

SOCIAL ENTERPRISE ENGAGEMENT IN PUBLIC SERVICES DELIVERY IN LITHUANIA

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Author's declaration

I, the undersigned.....Vaida Stockunaite.....hereby declare that I am the sole author of this thesis.

To the best of my knowledge this thesis contains no material previously published by any other person except where due acknowledgment has been made. This thesis contains no material which has been accepted as part of requirements of any other academic degree or non-degree program, in English or in any other language.

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Abstract

Social enterprise sector is the most underdeveloped in Central and Eastern Europe and in Latin America. This paper presents the conceptual framework that has been designed to research the emerging sector of social enterprises in Lithuania as a case study of Central and Eastern European region. The overall question of the thesis project is how social enterprises engage and change the landscape of public service delivery in Lithuania. The method of the case study is the empirical analysis of quantitative and qualitative data, derived from the online survey (48 responses) and in-depth interviews (4) with the social entrepreneurs. The empirical analyses revealed that externalization with the social enterprises is likely to be a successful arrangement of public service delivery but some obstacles such as a) legal and administrative system, b) culture and mindset gaps between generations and c) insecurity to create financially sustainable business models might slow down the decentralization process in Lithuania. In accordance, the findings imply similar potential of social enterprise sector development in other Central and Eastern European countries.

Key words: externalization; Lithuania; motivation; public service; social enterprise; Third sector

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INTRODUCTION

The pioneer of social entrepreneurship Bill Dryton Founder and CEO of Ashoka once said “[s]ocial entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry.” (Ashoka 2015). All over the world the social entrepreneurs create optimistic and convincing discourse about social impact that they achieve by making a difference. Saul (2011) noticed that “social benefits are increasingly understood to be an inherent part of all economic activity” and claims that it is the “[t]ectonic change in today’s economy”. This trend is particularly favorable for nonprofit sector which now can improve its performance and benefit social good by entrepreneurial methods.

There is extensive literature on social entrepreneurship that is studied from different theoretical lenses (social movements, social economy, the Third sector, NGOs) and disciplines but it is still a young research area. While social entrepreneurship movements and initiatives are springing up globally in both developing and developed countries (Etchart and Comolli 2013; Kerlin; Mair 2010; Zahra et al. 2009) building their eco-systems, much of the academic discussion revolves around the definition of social enterprises. As Teasdale (2011) summarized, academics used a wide range of different theories to explain the phenomenon of emerging social enterprises. The problem arises from the fact that social enterprise label is used for various organizational types and practices. Teasdale (2011) highlights that social enterprise is not a new organizational form but it has evolved from the forms of non-profit, cooperative and traditional business. However, since the 1990s the major change that happened in the US and Europe was the adoption of a different language to describe these organizations. Social enterprise concept is tied to different political beliefs, therefore many

contested approaches and visions exist towards its implementation in practice. Such contestation is interesting from academic point of view and opens up opportunities for scholars to synthesize various theories and make unconventional claims. Nevertheless, a great deal of organizational forms that social enterprises appear in practice, create problems for measuring social enterprise population and their characteristics as well as to conduct comparative studies among countries.

In order to understand the academic debate on social enterprise concept and how it works in practice it is unavoidable to engage in open-ended theoretical discussions on welfare and social policy. Welfare does not have any single meaning and it is usually researched from multiple perspectives such as happiness, security, preferences and needs. The well-being of individuals and society as a whole depends on the design of social policies, which is concerned with the production and distribution of public goods (Fitzpatrick 2001). However, do social enterprises produce public goods? The answer depends on interpretation of well-being in terms of market or collective provision, but social entrepreneurs clearly are motivated to increase the amount of public goods and services, particularly in their local communities. Consequently, the concept of social enterprise challenges the system of public service delivery by returning the discussion about the role of the state, e.g. what services should be provided by the state and external providers, what new models can be applied to encourage social change and improve the accessibility and quality of public services. The social enterprise concept opens up opportunities to consider hybrid public service delivery models, however the know-how of this topic is missing from both the public sector and external service providers.

The trend of social entrepreneurship is endorsed by political, business, philanthropy and celebrity elite and it diffuses to policy, finance and civil society debates (Mair 2010). For instance in Europe, social enterprises are promoted under Europe 2020 strategy as a tool to

fight against poverty and exclusion (European Commission 2011). The in-depth study on social enterprises by European Commission (2014) “notes **growing convergence** towards the **definition of social enterprise** as ‘an autonomous organization that combines a social purpose with entrepreneurial activity’”. Social enterprise policy is currently under development in seven countries (Ireland, Croatia, Latvia, Lithuania, Malta, Poland, and Romania), from which absolute majority belong to Central and Eastern European region. Positioning social enterprises on the EU and national policy agenda opens up policy windows for various actors interested in their development. The case study of Lithuania is interesting to look at due to changes of social enterprise concept in the legislation since 1991 to 2015.

The topic of social enterprise engagement in public service delivery is currently important to Lithuania because of recent changes in service decentralization process that is moving ahead and also social enterprises that are emerging as new players in the market. Social enterprises are new actors in the market and potential public service providers, because they claim they work for the public interest and common good. Similarly the goal of the public sector is compatible to the goals of social enterprises, thus there are a big potential for cooperation. Social enterprise engagement in public service delivery very much depends on the vision of the Third sector, often called the ‘non-profit sector’ or the ‘social economy’, development and commissioning some of state functions to this sector. Two directions are possible: the Third sector is linked with government on partnership and collaboration principles like in Germany or the Third sector is developing as “an independent sector”, expressing anti-state attitudes, like in the US (Borzaga and Defourny 2001). These two reasons are the pretext to rethink public service delivery and see what is the role of social enterprises in it.

This thesis argues that the development of social enterprises in Central and Eastern Europe has a potential to catalyze social change by bringing public, private and non-

governmental sectors to work together and solve critical social problems. It is important because cross-sector or cross-institutional cooperation and lack of trust is usually defined as barrier for many policies in Central and Eastern Europe. Developing social enterprise concept in Central and Eastern Europe has a potential to set the ground for developing the fourth sector to solve critical social problems.

In what follows, I discuss the concept of social enterprise and set out a theoretical framework of externalization and introduce my research method (Chapter 1). Then I assess the legal and administrative environment for social enterprises in Lithuania in the period of 1991-2015 (Chapter 2). Subsequently, I analyse the empirical data gathered through the online survey and in-depth interviews with social entrepreneurs to provide some statistical information on ‘de-facto social enterprises’ that was previously missing and reveal social entrepreneurs’ motivation to engage in public service delivery (Chapter 3). I conclude with some reflections on the potential of social enterprise engagement in public service delivery and how the case study of Lithuania increases our knowledge on social enterprise development in Central and Eastern European region.

CHAPTER 1: THEORETICAL FRAMEWORK AND RESEARCH METHODOLOGY

This chapter presents the conceptual framework that has been designed to research the emerging sector of social enterprises in Lithuania and explains the method of empirical analyses (Section 1.5) that has been applied to answer the overall thesis question – how social enterprises engage and change the landscape of public services delivery in Lithuania. Chapter 1 comprises five sections which in detail discuss particular aspects of the theoretical framework: social enterprise concept (Section 1.1), changing landscape of public service delivery (Section 1.2), externalization of public services (Section 1.3) and factors that influence externalization (Section 1.4).

1.1 Social Enterprise Concept in the Literature

In this section I discuss social enterprises based on a review of the academic literature on the subject. There is also a vast amount of policy documents and reports produced that have been used for background knowledge and for analysis in the empirical chapters.

The scholars (Borzaga and Defourny 2001; Ridley-Duff and Bull 2011; Etchart and Comolli 2013) unanimously claim that social enterprises tend to emerge as a response to various economic crisis and interest to search for economic organizations between “capitalism” and “state socialism” (Borzaga and Defourny 2001) to address the limitations of the traditional public or private sectors to solve social problems (Thompson, Alvy, Lees 2000). Thus, the emergence of social enterprises is commonly used to explain state and market failure (Nicholls 2006). Furthermore, the actor-focused perspective is one of the most dominating among scholars (Bortnstein 2004; Dees 2001; Harding 2004; Thake and Zadek 1997; Waddock and Post 1991) who emphasize the qualities of the social entrepreneurs – the founders or leaders of social enterprises.

Social enterprises and their perspective in Lithuania were researched by Dzemyda (2012), Greblikaite (2012), Barkauskas (2013), and Čižikienė and Čižikaitė (2013). Lithuanian authors (Dzemyda 2012) as well as foreign authors (Etchart and Comolli 2013; Kerlin 2010; Shaw 2004) recognize that social enterprise business model is useful for the development of SMEs, local communities and NGOs. However, the practical research is almost non-existent due to statistical data, which is problematic to collect because of the puzzling social enterprise concept that transcends the borders of economic sectors. This thesis aims to extend the previous research by presenting some statistical data on social enterprises and research them in the context of public service delivery that has not been done yet in Lithuania.

It is obvious that there is no consensus on the definition of a social enterprise in academic literature (the majority of scholars writing on this topic point this fact out themselves). Teasdale (2011) analyzing how social enterprise concept has been evolving in the UK, came to the conclusion that “[t]his conceptual confusion is because social enterprise is a fluid and contested concept constructed by different actors promoting different discourses connected to different organizational forms and drawing upon different academic theories” (1). According to Teasdale (2011), the policy makers in the UK deliberately kept a loose definition of social enterprise, so that actors having different organizational forms could be included to compete for public resources and also, the concept served to as a policy tool to address a wide spectrum of social issues.

Such confusion in theoretical discussion complicates the implementation of social enterprise concept in practice burdening the communication between practitioners and decision makers to develop social enterprise eco-systems. The practitioners most commonly use similar definitions that clearly have two elements: social dimension and profit

reinvestment to social purpose. Some examples of social enterprise definition by global leading social enterprise organizations and policy making bodies:

Social Enterprise UK (2015) - “A business driven by social and/or environmental purpose. They are trading organisations (their main income streams are revenues for goods and services provided, not grants or donations). Successful social enterprises generate surpluses or profits which are reinvested towards achieving their social mission. Their assets are often locked for community purpose”.

Social Enterprise Alliance (2015) - “Social enterprises are businesses whose primary purpose is the common good. They use the methods and disciplines of business and the power of the marketplace to advance their social, environmental and human justice agendas”.

NESsT (2015) - “Social enterprise is an entrepreneurial activity designed to solve critical social issue in an innovative way through the ongoing and professional provision of products and/or services”.

European Commission (2014) - “An autonomous organization that combines a social purpose with entrepreneurial activity”.

In practice social enterprises appear in the intersection of public and private sector and are attributed to the variety of the Third sector organizations. Figure 1 helps us distinguish social enterprises from traditional business and imagine their possible organizational structures. They can be classified into embedded, integrated and external archetypes based on the integration of social programs and business activities.

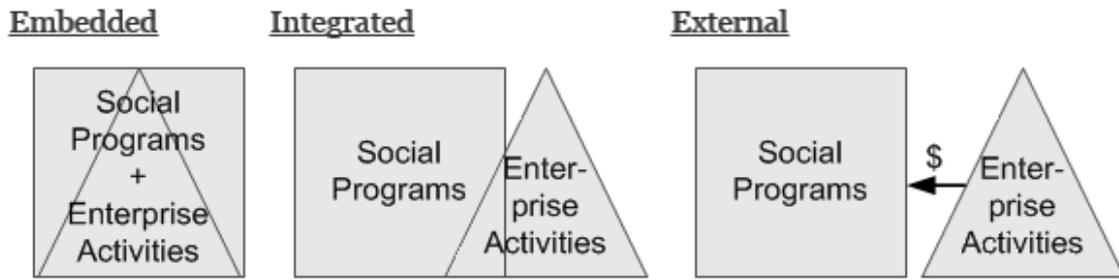


Figure 1. Social Enterprise Typology Based on Social Programs and Business Integration

Source: Data from Alter 2003.

It is interesting to note that the legal form does not determine whether the company is a social enterprise, because social enterprise can be identified only through its activities and management. They operate with a “double bottom-line” or triple-bottom line generating financial return while simultaneously advancing a social mission. In social enterprise the entrepreneurial behavior is combined with a desire to use market as a tool to solve social issues. Social enterprises are self-sustaining and scalable and they usually deal with problems of unemployment, poverty, social exclusion, environment, and poor services, which are also the main concern of governments (NESsT 2014).

In this thesis my understanding of the social enterprise the best complies with the definition by NESst, since I seek to reveal the potential of social enterprises to engage in public service delivery. Social enterprises usually occur as community initiatives and they often offer new products and services to the market and raise awareness of the issue that they are concerned. Social enterprises and public sector have shared mission and goals (Etchart and Comolli 2013). Social enterprise sector is advanced in the USA, UK, France and Italy, however, it is underdeveloped in Latin America and Central and Eastern Europe. The case study of Lithuania is representative to discover what social enterprises are like at the start-up stage.

1.2 Social Enterprise Concept and Changing Landscape of Public Service Delivery

Social enterprise concept well illustrates the changing landscape of public service delivery, because of its hybridity and raising debates from the ideological and ethical point of view. “The future public service organization will be complex and complicated and will need managers to balance a competing set of ethical claims. This is not to say that they should be ethically ambiguous. They need even more so to be grounded in a set of principles, purposes and ethical performance” (Lawton, 2004, 242).

The major difficulty for governments to cooperate with social enterprises is that they are prime examples of hybrid organizations and various institutional and ethical conflicts may arise. The difficulty for social enterprises to cooperate with public sector especially in public services is because “[s]ocial enterprises pursue the dual mission to achieve both financial sustainability and social purpose and, therefore, do not fit neatly into the conventional categories of private, public or non-profit organizations (Doherty, Haugh, and Lyon 2014).

New approaches of public service delivery consider clients as active participants and success factor of public service. Therefore new models treating the customer as a co-producer of public service are widely used. “The spirit of public service extends beyond those formally working for government, those we think of public servants. Ordinary citizens have also wished to contribute. However, the avenues through which they might bring their talents to bear have been somewhat limited, in part, we think, because over the past several decades we have severely constrained the citizenship role, preferring to think of people as customers or consumers rather than citizens” (Denhardt and Denhardt 2003, xii). Denhardt’s (2003) approach thinking of people as citizens instead of consumers might be applied designing

public service systems in Central and Eastern Europe that is well-known for the issues of low citizen engagement and dissatisfaction of public services. The social enterprise concept allows implementing Denhardt's (2003) citizen-centric approach in public service delivery. Social entrepreneurship literature usually emphasizes the motivation of social entrepreneurs to catalyze change in their communities and their devotion to social mission and sustainable businesses. Therefore, in this thesis I assume that being hybrid organizations social enterprises catalyze changes in public service delivery by applying citizen-centric approach, because, firstly, citizens themselves engage in public service delivery driven by their motivation to improve life for their communities and, secondly, social enterprise have a capacity to offer individualized services for community members. On the contrary, public sector has always found difficulties to balance between implementing individualized service approach to citizens and economy of scale.

1.3 Externalization of Public Services

Externalization of public services is a phenomenon that has been discussed in the last three decades in relation to public management reform worldwide. Public management literature revolves around the New Public Management theory. In the early stage New Public Management was associated with promotion of market-based approaches to solve public sector issues and a wave of worldwide reforms were launched without questioning whether it was necessary or not. Clearly the content of many reforms globally were driven by the certain belief without questioning whether certain policy tools are suitable to specific context or not. Recently a more moderate approach towards New Public Management is prevailing. Many public management theorists, for instance Alford and O'Flynn (2012) and Cohen and Eimicke (2008), argue that the externalization is neither good nor bad. The decision for public managers is always twofold: public services can be produced in-house public sector

organization or they can be delivered by a wide array of external parties. When a public manager chooses to give public service delivery function to an external provider, then some kind of partnership relationship occurs between his public sector organization and an external provider. Consequently, talking about public private partnership in “Public management and governance (2010) Bovaird and Löffler well illustrated that “[t]here is probably no other issue in this book that is so prone to turn previously quite, gentle citizens into apoplectic fire-breathing ideologues” (233).

The difficulty of public management literature is that it provides a wide array of terminology to describe externalization relationship. In academia and especially in practice there are no clearly understandable boundaries among various forms of partnerships, contracting-out and public-private partnerships. Therefore the majority of authors provide their own unique definitions in what way they use these concepts. In this thesis I apply the term of externalization developed by Alford and O’Flynn (2012), because they offered a simplistic solution to analyze a highly politically sensitive and contested topic as public private sector partnership. As this theses aims to research social enterprises that are new players in the market and measure their potential to engage in public service delivery based on empirical analysis and what is going on “on the ground”, it is important to apply the theory that would not intrude the analysis by too many details that are not relevant for primary investigation of social enterprises and their potential in Lithuania. Thus, this thesis analyzes social enterprise as an alternative external provider with which public sector can interact and the possible implications of this process.

In the words of Alford and O’Flynn (2012), externalization is “any arrangement in which one or more external providers produces all or some of the service” (p. 20) and where external providers are “any entities outside the government” (p. 20). According to Alford and O’Flynn (2012), the government obtains additional roles through mechanisms - contracting,

partnering, incentives, subsidies, persuasion, ‘hard’ and ‘soft’ regulation and providing information - the more it gives up producing public services to external parties that makes complex policy and management challenges. The authors emphasize that there is a terminological confusion of defining externalization (partnering, partnership, strategic alliance, collaboration, cooperation, network, etc.).

In Central and Eastern Europe the cross-sector cooperation is defined as a common problem of policy failure. Externalization process is a good example of cross-sector cooperation where many arrangements are possible. Therefore it is worth to look at what factors are necessary for externalization and what relationships occur between external providers and government organizations, before making a decision what externalization model is suitable to choose.

1.4 Factors Constituting External Providers Contribution to Public Sector Goals

In this section, I look at the motivation of social entrepreneurs to contribute to public sector goals. Without understanding the motivation of the external provider, public manager risks that “[...] performance by external providers may be less effective than it could be, but also that it might actually be *worse* than through in-house delivery” (58).

In Figure 1 I present Alford and O’Flynn’s (2012) model that explains why external parties contribute to public sector goals. External parties’ contribution to public sector goals is constituted by their willingness and ability. The willingness is influenced by the public agencies’ motivators for organizations or individuals to provide services and the motivation of the external provider that is his/hers personal attribute.

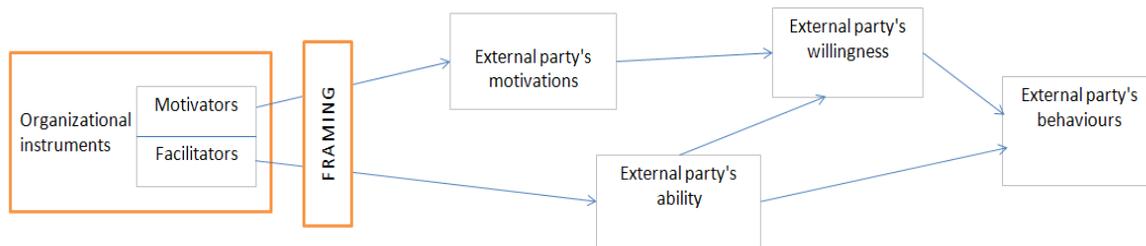


Figure 2. Schema of Factors Influencing External Providers Contribution to Public Sector Goals

Source: Data from Alford and O’Flynn 2012, 57.

Ability is influenced by facilitators that public sector use to make it easier for external providers to contribute to public sector purposes regardless the willingness of external party. The framing of the motivators and facilitators may results in different behavior of the external providers because of nudging. According to the authors, relationship between external provider and public sector agency can be understood by looking how motivators interact with motivation and affect the external parties’ behavior.

When public sector decides to externalize public service, to understand the motivation of the external party becomes crucial, because the agency loses some hierarchical and management tools - to supervise, restructure organization, re-design the work. The interaction of motivators and motivations is a complex issue. Thus, how do we evaluate external party’s motivation? A schema of motivation by Alford and O’Flynn (2012), only partly explains the behavior of a person. However, the analyses of material self-interest, intrinsic motivation, sociality and purposive values of a person, is able to capture more important details about the true motivation of a social entrepreneur to engage in public service delivery.

Motivations are prone to change under the influence of external factors such as motivators, therefore motivators should match motivations. “If we think that external parties

are all self-interested, for example, then competition, sanctions and rewards will encourage them to do as the government organization wants. However, if we think that external parties come to a relationship from a more public-spirited motivational base then collaborative, partner-style approaches will be more much important in designing and operating service delivery systems” (p. 59). It is interesting to note that, external providers usually are not individuals but organizations, however only individuals can have motivations, while organizations have interests. Organizations cannot be motivated, only people can be motivated. Nevertheless, organizations influence motivation of individuals by their mission, structure and culture.

The ability of the external provider depends on how difficult the task is to perform, or understand or simply inconvenient somehow. Alford and O’Flynn (2012) concludes that the challenge for public sector is to make sure that both public sector and external provider exchange some value for both sides form externalization and the job of the government is to “fashion the terms of this exchange” (p. 82).

The UK is solving an issue how to attract external providers to work for social good and fix social problems. The major concern in the UK is how to legitimate private actors to deliver public services. The ability to deliver public service and work for public good is also a motivator for external providers that match purposive values of social entrepreneurs. In Lithuania, the purpose of including external providers to public service delivery is a solution to other problems such as increasing civic participation, ownership, change, expecting alternative solutions, more specialized services that correspond people’s needs.

1.5 Research Method

This thesis researches the emerging sector of social enterprises in Lithuania. In order to answer the research question **how social enterprises engage and change the landscape of**

public service delivery in Lithuania, an empirical mix of qualitative and quantitative data is used in the analysis. The quantitative data is derived from a survey of 48 participants of the second Social Entrepreneurship Summit (10) and local communities (38) that are considered to have the highest potential to develop social enterprises as they are already engaged in small business activities, e. g. crafting, recreation and etc. The survey comprised questions related to how respondents understand the social enterprise concept and their own experiences and activities. This survey was necessary to extend the previous research and collect some statistical data on ‘de facto social enterprises’. The second Social Entrepreneurship Summit that took place in Vilnius on April 8-10, 2015 is the most representative event to survey the practitioners who run social enterprise activities in Lithuania, since it is the annual biggest platform for all stakeholders of social entrepreneurship (social entrepreneurs, government representatives, organizations, etc.) to share the vision of the social enterprise sector development in the country. The Summit has been organized by NGO Avily, Geri Norai and The British Council with the keynote speakers from abroad. The survey was sent in total to 156 contacts (48 responses received). I provide more detailed information on survey methodology in Section 3.1.

Qualitative data in the form of four in-depth interviews with social entrepreneurs were used in order to reveal their motivation to deliver public service, since the motivation is the crucial element of our theoretical framework (see Figure 2). Also, more information on the method and purpose of in-depth interviews is provided in Section 3.3.1. Finally, based on the empirical results, I draw my insights on the prospects of social enterprise sector development in Lithuania and in general in Central and Eastern Europe and give recommendations.

This empirical analysis contributes to the development of the discourse and debate on social entrepreneurship in Lithuania. Also, I analyze the social enterprise sector from a public policy point of view and what it means to apply the social enterprise concept in practical terms,

something that has not been discussed by Lithuanian scholars yet. I show how social enterprise concept fit into the future of public service delivery in Lithuania. Finally, I draw my insights of social enterprise development in Central and Eastern Europe based on the results of case study of Lithuania.

This thesis has a few limitations. Firstly, this thesis does not answer the question whether external providers deliver cheaper public service than public sector. Secondly, in this thesis the analysis examines the motivation only from the external provider's point of view. In order to draw more precise conclusions on the feasibility and prospects of public service externalization, it is necessary to interview local authorities who decide on public service delivery arrangement. Thirdly, the total sample of the survey consists of significantly smaller (10) and larger (38) groups of respondents that undermines the validity of comparison between them. However, the fact that the majority of social enterprises are at start-up phase explains why the number of respondents of Social Entrepreneurship Summit 2015 is small while the respondents of Local communities is a bigger group because these organizations are already established. Nevertheless, I argue that contrasting some findings within these groups reveal unexpected implications that are worth to discuss. Finally, due to the scope of this thesis, critical perspective on social enterprises was not overviewed but the topic is an interesting choice for further research in order to double-check how optimistic claims of social enterprises match with their real social impact.

CHAPTER 2. LEGISLATION ANALYSIS ON SOCIAL ENTERPRISES IN LITHUANIA IN 1991-2015

This chapter dwells on legislation analysis on social enterprises in Lithuania in 1991-2015 in order to enhance our understanding on the legal and administrative environment in which social enterprises operate. Kerlin (2010) who researched social enterprises globally states that social enterprise sector development is determined legal and administrative systems locally. Thus, legislation analysis is divided into two historical periods with the threshold of the year 2004 – namely, pre-EU accession and post-EU accession, which are known for major administrative reforms in Lithuania. Chapter 2 aims to identify the legislation changes in relation to social enterprises as these changes are likely to have similar pattern in other Central and Eastern European countries that joined EU in 2004.

2.1 Pre-EU Accession 1991-2004

Legal framework of social enterprises in Lithuania have been analyzed by Čižikienė and Čižikaitė (2012). Lithuania was one of the first new EU member states that adopted the Law on Social Enterprise in 2004. However, this Law adopted narrow definition of social enterprise that accounts only to the employment of disabled or other target groups, like prisoners. According to the Law, the social enterprise should meet the following conditions:

- an independent small or medium-sized enterprise meeting the requirements set for small and medium-sized businesses established in the Law on Small and Medium-Sized Business;
- employees classified as target groups account for at least 40% and there are at least 4 such employees.
- engaged in development of employees' working and social skills and social integration;
- income for activities not eligible for support account for not more than 20%.

As explained earlier in Section 1.1 the profit of social enterprise is reinvested to advance social mission, but the Law on Social Enterprises does not require that. As a result, the

narrow definition of the Law does not comply to the definition of social enterprise in this thesis. The definition of social enterprise in this thesis comprise the element of profit reinvestment into social mission. In order to address this discrepancy, in this thesis I am using the term 'social company' to refer to the entities recognized by the 2014 Law on Social Enterprise.

The Country Report (Gaušas, Suduiko and Balčiūnė, 2014) revealed that most stakeholders from public sector were not satisfied about social enterprise regulation in Lithuania, because of the constantly growing demand for public money. Article 13 of the Law sets out the types of state support that the social enterprise is eligible, e.g. partial compensation for wages and state social insurance contributions, grant for creation of jobs, adaptation of workplaces for the disabled, grants for trainings. Furthermore, such social enterprise of the disabled can receive additional State aid, e.g. subsidy for the adaptation of the work environment of disabled employees, subsidy for the reimbursement of additional administrative and transport expenses, and subsidy for the reimbursement of expenses on an assistant (sign language interpreter). "Despite its amendment in 2011, according to the most interviewees, the Law is still operating with some flaws mainly due to these reasons: (1) constantly growing number of supported employees in social enterprises determine growing demand for subsidies; (2) State support is distributed inadequately as only limited number of socially vulnerable group of people employed in social enterprises receive direct support" (Gausas, Suduiko, Balciune 2014).

The criticism towards this Law was also expressed in the discussions of the Social Entrepreneurship Summit 2015 on April 8-10 in Vilnius. Conference presenter Arūnas Survila pointed out existing inequality that social companies that are regulated by this Law are can get state and municipal property, however Public Enterprises or Foundations are not

eligible for such support. Another legal barrier is the Article 91 of the Law on Public Procurement, according to which all organizations participating in small scale public procurement must at least five percent of the whole amount should spend on social companies services. The opportunity here is to extend the Article 91 by allowing other Third sector organizations to participate in public procurement by selling their services in order to increase choice options.

2.2 Post- EU Accession 2004-2015

On 3rd April, 2015, the Minister of Economy of the Republic of Lithuania Evaldas Gustas, has signed the Conception of Social Entrepreneurship. The purpose of the Conception is to define the principles of social entrepreneurship and support its development. The content of the Conception complies to the European Commission Communication on the Creating a favorable climate for social enterprises, key stakeholders in the social economy and innovation COM(2011)682. However, The definition of social entrepreneurship establishes plural system of social entrepreneurship allowing both business and NGOs develop social enterprises.

Now when Lithuania has a definition of social enterprises, it is important to create social enterprise practices fitting the Lithuanian context the best. Approved Conception, will trigger mobilizing resources, both human and financial, to develop the field of social entrepreneurship in Lithuania. Lithuania as a late-comer to the field of social entrepreneurship can benefit using the expertise and experience of other countries, such as UK, Italy and France, that have already established support for social enterprises and developed the field. In this case, the government is in the best position to create clear catch-up strategies mobilizing all stakeholders, such as academia, NGOs and businesses. However,

the civil society including social entrepreneurs should not forget that their participation is extremely important now. Being more visible, social entrepreneur communities can work convince the government by showing what would be the benefits of developing social enterprise eco-systems in Lithuania.

In this chapter the legislation analysis on social enterprises revealed significant discrepancy between social enterprise concept in the literature review in Section 1.1 and the definition of social enterprise in the Law of 2014. The title the ‘Law on Social Enterprises’ is misleading and does not comply to the social entrepreneurship research and practice worldwide. Even though the Law helped to sustain the existing organizations of disabled in 2004, it is recommended to modify the title of the law replacing social enterprise term by ‘social company’.

CHAPTER 3: EMPIRICAL ANALYSIS OF THE POTENTIAL OF SOCIAL ENTERPRISES ENGAGEMENT IN PUBLIC SERVICES DELIVERY IN LITHUANIA

This chapter presents the findings of the empirical analysis of social enterprises in Lithuania. The case study of Lithuania is representative for the whole Central and Eastern European region. The method of the empirical analysis uses the mix of quantitative and qualitative data, derived from the online survey (48 responses) and in-depth interviews (4) with social entrepreneurs. The empirical analysis aims to evaluate the potential of social enterprise engagement in public services. Firstly, Section 3.2. provides some statistical information on ‘de-facto social enterprises’ in Lithuania extending the research presented in the 2014 European Commission report entitiled ‘A Map of Social Enterprises and Their Eco-Systems in Europe, Country Report: Lithuania’. It is important to note that this report was the first attempt to map the social enterprise sector in Lithuania. Secondly, Section 3.3 serves the purpose to test the theoretical framework offered by Alford and O’Flynn (see Figure 1) and reveal the motivation of social entrepreneurs to engage in public service delivery. Finally, in Section 3.4 this thesis provides some policy recommendations on how to improve social enterprise eco-systems.

3.1 Survey Methodology

Firstly, based on the findings of the survey, I map social enterprise sector in Lithuania describing their main characteristics in 3.1.1 section and evaluating the awareness of social enterprise concept by the respondents in 3.1.2 section. Secondly, in 3.2 section, based on both of the findings of the survey and in-depth interviews, I evaluate the factors influencing social enterprises contribution to public sector goals. I especially focus on motivation of social entrepreneurs to engage in public service delivery applying in-depth interview method.

The purpose of the survey stems from the fact that The European Commission published a report ‘A Map of Social Enterprises and their Eco-systems in Europe’ that provides the comprehensive image of social enterprises in Europe in 2014. As a consequence, the Country Report on Lithuania (2014) is the first and only attempt so far to map the characteristics of social enterprise sector in Lithuania. The Country Report on Lithuania (2014) distinguishes two groups of social enterprises: legally recognized social enterprises (as per Law on Social Enterprises) and ‘De-facto social enterprises’ (see Figure 1).

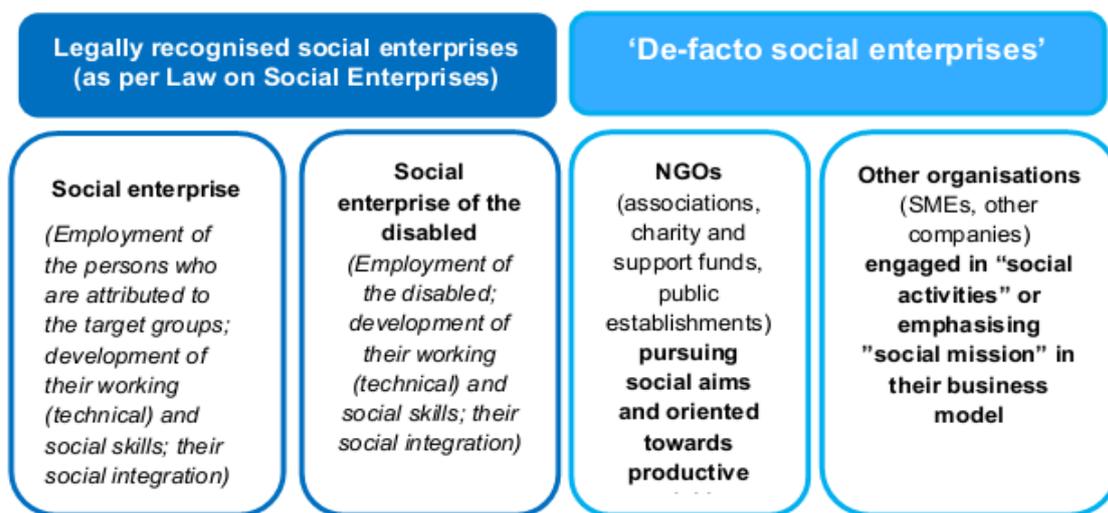


Figure 3. Results of Social Enterprises Mapping in Lithuania in 2014

Source: Data from Gaušas, Suduiko, and Balčiūnė 2014, 22.

The Country Report on Lithuania (2014) found that “[...] no research or other data is available on the nature, number and scope of these ‘*de facto* social enterprises’ which pursue social aims in their activities or are engaged in ‘social activities’ or emphasizing ‘social mission’ in their business model” (22). Taking into account that the social companies recognized by the Law on Social Enterprise (2004) do not comply with the broad definition of social enterprise, **this thesis aims to fill in the gap of missing data on ‘*de facto* social enterprises’ and map social enterprise sector in Lithuania applying online survey method to the target group – social entrepreneurs.**

Data has been collected through an online survey, using Pollmill.com platform, in April-May, 2015, in two stages. Firstly, the survey in English was disseminated to the participants of the Social Entrepreneurship Summit 2015 in Vilnius including the participants of the first social enterprise accelerator program ‘Socifaction’ through the participant database of the organizers (10 responses received). The sample is representative because the Social Entrepreneurship Summit gathers all stakeholders of social entrepreneurship in Lithuania, moreover, the biggest portion of the sample are local communities groups that have already developed or planning to develop local business activities. The sample of Rural communities was constructed from Lithuanian Communities’ Business Map¹. The opinion by the Interviewee 1 and Interviewee 3 is matching to the message of the Social Entrepreneurship Summit 2015 that Rural communities have the biggest potential to develop social enterprises, as they produce various crafts.

Dissemination of the survey for half of the sample worked as a pilot survey. The small rate of responses implied the respondent’s barrier to answer the questions in English. Also, a few technical flaws of the survey were identified by the feedback of the respondents that have been corrected². Secondly, the survey in Lithuanian language has been disseminated to the local development groups (38 responses received) that develop local community business initiatives.

The most striking result to emerge from the data is presented in Figure 1 that is the differences between the two respondents’ groups. Respondents belong to different generations (the absolute majority of Summit participants is aged up to 40, however, the

¹ The Lithuanian Communities Business Map has more than 80 community business examples. This map has been created under the initiative of participants of the program ‘Create for Lithuania’, Anyksciai district Municipality and the Anyksciai Business Information Center. Accessed June 1, 2015 <https://www.google.com/maps/d/viewer?mid=zQmEy1wbCKtQ.kXc6B35s7bAU>

² Multiple answer option was added to Question 18 of the Survey in Lithuanian. It is necessary to compare data of Question 18 to Question 19

absolute majority of respondents from local development groups is aged 40 and more. Thus, significant age gap among the respondents might be an important factor influencing the results of social enterprise mapping.

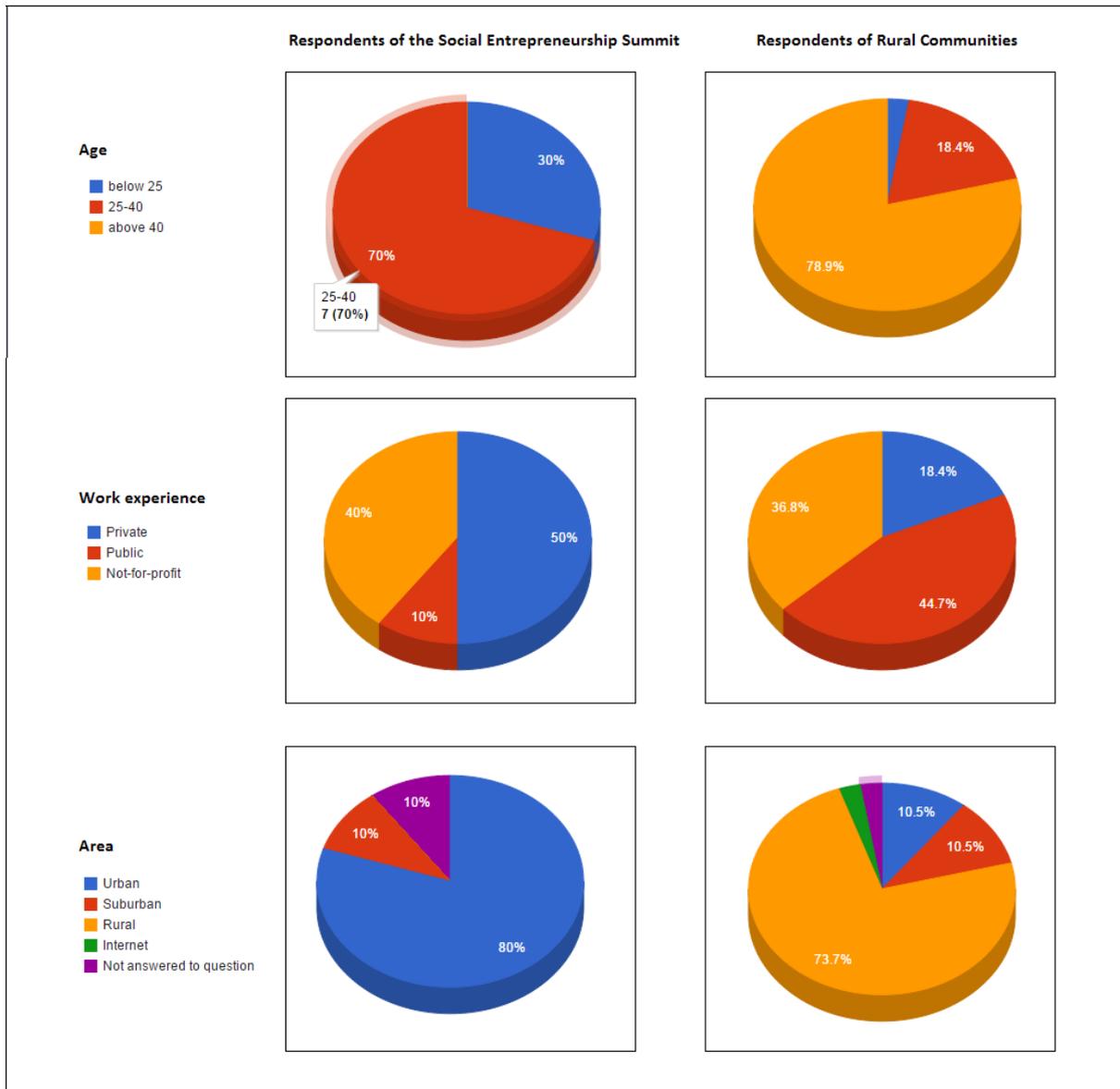


Figure 4. Differences Between Survey Respondents

Source: Author's creation based on the survey data.

Summing up, age gap, work experience and area of operation are the three major differences between the two survey samples. These factors – a) different generations, b) work experience and c) differences between urban and rural development - might have significant influence on social enterprise sector development in Lithuania. Therefore I continue the

analysis contrasting the answers of the respondents of Social Entrepreneurship Summit and the respondents of Rural communities and looking at how age, work experience of organization leaders and area where the organization mostly operates affect social enterprise development (see more 3.1.3).

The novelty of this thesis is that the data on ‘*de facto* social enterprises’ has been collected extending previous research on this topic in Lithuania. Naming the challenges for Lithuanian scholars, Greblikaite (2012) concluded that “[i]n the future the further research of entrepreneurship should be developed and might be useful for Lithuanian economics, supporting entrepreneurial enterprises, solving actual social questions, strengthening business positions in Lithuania seeking for competitiveness in global market” (214).

3.2 Mapping of Social Enterprise Sector in Lithuania

3.2.1 Characteristics of social enterprises in Lithuania

The survey shows that 35.8 % of the organizations run by respondents are NGOs with income generating activities, 27.3 % are traditional NGOs. 23.9 % of the respondents already describe their organization as a social enterprise. It is interesting to note the answer differences between two sample groups. 40 % of the respondents from the Summit identify their organizations as social enterprises or NGOs with income generating activities (40 %). However, the majority of local development groups are traditional NGOs (44.7 %) and only 7.9 % of identify themselves as social enterprise. The data implies that young leaders aged under 40 are the ones most likely to run social enterprises or NGOs with income generating activities. Thus, the attitude of the leaders of the organization towards NGO management is positive towards generating income. It also shows the trend that NGOs need to apply different management approaches in order to survive.

In terms of the size, 42.1 % of local community groups have more than 5 employees, however, 70 % of the respondent organizations from the Summit have less than 5 employees. The size of the organizations indicate that local development groups are well-established, traditional nonprofit organizations, while organizations that participated in the Summit are at their start-up stage and deals with diverse topics in urban areas.

Moreover, the survey clearly shows the difference between the activities of local development groups and organizations that took place in the Summit. Local development groups work in education (39.5 %) and social work (28.9 %). In contrast, 60 % the participants of the Summit are involved in other activities than social work or education such as human rights, democracy, child rights or arts and culture.

The absolute majority of social enterprise leaders in Lithuania who participated in the survey are women (72.4 %). This finding implies that social enterprises are an attractive form for females to engage in entrepreneurial activities. The empirical studies from foreign countries also reveal that the leadership of social enterprises usually belongs to women.

3.2.2 Awareness of social enterprise concept by respondents

In Chapter 1 the academic literature emphasizes confusion and no consensus towards a single definition of a social enterprise. Turning now to the empirical evidence on the awareness of the social enterprise concept by the practitioners in Lithuania, in total 88.7 % of respondents reported positive answer in response to Question 9 (clear to 50.3 % or somewhat clear to 38.4 %). In order to relate the definitions from the literature review (see Chapter 1) and practitioners' perceptions, both of survey respondents and interviewees were asked to describe what social enterprise meant to them. As Teasdale (2001) pointed out, social entrepreneurs use specific language that is very different from the language used by the Third sector before 1990s. I coded the most frequent phrases used by social entrepreneurs and

the result is presented in Table 1. In this way, I map social enterprise sector in Lithuania from practitioners' point of view. Such empirical analyzes based on grounded research method has been chosen as the most appropriate to apply for the phenomenon that has not been researched before, that is exactly the case of social enterprises in Lithuania.

Table 1. Frequency of Elements of Social Enterprise Definition by Respondents

Category	Frequency
Social impact/value to the society	9
Employment of social groups	7
Profit reinvestment to the activities /community/ society	6
Service provision (to elderly, disabled, etc.)	5
Competitive in the market	2
Financial sustainability	2
Socially responsible business	2

Source: Author's calculation based on coding results (see Appendix B).

A small number of respondents include the elements of competitiveness in the market and financial sustainability in their definitions of the social enterprise. One respondent stated that “social enterprise has no aim to make profit, the primary goal and (the whole drive) is to make positive social change” (see Appendix B). This result is influenced by the fact that the majority of respondents run non-profit organizations (63.1 %). As Interviewee 1 explained, “NGO activists usually lack of entrepreneurial skills, and entrepreneurs lack of understanding of social problems and passion” (see Appendix C). The leading organizations that develop social enterprises (see Chapter 1), emphasize financial sustainability and competitiveness in the market as the key elements of social enterprise. Moreover, the study in the US (Foster and Bradach 2005) revealed that “non-profits are launching earned-income ventures – with disappointing results” (92). The disadvantage of many social enterprises in the competitive market environment is conflicting priorities and lack of business perspective. These factors reduce the likelihood of a social enterprise to be profitable (92-98). Our data implies that

insufficient attention to financial sustainability and competitiveness by social entrepreneurs in Lithuania might be a risk to develop weakly performing businesses.

Table 1 also shows relatively high number (5) of respondents mentioning service provision to various social groups, e.g. elderly, disabled and etc. This element was exclusively found among the respondents of the Rural communities and shows the salience of such social issues. Interestingly, 2 respondents did not make a difference between socially responsible business and social enterprise. Indeed, the distinction between these two concepts is debated by both scientists and practitioners; therefore further research on this topic is necessary.

Finally, the majority of respondents were not familiar with the Conception on Social Entrepreneurship. This is understandable, as the Conception on Social Entrepreneurship was officially signed on 3rd April only a week before the survey and there were not enough time to get familiar with its the content. The Conception was presented in the “Forum on Social Entrepreneurship” on April 9-10 in Vilnius and hence, we can assume that the visibility of the Conception has since increased. As a result, awareness raising among various social entrepreneurship stakeholders is needed about the content of the Conception.

3.3 Factors Influencing Social Enterprise Contribution to Public Sector Goals in Lithuania

3.3.1 Motivation of social enterprises to deliver public service

As we have learned from the survey, public service delivery is an attractive field for respondents and they would be interested to deliver public service in partnership with government. Having got a positive result of respondents to deliver public service, we have got evidence that externalization of public service has a potential. In section 1.4 presenting Figure 2, I demonstrated that external parties’ willingness to contribute to public sector goals

is determined by their motivation. The motivation is external provider's personal attribute, thus I applied in-depth interview research method to capture the motivation of three social entrepreneurs who voluntarily provided their emails for an interview³. Following Alford and O'Flynn's method to evaluate external party's motivation, the questions were formulated to address a) material self-interest, b) intrinsic motivation, c) sociality and d) purposive values of a person (see Table 1).

Table 2. Method to Evaluate External Provider's Motivation to Deliver Public Services

Category	Question	Interviewees' Answers
a) Material self-interest	What tangible benefits would you expect from engagement to public service delivery?	Financially sustainable services Employment Career
b) Intrinsic motivation	What aspects of your work are you personally the most happy about? Could you share some examples?	Results Feedback from people Change inspiration Advocate for causes
c) Sociality	How does your community or peers accept your work? How much do they support or involve in activities?	Family and friends support e.g. financial, organizational, etc. Skeptics not always understand the essence of work Involvement of local community
d) Purposive values	What values or causes do you support? E.g. environment should be protected, poor people should be supported, terrorism should be defeated, etc.	Doing good for people Recycling Responsible production NGO and business partnership Participation

Source: Author's creation based on interviews.

The material self-interest is driven by financial sustainability by all interviewees even though the focus was slightly different, such as solving survival issue of the organization, creating financially sustainable business examples that help people, career prospects and

³ Interviewee 1 is not included into motivation analysis, because semi-structured interview in January provided general overview on social enterprises in Lithuania based on Interviewee 1 experience.

utilizing professional skills and experience. Even though the interviewees wish to be financially independent and think about their own employment opportunities, commitment to some higher purpose and inner drive also dominates:

I do not believe that I will earn money from these activities. There was a time when I had to choose whether to buy a good car for myself or to buy a modern car for our activities. I chose the second option. Maybe I regret or maybe not...no I do not regret. But anyway it is not my personal car. So, I know that it is not money that drives motivation (Interviewee 3).

Intrinsic motivation is driven by the factors that the interviewees are the most happy from their work. All interviewees indicated that achieving the result and getting positive feedback from people motivates the most. Ability to achieve tangible results shows the efficiency of their activities. Other factors such as opportunity to work with unique and sensitive topics that nobody else works on and a chance to advocate for specific causes were also mentioned by interviewees. Interviewees also gave examples how their work is inspiring changes in attitude:

“We have created some partnerships with business. I am happy that traditional businesses already understand the benefit of cooperation with social enterprises.” (Interviewee 4)

Psychology theories prove that the support from family, friends and community influences the motivation of the person. Each interviewee reported having both supporters and skeptics in their circles.

“I studied traditional business and communication. My classmates usually tell me that I am a philanthropist looking through pink lenses. However, now when they see that I make my living out of it, they changed their opinion. They think that it is cool and even suggest their help”. (Interviewee 4)

Nevertheless their organizations are well embedded in the community: local people actively participate in service delivery. Finally, all interviewees believe in the purposive

value of their activities. Interestingly, the answers revealed that they care and implement the principles of global causes in their work, for instance, recycling, environmental sustainability, responsible production and stakeholder partnership.

Summing up, the motivation of social entrepreneurs and the findings from the in-depth interview goes in line with the three types of social entrepreneurs – Social Bricoleur, Social Constructionist and Social Engineer – that have been identified by Zahra et al. (2009). Social Engineer type is common among Lithuanian social entrepreneurs due to their rhetorics to change the system of public service delivery.

In Lithuania in this area there has been thousands of barriers and I take it as a work that needs to be done (Interviewee 3),

Summing up, the data in Table 2 proves that social entrepreneurs engage in social entrepreneurship activities and public service delivery primarily driven by inner motivation to make people's life better and create beautiful things rather than self-interest. Earlier in Chapter 1 (Section 1.4) the importance for public managers to understand the motivation of external service providers has been explained. According to Alford and O'Flynn "[p]roviders contribute to public purposes for their own good reasons, including how they perceive interventions government agencies make. In the end, provision by external parties is difficult to sustain unless there is at least some voluntary impulse informing and animating their performance" (p. 82). In-depth interviews have proven that the voluntary impulse is a shared feature of the social entrepreneurs in Lithuania. This fact suggests that the externalization to social enterprises may be successful, since they are capable to ensure long-term and sustainable public service provision due to existing voluntary impulse and motivation of their leaders.

3.3.2 Obstacles for social enterprises to contribute to public sector goals

As this thesis uses Figure 2 as a theoretical model to answer the main research question how social enterprises change public service delivery system in Lithuania, the data of empirical analysis revealed a few obstacles that might negatively influence social enterprise's behavior to contribute to public sector goals.

Answers to Question 17 of the survey revealed that the government does not use any motivators and facilitators to encourage external providers to deliver public service. As explained earlier in section 1.4, the willingness of external provider to deliver public service depends on two elements – the motivation of a social entrepreneur and the motivators used by public agencies. In total 64.5 % of survey respondents did not know any examples of the government motivating or facilitating external providers. It means that the absence of motivators may cause externalization failure from the side of the public sector regardless of how high motivation of social entrepreneurs might be. Moreover, the facilitators – they are also a missing element in the scheme – influence the ability of the social enterprises as external providers to deliver the service. As explained in 1.4 section by Alford and O'Flynn model, various difficulties that make the delivery of service and performance inconvenient highly influence the ability of external provider to deliver the service. The in-depth interviews helped to capture a few examples of obstacles that social entrepreneurs encounter cooperating with the public sector in Lithuania.

Firstly, one of the serious obstacles is corruption and lack of transparency that was witnessed by the Interviewees:

EU support ends in 2020. It is a visible system that there is a group of politicians who seek to abuse available funds for their personal gain. Everybody knows about lack of transparency. If you want to win the service delivery project, you have to buy project writing service from the agency that

is loyal to the government and pay back certain percentage from received grant. Corruption distorts the whole system and if you apply transparent work methods, you are thrown out of this whole machine (Interviewee 2).

Patterns of corruption and conflict of interests in the system complicates externalization of public service delivery. Moreover, the issue of the ‘project class’ that the Interviewee 2 mentioned, shows the flaws of Project Management Approach distributing public funds.

Favoritism towards certain NGOs has been reported by Interviewee 3. It means that unequal distribution of funds among different organisations is a bad practice exercised by the public sector.

One municipality tried to eliminate us from the competition to deliver service for two years. The competence of evaluators was very low. Our application was rejected for unclear reasons. The thing was that the money used to go for the salaries of NGOs that were old friends of municipality. Our applications were rejected due to unwillingness to divide the money. However, when our application was finally accepted, the conditions to deliver service were not covering the expenses. Normal business would not take such deal. Now this service is risky, its expenses are not covered, we have to compensate from other projects (Interviewee 3).

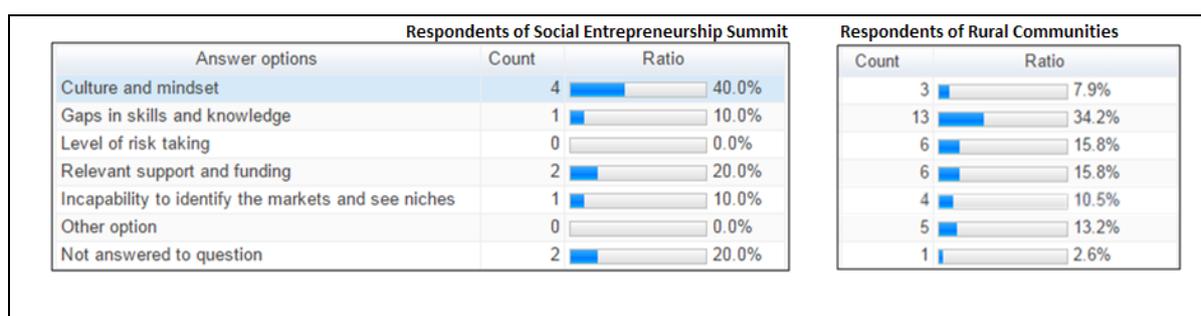
Summing up, the patterns of corruption, lack of transparency, conflicts of interests and favoritism are serious accusations towards public sector and it implies that further research is necessary, especially examining concrete cases.

Secondly, the survey revealed that some obstacles are related to different attitudes between generations on the topic of social enterprise and public sector cooperation. The findings imply that youth is disadvantaged to engage in public service delivery and offer alternative services (see Table 3). I highlight the most interesting findings from comparison of answers between two respondent groups in response to Questions 13-19 on the topic of social enterprise and public sector cooperation. The results of the survey show that the respondents

of the Social Entrepreneurship Summit and the respondents of Rural communities express different attitude towards social enterprises and public sector cooperation that, I assume, are clearly influenced by the factors earlier indicated in Figure 2.

According to the respondents of Social Entrepreneurship Summit, the role of the government to develop social entrepreneurship is to be a partner (60 %), while provision of funding is important only to 10 % of respondents. However, rural communities emphasize the role of providing funding (34.2 %), partner (31.6 %), co-producer of public service (26.3 %). Even though both of the respondents of Social Entrepreneurship Summit and respondents of Rural communities think that the public sector should be a partner developing social entrepreneurship, from their experience they perceive different obstacles for social enterprise and public sector cooperation. As Table 1 indicates, respondents of Social Entrepreneurship Summit see culture and mindset (40 %) while respondents of Rural communities see gaps in skills and knowledge (34.2 %) as the main obstacle for social enterprise and public sector cooperation.

Table 3. Obstacles for Social enterprise and Public Sector Cooperation From Respondents' Experience in Lithuania



Source: Author's creation based on the survey data.

As discovered earlier in section 3.1.1, younger respondents (up to 40 years old) engaged in more diverse than education or social work activities, therefore even 40 % of them experience culture and mindset as an obstacle. Belonging to the older generation, the respondents of Rural communities indicate obstacles that usually occur in any professional

work. However, the fact that high number of respondents (13) point out gaps in skills and knowledge, imply lack of confidence in themselves and the public sector. Among the answers respondents who chose other option (5), they mentioned bureaucracy and all mentioned obstacles prevent cooperation with public sector. The findings imply that younger respondents perceive cooperation with public sector and public service delivery somehow differently and that attitudes do not match because of culture and mindset that is determined by different life experience.

Thirdly, the obstacle that also highly affects social enterprise ability to engage in public service delivery is quite strong insecurity to build financially sustainable business. The data in Table 1 and interviews imply that there is little belief that it is possible to build financially sustainable social enterprise models; hence respondents focus on mission and social values in their language (discourse) as it is a common pattern in nonprofit sector. In such case, the contribution of the public sector is necessary:

We want to engage in public service delivery and it is very important that the government contributes as a partner. Government has a shared financial responsibility what situation is in Lithuania and what services are provided here. However, social policy and its financing are very much affected by political changes in Lithuania (Interviewee 2).

However, it is important to find adequate support method:

Government support usually does not help but damage everything. Government should give freedom and understand the matter but not to regulate. Bad practice of the Ministry of Social Security and Labor is that it gives funding and no support at all. It leaves all implementation for NGOs, imposing high expectations and difficult reporting system (Interviewee 1).

Based on the opinion of Interviewee 1, non-material support is needed as much as material. Non-material support is extremely necessary for innovative businesses to increase their potential to generate profit and not to rely on donations. I see likelihood that there is a

correlation between the opinion of Interviewee 1 and the findings of Table 1. Social entrepreneurs that engage in various activities, e.g. that are not perceived as standard public services provided by the public sector, experience non-material obstacles, such as culture and mindset that outweigh financial needs. The relationship between these findings and the fact that the public sector does not use any motivators and facilitators implies that public managers can wrongly evaluate the potential of some innovative social enterprises to deliver public service just because of their culture and mindset that undermines the change of public service in Lithuania.

3.4 Potential of Social Enterprises Engagement in Public Services Delivery in Lithuania with Policy Recommendations

The results of the survey revealed the paradox that the majority of social enterprises sees the public sector as a partner to develop social enterprises but choose outsourcing as the most suitable form for interaction when, in fact, it is the least cooperative arrangement. Although the respondents seek partnering, they engage in the outsourcing that is built on a principle-agent relationship. In outsourcing the role of the government is to define the problem and provide the solution how it should be solved, but does not encourage citizens to give their voice. Thus, current public service delivery system in Lithuania is driven by public sector solutions and lacks of citizen-centric approach that I presented in Section 1.2.

This paradox might be explained by the trust deficit and transparency issue, which was witnessed by the Interviewees. It is important for the Third sector organizations to build relationships among each other and also with governments. “Sometimes collaborations with government might not be in an NGO’s interest if the government does not have citizen’s trust or if the government is oppressive or corrupt” (Binder-Aviles 2012, 63). The empirical analysis confirmed that without trust, shared goals and mutual benefit partnership is very

weak. As a result, non-cooperation trap between the Third sector organizations and the public sector produce socially inefficient outcomes that does not help them to accomplish their missions. The paradox stemming from empirical data on social enterprises in Lithuania corresponds to the conclusions of well-known studies by Putnam (1993) and Fukuyama (1995) that “argue that trust or social capital determines the performance of a society’s organizations” (La Porta et al. 1997, 310).

Empirical analysis have shown that social enterprises have a potential to deliver individual services that better correspond to the needs of a person. As a result, private providers are better to produce private goods. However, the majority of social services are quazi-public goods and services. Our empirical analysis revealed that social enterprises produce quazi-public goods and services, e. g. education, healthcare, etc. It is very rational for the government to support the provision of quazi-public goods and ensure that they are provided sufficiently in quantity and quality (Aly 2009). The argument that the government has to contribute financially for some social services was expressed by Interviewee 2 in the previous section.

Policy recommendations:

- Consider externalization as an option where an external provider can fill gaps where public sector have difficulties reaching, e.g. social services. Externalization is neither good nor bad; the decision whether to produce the service in-house or externalize depends on an individual situation and circumstances but benefits should always outweigh the costs bringing value to the public. Therefore I suggest that public sector should carefully evaluate the benefits, which according to Cohen and Eimicke (2008) can be related to service (efficiency, effectiveness, equity, quality), relationships

(clarifying the relationship, solidarity), and strategy (organizational focus, political benefits, risk allocation).

- In the externalized public service cases, the public sector is encouraged to use incentive tools – motivators and facilitators, which should match the motivation of external providers, as discussed earlier in Section 1.4. Our analysis revealed that social entrepreneurs in Lithuania are characterized having public-spirited motivational base, therefore it is feasible to design more collaborative and citizen-centric public service delivery system.
- The public sector should consider solutions to reduce the implications of abstract obstacles, such as culture and mindset differences between generations in order to ensure youth access to employment in social policy field to avoid stagnation of the sector.

CONCLUSION

EU has been concerned about economic issues since its creation, but since the 1970s it also strives to create a European social model in order to address growing disparities between economic and social development. In 2011 social economy got a new impulse in Europe when the European Commission announced the Communication for Social Entrepreneurship that introduced the European version of social enterprise definition and set the guidelines for the development of the social enterprise sector. Social economy development will be a priority of the European Economic and Social Committee that will work to integrate social economy dimension into the post 2015 development agenda. On 1st October, 2014 in the conference “Social Economy And Social Innovation as Drivers of Competitiveness, Growth and Social Well-Being” in Brussels this trend highlighted by the concluding remarks: “[t]here was unanimity that the main priority for the Commission is to adopt a Social Business Initiative (SBI) II, which would address and promote all types of social economy enterprises, in a holistic way and create the right policy, financial and legal ecosystem” (European Economic and Social Committee 2015).

The empirical analysis have shown that externalization of public service has potential in Lithuania, because the social entrepreneurs see the public service delivery in partnership with public sector as an attractive field to work. Secondly, externalization is likely to be successful, since the social enterprises are capable are capable to ensure long-term and sustainable service provision due to their voluntary impulse and inner motivation rather than self-interest. Social enterprises have a potential to change public service delivery system in Lithuania into more decentralized by offering alternative services, individualized approach, embeddedness in the community. However, the externalization project might be troubled by obstacles in the legal and administrative system. For instance, the ability and willingness of a

social enterprise to contribute to the public sector goal is negatively influenced by corruption and lack of transparency, absence of motivators or facilitators (failure from public sector side), attitude differences between generations (culture, mindset), and little belief that it is possible to build sustainable business models.

Summing up, social economy in EU is understood as a tool to foster entrepreneurship and solve social problems developing “more social” business models. Consequently, social enterprise concept due to its hybridity is able to address conflicting goals such as entrepreneurship and social issue solutions. It is a good window of opportunity for Central and Eastern European countries to review and update their policies on social economy organizations and draw the vision of the Third sector development, which has been quite abandoned throughout the years. Traditional nonprofit organizations are small, weak and suffer from project dependency. Social enterprise concept suggests that non-profits can solve funding problem by entrepreneurial activities. According to Klein (2015), “[s]olving major social problems is now possible, but not unless the organizations that have been most responsible for making a difference change significantly.” The idea of Klein (2015) sets the direction for the Third sector development. Social change is only possible with the mutual collaboration of corporations, civil society and governments, as any sector alone cannot solve the challenges of today.

This thesis argues that externalization is neither good nor bad. Sceptics would claim that there is a risk of fragmentation of public services. However, in Lithuania the option of externalization is often rejected and the benefits of it are underestimated due to knowledge and skills gap or various prejudice. The empirical analysis revealed that the risk of unsuccessful externalization is corruption that results in trust deficit. This finding corresponds to the previous research that trust affects the performance of governments and any other large

organizations (La Porta et al. 1997, 320). Summing up, it also proved our hypothesis that cross-sector cooperation in Central and Eastern Europe usually fails because of trust.

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Appendices

Appendix A: Survey Questionnaire

- Your gender?

1. Male
2. Female

What is your age?

1. below 25
2. 25-40
3. above 40

- What sector do you have your main professional experience from?

1. Private
2. Public
3. Not-for-profit

- What of the following do you think best characterize your organization?

1. Traditional Non-profit
2. Non-profit with income generating activities
3. Social enterprise
4. Socially responsible business
5. Corporation practicing social responsibility
6. Traditional for-profit organization

- What field is your organization most active in?

1. Education
2. Environment
3. Social work
4. Health
5.

- What is the size of your organization?

1. 1 employee
 2. 2-5 employees
 3. more than 5 employees
- How long ago was your organization involved in activities making social impact?
 1. less than 1 year
 2. 1-3 years
 3. more than 3 years ago
 4. considering it in the near future
 5. never
 - Which of the following best describes the area that your organization operates in?
 1. Urban
 2. Suburban
 3. Rural
 4. Internet
 - How clear is social enterprise concept to you?
 1. Clear
 2. Somewhat clear
 3. Somewhat unclear
 4. Unclear
 - How do you understand the concept of social enterprise? Describe in a few sentences what 'social enterprise' means to you?
 - Are you aware of the content of the newly developed Conception of Social Entrepreneurship in Lithuania? If yes, do you support it?
 1. Yes
 2. More yes than no
 3. More no than yes
 4. I don't know
 5. I am not familiar with the conception
 - What do you think is the main role of government in developing social entrepreneurship?

1. Providing funding
2. Partner
3. Co-producer of public service
4. Other

- What do you think is the main barrier for social enterprise development in Lithuania?

1. Legal framework
2. Funding
3. Public procurement
4. All
5.

- From your experience, what are the obstacles for social enterprise and public sector cooperation in Lithuania?

1. Culture and mindset
2. Gaps in skills and knowledge
3. Level of risk taking
4. Relevant support and funding
5. Incapability to identify the markets and see niches
6.

- How does your enterprise interact with government?

1. Applies for funding
2. Consult for various issues
3.

- Does public service (transportation, health, social, etc.) delivery looks attractive field to your organization?

1. Yes
2. No
3. More yes than no
4. More no than yes
5. I don't know

- Would you be interested to deliver such services in partnership with government?

1. Yes
2. More yes than no
3. More no than yes
4. No
5. I don't know

• Have you heard any examples of government motivating or facilitating external providers to deliver public service?

1. Yes
2. More yes than no
3. More no than yes
4. No

• What type of arrangement of public service delivery are you familiar with?

1. Outsourcing
2. Partnering
3. Volunteering
4. Regulatory
5. Client co-production
6. Multiparty networks
7. I am not familiar

• What type of arrangement of public service delivery would be the most attractive for your organization?

1. Outsourcing
2. Partnering
3. Volunteering
4. Regulatory
5. Client co-production
6. Multiparty networks
7. I am not sure

Appendix B: Social Enterprise Definitions by Respondents

Survey respondents⁴
Sustainable, social impact , social cohesion
Achieving social impact with business methods.
A social enterprise, just as any other business strives to achieve the best possible results and uses innovative, creative ways to create and sell its services or products. Only here "best possible results" is not only income, but social impact . The second difference is that it reinvests all the profit (if there is any) back to the organization, to the social impact it creates, but not pays off dividends to shareholders.
To have a company that is earning money, but gives additional value to the local society - by cleaning up, developing public spaces or donating money for charity.
The core of social enterprise - just as the theme of the last week's event - "Making good deeds profitable". Social Enterprise practice operates in the market providing/ producing services /products that are of financial value themselves - possess professionalism of production/service delivery process, quality or product/service, and they are competitive in the market - but at the same time the outcome/process of such business includes social element (it normally makes it more competitive too) which relates to aspiration for good - i.e. changing the world, making people's life better: safer, healthier, happier, etc.
Social enterprise - the one that solves social problems by business model means and so creates social value , by having financial stability , as it also manages to create economic value. Although profit is invested in expansion , rather than dedicated to shareholders.
Business that creates value for certain society members and solves certain social problem. At the same time it is socially responsible and earned profit invests to further activities .
Enterprise which solves social issue.
Business whose result is given for the society . Business that does not seek benefit for business owner, but it reinvests earned income to solve various issues existing in the society.
Business with "an idea". The goal is not only profit but do something good and beautiful by these activities.
Social business is when the strategy of the organization is based on social goals. The main goal of social business is to create value for the society.
Our community includes local inhabitants in its enterprise activities; much attention is paid to youth. Earned income is distributed to various ongoing affairs, but the biggest share goes to herb pickers. They are paid significantly more for picked herbs. Also, we try to include the youth in our activities; in this way we address youth employment question.
Service provision to certain society groups: retired, disabled, unemployed.
Social enterprise – by my understanding, is a business form whose participants – individuals or a gathering – create employment places for themselves, but the fruits of this work are necessary for the wide society. Social business develops personal initiatives of individuals.
Social business – for example, domestic service provision to elderly, disabled, free time services (clubs, self-learning, etc.)
It is related to the activities of social groups .
Social business organizations are a part of social economy. They exist seeking valuable goals for the society and problem solution (social, societal, environmental) and they are not concentrated only on profit generation. They employ socially excluded groups of society. Our foundation seeks to have financially sustainable and vital business model that would be capable to generate the major share (or not more than 50 %) of income by commercial activity. In Lithuania it is very difficult to achieve

⁴ Definitions provided in Lithuanian has been translated into English by the author. The language of the respondents and interviewees is used in the original version and has not been edited.

this...
Social business delivers the service and solves important problems, using profit not for shareholders but for improvement of everyday activities.
Social business to me means the development of socially responsible business that helps to improve community welfare and has responsible attitude towards the consumers of our product (highest quality, long-term attitude). The business is not only the business of the “Boss” but also the concern of all employees.
Social business is a business form bottom- up. The biggest share of earned profit returns to community fund for reduction of further social exclusion and social inequality.
Deliver public service that the state would buy from social services providers. For this purpose, new employment places would be created in the community.
When officially unemployed, various age inhabitants work together in the same direction and earn income (irregular).
Interviewees
Social enterprise solves critical society issues with the help of community, in partnership with businesses and support of the state. It is an organization or a group of people who solve the issue locally, e.g. drug or alcohol addiction.

Appendix C: Interviews

Information about conducted interviews⁵

	Interviewee 1	Interviewee 2	Interviewee 3	Interviewee 4
Position	Regional Manager of NGO	Director of NGO	Program Coordinator of Social Enterprise	Program Coordinator of Social Enterprise
Type	Semi-structured	Structured	Structured	Structured
Date	January, 2015	19 May, 2015	19 May, 2015	20 May, 2015
Duration	30 min	35 min	45 min	30 min

Semi-structured interview transcript

1. What is the current situation of the Conception of Social Entrepreneurship?

The draft is finished and it will be adopted very soon. Now the most important question is who will sign the Conception - The Ministry of Social Security and Labor or the Ministry of Economy (preferably the Ministry of Economy).

2. From your experience, could you describe what is going on in social enterprise sector in Lithuania?

⁵ In order to ensure full anonymity of respondents and interviewees the information that might violate their anonymity (organization name, etc.) has been removed or changed into a neutral form, e.g. instead the organization name neutral word ‘organization’ is used.

Social enterprises (hereinafter - SE) are underdeveloped by both non-profit and for-profit sector. There is lack of information about SE model, lack of people who would be capable to create and run SE. NGO activists usually lack of entrepreneurial skills, and entrepreneurs lack of understanding of social problems and passion. We need education and training about SE. There are no people who are able to start social enterprises: the circle of activists is clearly defined.

There are niches for SE in the market but in some cases NGO model works more effectively. E.g. [the organization] was a small and profitable enterprise but there is no need to have such a shop in Lithuania because [the organization] manages similar activity very well, has an established brand and the solid budget due to developed fundraising activities (the budget of the shop did not reach 20 % of „Food Bank“ budget). However, SE model is effective for integration of marginalized people, because social integration programs are expensive for governments to maintain and SE model is more sustainable. E.g. Mano Guru works for 10 years. SE „Sekmes mokykla“⁶- 50 % of budget is participation fees and NGO „Kitas variantas“ - for free (criticize Sekmes mokykla for collecting fees). In long term „Sekmes mokykla“ has more chances to survive in the market. SE and NGO solves the same problems but using different methods. E.g. Aukok.lt is transforming from NGO to SE, they have social influence and income. They introduced 7 % service fee from fundraised amount and clients trust them. There were similar initiatives (Pagalba reklama, but they shut down). E.g. charity canteen in Vilnius was effective and efficient project. Both NGO (the provider) benefits and municipality (cheaper service offered by NGO, because they use foodwaste). General understanding of the matter is needed from local governments. European Commission's position is to support equal chances for SE to participate in procurements. However, social economy organizations (cooperatives and credit unions) – do not work as original concept, because stakeholders do not care about decisions but use it as banking service. Also, social companies (employ disabled) – don't reinvest money in their mission.

3. Does any social enterprise database or a list exist in Lithuania?

It is very hard to make distinctions; it is a debate (VŠĮ – NVO, sport associations, associations, government enterprises, etc.) You have to take a record from Registry and look at the activities of each organization (20 000 organizations). SE = VŠĮ but in SE volunteers and staff influence decisions, in VŠĮ director makes decisions.

4. Can NGOs or SE deliver public services?

Yes, NGOs will take over some services, however there are process barriers and procurement procedures. We have to look what NGOs in LT are well-developed and have expertise. E.g. Food Bank the champion in food waste, Save the Children Lithuania – daily child care centers, Caritas – important services. Local authority groups have serious potential to develop SE because they create crafts, etc.

⁶ The names of organizations have been kept in this passage as they are not violating the anonymity of the interviewee.

5. Is there any social enterprise model that Lithuania can replicate from abroad?

It is crucial to understand local market.

6. What support does SE need from the government?

Support usually does not help but destroy everything. Government should give freedom and understand the matter but not to regulate. For example, the Ministry of Social Security and Labor has a bad practice that it gives funding and no support at all. It leaves all implementation for NGOs, imposing high expectations, and difficult reporting system.

Structured interview questionnaire: motivation of social enterprises to engage in public service delivery⁷

1. Could you briefly introduce your organization and its main activities?
2. Is your organization interested in developing a social enterprise? How would you define a social enterprise?
3. What is public service to you? How does the activity of your organization contribute to the public good?
4. What tangible benefits would you expect from engagement to public service delivery? Some free or discounted services, etc.
5. What aspects of your work are you personally the most happy about? Could you share some examples?
6. How does your community or peers accept your work? How much do they support or involve in activities?
7. What values or causes do you support? E.g. environment should be protected, poor people should be supported, terrorism should be defeated, etc.
8. What makes it difficult for external providers to cooperate with public sector in Lithuania? Could you give examples from your experience?
9. In your opinion, in what way do social enterprises change public service system in Lithuania?

⁷ Interviews have been conducted in Lithuanian and all translations are the author's unless otherwise indicated.