of the social entrepreneurial phenomena for the European continent. Using both qualitative and quantitative research methods, we attempt to answer the following question: Which forms of Romanian social economy organisations correspond theoretically and empirically to the EMES social enterprise criteria? The findings show that there are two types of organisations in Romania (sheltered workshops and enterprises set up by associations and foundation) that fulfil the EMES criteria to the largest extent. They are generally between 5 and 10 years old and are active in agriculture, trade and education.*

**Keywords:** *social enterprise, EMES, social criteria, economic criteria, Europe, Romania.*

**JEL classification:** M12, M14

## Introduction

A wide variety of definitions for social entrepreneurship has emerged due to the richness of the practice and the ongoing debates over concepts in entrepreneurship literature. This variety also exists in Europe, where the works that look at social entrepreneurship belong to what Hoogenboon et al. (2010) call the EMES and UK schools of thought. These research streams define social entrepreneurship in Europe as materialised by social enterprises, but this focus makes their identification and focus overly simple.

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<sup>1</sup> **Loredana ORHEI**, HAN University for Applied Science, The Netherlands,

E-mail: Loredana.Orhei@han.nl

<sup>2</sup> **Joop VINKE**, HAN University for Applied Science, The Netherlands,

E-mail: joop.vinke@han.nl

<sup>3</sup> **Sharda S. NANDRAM**, Nyenrode Business University, The Netherlands,

E-mail: s.nandram@nyenrode.nl

Due to the national sovereignty of the EU states, there is still a great deal of variation. The large state intervention and socially driven nature of most European states has led to a wide variety of organisations that can be seen as social enterprises. Therefore social entrepreneurship in Europe has mainly been defined as organisations that have an explicit goal for the community and that have been initiated by a group of citizens (EMES, 2006) or, more recently, by social businesses (EU, 2011). The EU (2011) definition of social business focuses on the social aim, the use of market orientation and the management by social entrepreneurs. The novelty of this view is the switch from the individual to the organisation. Moreover, it allows more freedom to create organisations that do not fit the traditional social economy types (e.g. associations, foundations, cooperatives). The status quo of social entrepreneurship and social enterprises in Europe has been the focus of studies conducted by numerous researchers, institutions and organisations (e.g. CIRIEC, 2005; Deffouny, 2001; European Commission, 2007; GEM, 2010; Kerlin, 2010; SELUSI, 2011).

The most prominent view and definition adopted by European researchers is that of the EMES International Research Network. The EMES criteria consist of four economic and five social criteria that define the ideal type of social enterprise. These criteria have served as support for a growing number of studies at the national level around Europe. Investigations into European social entrepreneurship have revealed among the social economy actors organisations defined as social enterprises, work integration social enterprises and social cooperatives.

Very little research has been conducted into the field in Romania; most of what exists is individual academic research from both within Romania and abroad. As one of the newest EU member states, Romania, like most of the other former Soviet Communist countries, is characterised by a young social economy (third sector) and an ongoing struggle to create a solid civil sector. Information about the status of social entrepreneurship and social enterprises in Romania can be found in a few European studies conducted so far. However, little can so far be concluded from these efforts. For more details, please see Orhei et al., (2012).

This study tries to fill the knowledge gap about this phenomena in Romania by exploring which organisations belong to the social economy sector and which fulfil the greatest number of economic and social EMES criteria. First, we conducted a content analysis of reports and literature about the Romanian context. Our main finding was that two types of Romanian organisations best fit the EMES criteria: authorised protected units (sheltered workshops) and enterprises set up by associations and foundations. Second, we quantitatively tested the EMES criteria against our theoretical findings among the population of social enterprises. Finally, our main contribution to the study of social entrepreneurship is a validation of the EMES criteria for use Romania and a greater understanding of social entrepreneurship in the EU context.

## 1. European vision of social entrepreneurship

The last decade has seen an increase in the EU's encouragement of entrepreneurial behaviour, in both the commercial and social sectors of the Union. An initiative like The Single Market Act is just one of many examples. Social entrepreneurship and social enterprises are not new to the European continent; most European countries had hybrid forms and predecessors of modern social enterprises, such as cooperatives (social and commercial), associations or mutual societies. Most of the research describes European social entrepreneurship as belonging to one of two schools of thought: EMES or UK (Hoogendoorn et al., 2010). The two views have more elements in common than differences: for the most part, both define social entrepreneurship as the existence of a social enterprise. Arpinte (2010, p.154) says the term social enterprise 'is American in origin and distinguishes from non-profits by having moved away from reliance on more traditional forms of income, such as grants, towards a more entrepreneurial and business-like approach to raising revenue'.

At the European level, two definitions of social enterprise are widely recognised. The first was developed by the British government in 2002. The paper *Social Enterprise: A Strategy for Success* defined social enterprise as 'a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners' (DTI, 2002, p.2). The second definition came from the EMES International European Research Network (EMES) in 2006 defined social enterprises as organisations with an explicit aim to benefit the community, initiated by a group of citizens and in which the material interest of capital investors is subject to limits. These organisations place a high value on their independence and on economic risk-taking related to ongoing socio-economic activity. Unlike the UK definition, the EMES definition takes into account various national traditions and sensitivities present in the European Union. It does so because EMES is the result of an extensive dialogue among European scholars from different disciplines and countries.

The concept of social enterprise became known in Europe in the 1990s, when the Italian government legally approved a new type of social cooperative organisation. Over time, the definition of "social enterprises" or "social cooperatives" has expanded with models in countries like Great Britain, France and Belgium. Conceptually, social enterprise can be seen as a bridge between two spheres of thought in the not-for-profit (social economy) literature: 1. cooperative and traditional associative forms and 2. general interest organisations (associations, foundations) (Defourny and Nyssens, 2006). These two areas of the social economy only have in common that they started as actors in the social economy. Cooperatives and mutual societies offer their output on the market for sale, whereas associations and foundations have very little economic orientation and are almost entirely dependent on external financing. As the FDSC (2011) describes, the social economy is defined by several basic elements: social mission, democratic

control and limited profit distribution. The concept of social enterprise adds three new elements: entrepreneurial orientation in providing social services, aiming for a wider spectrum of beneficiaries, and growth of the quality of the democratic control (FDSC, 2011). In other words, it is not enough to be a non-profit organisation with aims for the good of the community; the organisation needs to survive and provide for all the stakeholders involved.

EMES began in 1996 and is named after its first research programme: the Emergence of Social Enterprise in Europe. It consists of scholars who investigate the social enterprise phenomenon and establish a broad definition that allows for national differences within the European Union. This school of thought promotes an 'ideal typical' definition for social enterprises and, by extension, for social entrepreneurship in Europe. According to the EMES approach, a social enterprise has an explicit aim to benefit the community, is launched by a group of citizens, has a high degree of autonomy, is participatory in nature, and does not base decision-making power on capital ownership. The most common legal forms of organisations that approach social entrepreneurship in this manner are associations, cooperatives, mutual organisations and foundations. This broad definition of social entrepreneurship lays a solid foundation for moving towards a common definition.

An important step in the study of social enterprises in Europe is the research conducted by Defourny and Nyssens within the EMES over the last decade. In a working paper (WP no.08/01), the authors pointed out that social enterprises in Europe are adopting legal forms that have existed for a long time: associations, cooperatives or limited liability companies. In countries where there is greater freedom in the sale of goods and services, they are most often associations. In countries where social economy structures have less freedom, social enterprises take the form of cooperatives or specific forms of business.

In Romania, the law allows associations and foundations to carry out economic activities, provided that income from these activities is no more than 50% of the total income obtained by the organisation. Associations and foundations can also establish companies, but their profits have to be returned to the founding association.

## **2. Social entrepreneurship in Romania**

Once Romania had joined the European Union and the concept of social economy had also emerged there, researchers undertook a series of steps to identify both the social economy players (according to the European vision) and social enterprises. In Romania, social enterprises can either be traditional organisations, companies incorporated and controlled entirely by NGOs or companies operating in authorised protected units (APUs) (FDSC, 2011). In order to identify which organisations belong to the social economy, we first looked at the organisations considered to be part of the social economy sector in Europe and then looked at what the Romanian legal system considers to be organisations that belong to this sector.

There is no official definition for the social economy at the European level and the main challenge is to overcome its ‘institutional invisibility’ [CIRIEC, (2007), p.8]. Over time, the social economy has either been defined by specific forms or by the principles promoted. Social economy can be understood as ‘totalling non-profit organisations, cooperatives and other associated private undertakings or used as a synonym for social enterprises’ [Defourny and Nyssens, (2001), p.5]. The main forms of organisation are cooperatives, mutual companies, associations and increasingly more foundations (EMES, 2008). Beyond the legal form of organisation, social economy entities are characterised by the fact that their activities are aimed at meeting people’s needs and not at the remuneration of capital investors. The organising principles of the forms of social economy reflect the assumption of public interest objectives (MMFPS, 2010). The only exception is social enterprises that can generate profit and distribute surplus capital. Moreover, the essence of social economy in Europe is characterised by the attempt to solve social issues through market mechanisms, i.e. mechanisms that do not directly belong to governmental and commercial sectors.

Traditional forms of social economy organisation recognised at the European level are cooperatives, mutual organisations, foundations and associations. Recent developments in organisational forms of social economy have led to the recognition of social enterprises (MMFPS, 2010). Thus, in the extended version, the social economy includes the following forms of organisations: cooperatives, mutual companies, associations, foundations, social enterprises and hybrid organisations (Arpinte, 2010). Recognition of social enterprises results in seeking to unify the visions of the social economy sector, steps like those of CIRIEC.

Recent steps to create a law on social economy in Romania, have included new legal categories associated with social enterprises: the social cooperative and the social integration enterprise. Until this law will come into effect, social enterprises are partially defined by legislation but are not officially recognised alongside other forms of social economy organisation. We have looked at the organisations that create the non-profit sector in Romania to determine which organisations theoretically have the potential to be social enterprises according to the EMES criteria. The results are presented in Table.1

**Table 1. Comparing Social Economy Organisations in Europe and in Romania**

<b>Types of organisations associated with social economy</b>	<b>Social economy organisations in Europe</b>	<b>Social economy organisations recognised by law in Romania</b>	<b>Organisations that have the potential to create social enterprises according to EMES criteria</b>
Associations	Yes	Yes	Partial**
Foundations	Yes	Yes	Partial**
Cooperatives	Yes	Yes	Yes

<b>Types of organisations associated with social economy</b>	<b>Social economy organisations in Europe</b>	<b>Social economy organisations recognised by law in Romania</b>	<b>Organisations that have the potential to create social enterprises according to EMES criteria</b>
Mutual	Yes	Yes	Partial**
Credit unions	Yes	Yes	Partial**
Hybrid organisations • Enterprises of associations and foundations	No	Yes	Yes
• Social enterprises*	Yes	Yes	Yes
• -Authorised protected units	Yes	Yes	Partial**

\* Not defined by law or recognised in some form

\*\* Does not comply with at least one of the EMES criteria

As a sector that is still in the development stage after decades of absence during the communist era, there are still doubts about the credibility of organisations belonging to the social economy sector. There is a widespread perception that the associations and foundations that have established companies have created them to obtain tax advantages, without really seeking a social purpose. This perception can be bolstered by the existence of organisations such as football clubs, which are enterprises established by associations that can create a substantial income, but which are oriented towards profit and not really towards achieving a social purpose. The first step towards addressing such shortcomings could be passage of a law governing social economy and social enterprises in Romania.

In the approval of the Implementation Framework Document (Joint Order 254/1169/2008 of the Minister of Labour, Family and Equal Opportunities and of the Minister of Economy and Finance), social enterprises are mentioned as examples of structures specific to the social economy. This document attempted to define social enterprise in terms of an organisational form assimilated to social economy: authorised protected units. These organisations are present in Romania and are intended solely for labour market inclusion of people with disabilities. However, some APUs have been found to contain ‘ghost’ organisations: after the organisations became part of an APU they no longer included people with disabilities. The legal aspect of defining social enterprises in Romania is also important, in particular the possibility of allowing non-profit organisations (associations and foundations) to establish commercial enterprises and/or undertake economic activities to support their work.

### 3. Social entrepreneurship as EMES view in Romania

#### 3.1. Theoretical analysis

In order to answer our research question (Which forms of social economy organisations correspond theoretically and empirically to the EMES social enterprise criteria?) we first conducted a qualitative secondary data analysis to identify the research population. In this stage we analysed Romanian legal documents that refer to the social economy sector, research reports from governmental and civil society organisations, and academic articles. Using content analysis, we searched for indicators of the EMES criteria in all the organisations recognised as social economy organisations: associations, foundations, cooperatives, mutual companies and credit unions. In addition to these generic forms relevant to social economy, we considered authorised protected units. We did so because they overlap with both the concept of social enterprise in the legislative draft on social economy in Romania and with existing forms of social enterprises in other European countries (Great Britain, Italy, the Netherlands and Spain).

The analysis revealed that is it possible for any of these sorts of organisations to achieve social enterprise status provided that they are organised in such forms as cooperatives, credit unions, mutual or protected units, associations and foundations. The organisational forms that are closest to the theoretical concept of EMES are APUs and enterprises established by associations and foundations (EAFs). We have limited our empirical inquiry to the presentation of the two forms corresponding most closely to the EMES school of thought.

Below are details of the EMES criteria and an analysis of the two main forms of social economy: APU and EAF. A detailed description of the criteria can be found in Defourny (2001).

*a) A continuous activity producing goods and/or selling services.* This criterion is fully satisfied by EAFs, due to the nature of this type of organisation: they operate on the free market with services and/or products. This criterion is also satisfied by APUs, which are legally defined as private organisations involved in economic activities. In contrast to an ordinary company, at least 30% of an APU's employees are disabled.

*b) A high degree of autonomy.* EAFs meet this criterion, mainly due to their legal structure: private organisations operating on the open market. Although there are instances in which these enterprises can apply for public funds, doing so does not cause another type of intervention in the organisation. The law allows APUs to be established by state institutions, but an analysis of these players revealed only private forms (associations, cooperatives, companies). As with EAFs, there is no question of state control over APUs.

*c) A significant level of economic risk.* It is almost intuitive that risk is inherent for EAFs, as they operate on the open market. This criterion is also satisfied for APUs: the fact that they employ people with disabilities creates an

additional risk on the open market, making them more vulnerable. In general, the Romanian market does not give preference to services and products offered by these organisations.

*d) A minimum number of employees.* Both APUs and EAFs are required by law to have at least one employee. These organisations may use voluntary activities, but the basic work must be carried out by paid employees. An exception would be an APU that is organised as an association, since associations are not required to have employees. However, in practice many of the APU have the label, while being set up as an association.

*e) An explicit aim to benefit the community.* Both APUs and EAFs meet this criterion by the very nature of their existence, but also by the nature of underlying organisations. This is the case for EAFs that lack an explicit social purpose, but acquire social status through the financial support of an established organisation (e.g. association, foundation). In Romania, these enterprises have to reinvest all their financial surpluses into the founding organisation and support the work of the non-profit organisation. Examples are found in sheltered homes, shops that address specific social groups, and health care units for disadvantaged groups. These examples reinforce the fact that most EAFs describe a clearly defined social purpose. APUs meet this criterion in two ways: 1) by declaring the social purpose as associations or enterprises and 2) by supporting vulnerable groups they integrate. As mentioned above, a minimum of 30% of their employees must be disabled. Most often, the social purpose extends to the work itself.

*f) An initiative launched by a group of citizens.* EAFs legally meet this criterion by being based on associative structures representing the interests of a group or community. The close relationship between the founding organisations and the founded organisation satisfies this criterion. This criterion is partially satisfied by APUs: there are cases where this type of organisation is founded by one person, but the beneficiaries are often directly involved in all the organisation's structures.

*g) A decision-making power not based on capital ownership.* For this criterion, the law in Romania does not specify restrictions on the decision-making process within these types of organisations. Practice, however, may illustrate that, in general, decisions are taken based on the involvement of all stakeholders. Furthermore, based on associative organisations, invested capital is quite low, and the basic capital decision is not significant in these organisations.

*h) A participatory nature, which involves the persons affected by the activity.* This criterion is largely satisfied by APUs: in most cases, beneficiaries are directly involved in the unit's work. In fact, one of the basic principles of APUs requires the involvement of people with disabilities in providing services and products for them. For EAFs, satisfying this criterion is relative because it strictly depends on the organisation's work and not on legal criteria or principles of existence (such as with the APUs).



*i) Limited profit distribution.* The law requires both APUs and EAFs to meet this criterion. Both types of organisation must reinvest most of their profits into the organisation to support its social purpose and the nature of the activity.

**Table 2. EMES criteria within organisations with potential to be social enterprises**

Criterion	Economic	Authorised protected units/sheltered workshops (APUs)	Enterprises established by associations and foundations (EAFs)
E1	Continuous activity in the production of goods and/or selling of services	Yes	Yes
E2	High degree of autonomy	Yes	Yes
E3	A significant level of economic risk	Yes	Yes
E4	A minimum number of employees	Yes	Yes
	<b>Social</b>		
S1	An explicit aim to benefit the community	Partially applies (not stipulated by law, shall apply by the organisation's purpose)	Partially applies (not stipulated by law, depends on the organisation)
S2	An initiative launched by a group of citizens	Partially applies (if the organisation has multiple founders)	Partially applies (if the association is considered by the founder to be a form of citizens' initiative)
S3	Decision-making power not based on capital ownership	Partially applies (not required by law)	Partially applies (not required by law)
S4	Participatory nature, which involves the person affected by the activity	Yes (beneficiaries are involved in the production of goods, in some cases)	Partially applies (not required by law)
S5	Limited profit distribution	Yes	Yes (profit must be reinvested in the organisation)

The theoretical analysis at the civil society actors' level through the EMES criteria confirmed the existence of two types of organisations that fit the criteria: APUs and EAFs. The lack of specific legal provisions pertaining to social enterprises and the social economy as a sector did not prevent players in this sector from learning entrepreneurial activities. Recent efforts of central governmental bodies to increase transparency and support organisations in this sector have led to the formulation and debate of a law.

## ***3.2. The Empirical Study***

### *3.2.1. Methodology*

In order to empirically test our theoretical findings regarding the two types of EMES organisations in the social economy, we used a quantitative data collection method and analysis (using the survey technique). The survey was designed as a descriptive study and meant to uncover as many details about the population as possible, especially because the social economy sector is very “young” and there is a lack of accurate information about the sector. Therefore any information about these types of organisations is of added value to the body of knowledge about social entrepreneurship.

As there had been no prior analysis according to the EMES criteria, we identified the target group organisations using electronic databases provided by both commercial and government institutions. We telephoned all the organisations we had identified to confirm their existence and their status. Furthermore, we asked for confirmation of their participation and additional details via e-mail.

Data was collected in two stages. The first stage ran from 1 March – 31 March 2012. Organisations were asked to participate and sent the first e-mail. Respondents were also sent a reminder about the deadline for filling in the survey. The second stage ran from 1 May 1 – 31 May 2012. Respondents were sent a reminder e-mail and were then phoned to encourage them to fill in the questionnaire. Although the questionnaire was identical for both target groups, it was operationalized into two separate questionnaires: one for APUs and one for EAFs.

### *3.2.2. Sample*

In Romania, APUs and EAFs represent a small segment of the social economy. A recent study of the third sector (or civil society, as it is known in Romania) revealed the existence of some 70,000 organisations, of which 25,744 were active in 2010 (Fundatia Pentru Dezvoltarea Societatii Civile, 2011). These organisations produced an income of approximately 6 billion RON (Romanian New Leu; 1.3 billion Euros) in 2009 and employed 163,000 workers, approximately 3.3% of the total active workforce. Of the total number of civil society organisations, only about 2,500 were continuously economically active, mainly those with an association-type structure.

To identify APUs and EAFs, we used the statistics from the Ministry of Justice, the Ministry of Finance and the Civil Society Development Foundation (FDSC), an active body that monitors these organisations. The lack of a central body that monitors the activities of the civil society makes it difficult to obtain such data, particularly for EAFs. Monitoring of APUs is more or less active through the Agency for Social Assistance, which is the accreditation body of this status in Romania.

Statistics from the Agency for Social Assistance revealed that there were 476 APUs in 2010 and data collected from the Ministries of Justice and Finance revealed the existence of 727 EAFs in 2010. Together, 1203 organisations were part of the potential statistical population. A list of these organisations was obtained through [www.listafirme.ro](http://www.listafirme.ro), a web portal run by a company specialised in providing databases. Both APUs and EAFs work in almost all the sectors of the national economy. As part of the data collection process, the organisations were contacted by telephone and e-mail to confirm their identity, identify the founder and confirm their participation in the survey. This process reduced the list of EAFs to 420. The main reasons organisations were excluded were: no longer existing, not fully fulfilling the criteria or not wanting to participate. In the case of APUs, the final list contained 277 organisations. APUs were eliminated for non-existence, losing their status as an APU or refusing to participate. Therefore, 697 organisations were included in the survey.

The final sample that responded to the inquiry consisted of 12% of the total EAFs population and almost 20% of APUs population. APUs were much more open to our invitation to participate, most likely due to the social nature of these organisations. Due to the small sample size of this study and its purely descriptive nature, we do not claim that these results can be generalised at the statistical population level, regionally or nationally. Since our approach included samples from two statistical populations, we performed their descriptive analyses separately. We received 103 valid questionnaires, representing about 14.7% of the statistical population. In the next section, we will describe the main findings of the quantitative survey.

### 3.2.3. Results

- *APU and EAF*

According to a report from the Ministry of Labour, Family and Social Protection (2010), there is a large amount of flexibility concerning the forms of organisations that may be considered APUs. Thus, respondents to our survey could choose both associative (non-profit) forms as well as commercial organisation forms (e.g. LLC, JSC, family company, individual company). Most of the APUs were commercial organisations, namely limited liability companies (58%). This is because it is the most accessible commercial form. Cooperatives are another legitimate form of profit making. Because APU has a formal status in Romania, we expected to find a variety of organisations that take this form. In our sample, we did not find any APUs that were limited partnerships, family and individual companies, autonomous administrations or public institutions. APUs can be public organisations, but we did not find any in the statistical population or in our sample. We were likewise not surprised to find EAFs in the form of limited liability companies, as the laws that guide the work of associative forms OG 26/2000 (updated in December 2008) and OG 37/2003 state that in addition to conducting

commercial activities, associations and foundations can also set up enterprises to support their social activities.

The social enterprises in our sample were, on average, young organisations. Most of the APUs (76%) were less than five years old. This may be due to the importance APUs have acquired in recent years, and the infusion of financial support from the state (social inclusion policies), the society (donation of 2%) and the EU (Structural Funds) to support existing forms of social economy. However, almost 30% of the EAFs were established over 10 years ago. Our reference point for calculating an organisation's age used year 1990 as year 0, since we can only speak of legal forms of organisation in civil society during the years in which Romania has held democratic principles and standards of a social economy.

We used an open question to identify each organisation's field of activity. In the statistical processing stage, we coded data by classifying each organisation into one of the 21 sectors of the Romanian NACE classification updated in 2012 (used in processing by the National Institute of Statistics). APUs operated in 10 of the 21 sectors and most commonly conducted their business in agriculture (38.18%) and education (12.73%). They were least likely to operate in transport (3.64%) or as a form of various association activities (1.82%). Of the 21 sectors, EAFs operated in 12. They most commonly operated in agriculture (37.50%), followed by trade (20.83%) and other services (8.33%).

Comparing the sectors in which APUs and EAFs operated led us to several conclusions. Both were most likely to operate in agriculture, though that was followed by different sectors. APUs also operated in fewer fields than EAFs. This may be because APUs operate in fields that allow disabled people to be active.

The last variable considered was the financial profit for the last financial year (2010). Initially, we collected data through open questions; after the test pilot, we created categories and a nominal scale. There were seven categories: the first indicated a negative profit (loss) and the last covered a profit of over 100,000 RON (23,000 Euros). The option for the profit indicator was based on the fact that the status of an APU is related to the creation and management of profit. Moreover, the discourse of social entrepreneurship contains the creation of a positive financial outcome, such as for organisations of the enterprises' type. Twenty-nine percent of the APUs in our sample were operating at a loss. However, the remaining APUs made a profit; the largest percentage (43.6%) were in the category of making about 40,000 RON (9,000 Euros). These figures show that the activities of social economy organisations can contribute financially to the national economy in addition to achieving their social purpose. Most EAFs (85%) made up to 20,000 RON (5,000 Euros), although most did not make a profit.

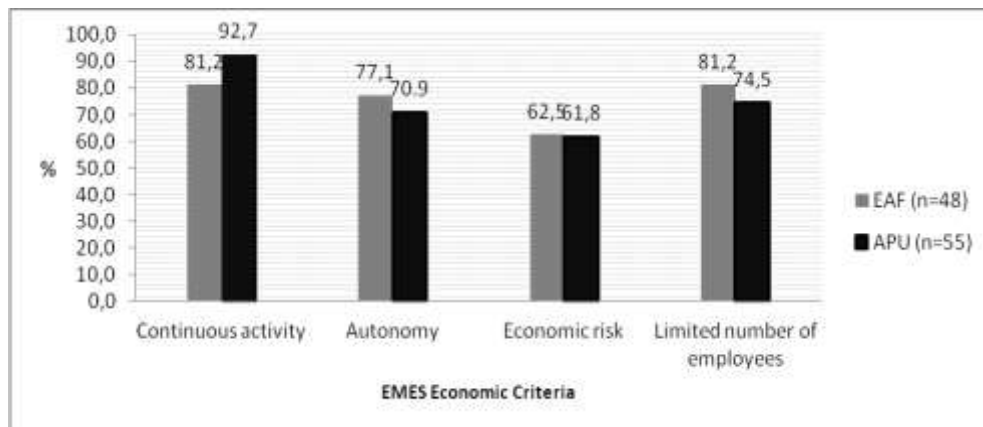
The last variable considered in the description of the organisation was the financial outcome for the last tax year (2010). This included seven categories: the first indicated a negative profit (loss) and the last category covered a profit of over 100,000 RON (23,000 Euros). EAFs made less profit than APUs. This may be due to the tax measures adopted by the government over the last five years, including the introduction of a mandatory minimum tax. APUs also benefit from a special tax

regime that allows them to retain a larger quantity of profits than is possible for EAFs.

- **APUs and EAFs as EMES social enterprises**

In our theoretical analysis of the players in the Romanian social economy in previous chapters, we concluded that APUs and EAFs conceptually meet the EMES criteria to the greatest extent. We then sought to verify this assumption by surveying the founders of social enterprises.

Using a dichotomous scale, founders were asked to reveal whether their organisation met the listed EMES criteria by answering ‘yes’ or ‘no’ to various questions. Where the EMES wording seemed too generic, we used explanations or reformulations to make the concepts more understandable. We considered it useful to present the results we observed and to highlight any differences between target groups. The EMES Network has set four theoretical economic criteria and five social criteria. The following figures show to what extent these criteria were considered to be applicable to organisations in the sample.



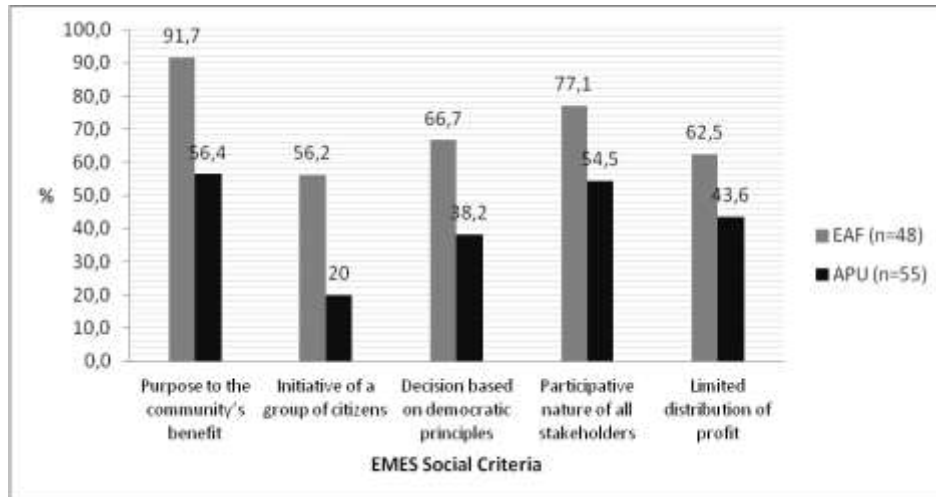
**Figure 1. Meeting the EMES economic criteria**

As shown in Figure 1, the organisations in our sample most commonly met the criteria “continuous activity” and “limited number of employees.” More than half our sample also met the criteria for “autonomy” and “economic risk”, which seems to indicate that the sample meets the EMES economic criteria to a great extent. We also considered that the two samples may show differences in meeting these criteria. APUs in the sample conducted more continuous activities than EAFs, but have less autonomy. Also, founders of EAFs were more likely than those of APUs to feel that they face economic risk and to have a limited number of employees.

We also researched the EMES social criteria. The extent to which the sample founders considered their organisations to meet these criteria is shown in

Figure 2. In general, fewer respondents felt that they fit these criteria. For instance, only 36.9% of respondents, from both target groups, felt that the organisation they founded met the criterion “initiative of a group of citizens”. This is because, in general, only three people are needed to create an associative structure in Romania; it is very uncommon to find a higher number. Furthermore, only cooperatives or credit unions are actually the result of joint efforts, and the small number of these organisations in the sample may have contributed to the low percentage.

There were some differences in how the two types of organisations met the social criteria. Most EAFs (91.7%) met the criterion “purpose to the community’s benefit” while a much smaller group (56.4%) of APUs did. This may be motivated by the fact that APUs tend to serve a relatively small target group, so their founders may believe they do not serve the entire community.



**Figure 2. Meeting the EMES social criteria**

It is also noticeable that APUs were least likely to meet the criterion “Initiative of a group of citizens”. This may be because most of the APUs represented in the sample are limited liability companies (LLCs), which require a small number of associates. Also, the status of APUs also influences their partial fulfilment of the criterion “limited distribution of profit” (43.6%) compared to EAFs (62.5%), which are required by law to reinvest their profits into the organisation’s activity.

### **Conclusions and Discussion**

The study of social entrepreneurship in Europe and Romania is still new. More and more efforts to create a common view can be found in the recent literature, both on the European continent as well as internationally. Romania is also not an exception.

Our research was a first effort to bring the phenomena to light in Romania. As we took the first steps, we continued existing efforts by using a popular framework to look at social entrepreneurship. This study is the first to look at the actors in the social economy sector from an EMES perspective, as well as to try to clarify which kind of social enterprises exist in Romania. Such efforts are important in creating awareness and visibility for organisations that have been considered borderline legal since the creation of the new third (social) economy sector in 1990.

Our work has brought to light the two types of social economy organisations that most closely fit the ideal type proposed by EMES: APUs (sheltered workshops) and EAFs. The theoretical analysis revealed that APUs theoretically meet the EMES criteria. The empirical study revealed that APUs meet the economic criteria (continuous activity, autonomy, economic risk and small number of employees) to a very large extent and the social criteria (aim to benefit the community; initiative launched by a group of citizens; decision-making not based on capital ownership; participatory nature, and limited profit distribution) to a lesser extent. EAFs in the sample greatly fulfilled both the social and economic EMES criteria. We can therefore conclude that EAFs and, to a lesser extent, APUs are social enterprises according to the EMES criteria. Based on our data sample, it seems that social enterprises in Romania are mainly active in agriculture, trade and education, have been to a large extent profitable in the last financial year (up to 40.000 RON/9,000 Euros) and are quite young, on average between 5 and 10 years old.

The results of this research also have implications for European efforts to study and compare social entrepreneurship and social enterprise on the continent. Once brought to light, these organisations can be further investigated from more fields and types of expertise, including business models, management styles or human resource management.

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