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**Conference Paper**

## Sustainability of social enterprises in the post-pandemic world: Business lessons learned

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*Suggested Citation:* Chichevaliev, Stefan (2021) : Sustainability of social enterprises in the post-pandemic world: Business lessons learned, University American College Skopje, Skopje, pp. 43-54, <https://doi.org/10.5281/zenodo.7288374>

This Version is available at:

<https://hdl.handle.net/10419/302818>

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# SUSTAINABILITY OF SOCIAL ENTERPRISES IN THE POST-PANDEMIC WORLD: BUSINESS LESSONS LEARNED

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**ABSTRACT:** Social entrepreneurship gradually becomes a priority choice for international organizations, financial partners and other players on the market in terms of investment and doing business while achieving a social purpose. Covid-19 has increased the recognition of social entrepreneurs as advocates for change which contribute to the mitigation of the impact of the pandemic and the increased efforts to build back better towards a resilient recovery.

However, social enterprises need a conducive business environment to thrive and fulfil their potential. The business dimension is one of the key factors for development of social entrepreneurship. The business environment in which social enterprises operate is a transversal topic in terms of policy, stakeholders and social outcomes. Conducive business environment fosters early entrepreneurial activity and access and engagement of social entrepreneurs on the market which present the prerequisite for development of the sector.

This paper presents the results related to the business dimension from broader holistic research of the macro-environment conducted in the period October - December 2019 and a follow up a year later. Qualitative methodology was used, through conducting interviews with social entrepreneurs and key stakeholders, combined with document analysis to provide an insight into the business challenges and needs of social enterprises in North Macedonia. The evidence showed that access to market and funding, room for innovation, collaboration with the business sector and lack of public and customer recognition are some of the crucial issues for the development of social entrepreneurship in the country. The country's current business scenery is not enabling for traditional businesses which makes it even more perplexing for social enterprises. Social enterprises need conducive policies that facilitate business operations, but also empower intersectoral partnerships and collaboration.

**KEYWORDS:** *social entrepreneurship, ecosystem, business, key factors, post pandemic, sustainability, policies, social entrepreneurs*

## INTRODUCTION

Covid-19 has struck the world without any particular warning, spreading fast making a devastating effect on a global scale. The past year crumbled the global economy, countries' social and health systems, people's lives and had a devastating and demoralizing effect for future generations. These effects have expedited the need for a new economic model that can bring change on the global agenda, assuring sustainable development and providing innovative solutions on every level.

Social Entrepreneurship has been developing around the world for the last 30 years. Its effects can be found in a wide range of sectors including social, economic and environmental areas that affect the quality of life of the people in general, not just vulnerable populations. As a new economic model, social entrepreneurship has reached the stage where it is not a peripheral notion or field, but it is seen as a potential way to shift the global economic mindset, revitalize social and health systems and help governments to mitigate a plead of social, economic and environmental challenges. Although this seemed far-fetched in the 'old world', the pandemic has shown how fragile economic and social systems are and how easy they can crumble leaving millions of people behind.

These developments have skyrocketed the importance of the field and social enterprises as agents for change. Global alliances, the European Union, and many international organizations have been focusing on developing the ecosystem for social enterprises increasing its position on the global agenda (OECD, 2015; EC, 2021).

During the pandemic, social enterprises in many countries played a crucial role in mitigating the Covid-19 effects on the population, providing a range of services

directed at improving their quality of life. The case of North Macedonia is no different. Social enterprises have been side by side with local and national authorities providing key support to vulnerable populations, especially the poor and elderly. Seeing these effects, the country has also put the development of social entrepreneurship higher on the political agenda.

To showcase this, the country has been focusing on developing the first National Strategy for Development of Social Enterprises in the Republic of North Macedonia, together with an Action Plan that will foster activities in that direction. This has been noticed by the relevant stakeholders, especially those who are involved in the sector, as momentum to develop the ecosystem for social enterprise and provide a new economic model of the future.

This paper touches upon two research periods, pre and post-pandemic, showcases the sustainability challenges faced by social enterprises and entrepreneurs and provides business lessons learned during these troubled times.

## THE NEED FOR A CONDUCIVE BUSINESS ENVIRONMENT FOR SUSTAINABILITY OF SOCIAL ENTERPRISES

The business environment term is interchangeably used with business ecosystem. Different definitions have been known and presented in the literature such as the interaction of stakeholders for economic goals (Moore, 1993), interrelated stakeholders (Peltoniemi and Vuori, 2004), to the view of Teece (2007, p.1325) of the business environment as "community of organizations, institutions and individuals that impact the enterprise and the enterprise's customers and suppliers." The business environment (BE) is a system; a network of micro ecosystems mutually connected that pave the way of its direction and

influence businesses everywhere. It is a complex system that involves a lot of elements such as strategy, innovation, supply networks, spin-offs, collaboration, policy making and sustainability among others (Gupta et al., 2019). In addition to the aforementioned views, Koenig (2013) argues that there is not only one type of ecosystem but a variety of them.

Considering that social enterprises are double-burdened by their nature, trying to achieve both social and commercial goals, there is no accident that two strings of thought have been identified in the early days of social entrepreneurship development. One string highlights the social change creation (Dees, 1998), and the other, the commercial sustainability and viability of the organization to achieve income and profit and achieve their social goals (Boschee, 2001). But this practice also depends on the environment.

What influences the development of the business ecosystem has been mostly researched based on the relationship between one environmental factor (e.g. institutional factors) and the development of an ecosystem, although in the last 10 years, it has been argued that the ecosystem has been affected by multiple factors across sectors such as the political, legal, financial, institutional and socio-cultural environment (Bloom & Dees, 2008; Poon, 2011). And this is also true for the development of a conducive social entrepreneurship ecosystem. A prerequisite for such ecosystem that fosters social change with the use of business models is the conducive business environment. It is a complex mechanism that involves politics, administration, economy, markets and financing, culture, infrastructure and geography (Bloom & Dees, 2008). The first step toward a better business environment is through policies and regulation. National policies either facilitate or hinder the process. There is

no status quo. The same applies to regulation. It is necessary to enable business development and promote business activities. The second step is the culture of the country whether entrepreneurship is widely accepted or not which are also seen as opportunities to get involved in business. The add-on is the social factor which is measured by the focus and attention on socio-economic challenges involving social inclusion, poverty, unemployment and others. This relates to people involving in social entrepreneurship and its activity. The third step is institutional support which is the canon that launches the enterprises, especially social ones into the market, often being the key requirement (Poon, 2011). The need for a conducive business environment as a prerequisite for the development of the social entrepreneurship ecosystem is also argued by Austin et al. (2006). They state that the business environment for commercial enterprises is overlapping with the social entrepreneurship ecosystem and presents a concrete basis for its development.

Given that our focus is the development of a business environment conducive for social enterprises, we include a fourth step which is vital for the promotion of the sector that is funding. It consists of available sources of funding and access to them. Austin et al (2006) state that social enterprises are often reliant on different funding schemes and have difficulties steering on the market, mostly because they are focused on achieving their social mission which can also be their key component for attracting capital.

Besides the environmental factors, Bloom & Dees (2008) argue that there are also internal factors which are consisted of the players in the ecosystem such as competitors, partners, beneficiaries, bystanders, problem makers, etc. We also explore these factors in this paper through the lenses of the actors in the

ecosystem i.e., social enterprises and entrepreneurs.

Social entrepreneurship ecosystem is dependent on the business environment and the market fluctuations. It is considered that the active market facilitates the idea of social entrepreneurship and adding the social to the entrepreneurial intentions.

The biggest challenge is whether the environment the social enterprises operate in is enabling (Marquardt, 2013). Provision of resources, adequate regulation and support is a precondition for the sustainability of the social enterprises. If the requirements are too high and strict for emerging social enterprises, their sustainability is put on risk and without it, it will eventually collapse.

## METHODOLOGY

Exploring the business environment in the context of social enterprise and its sustainability requires utilizing a holistic point of view to provide data on both the environmental and individual factors. To be able to identify, analyze, and evaluate the level of conduciveness of the business environment, and the change in business operations of the social enterprises, we needed to analyze the situation before the pandemic and post-pandemic.

For this purpose, we used qualitative methodology. We used semi-structured interviews with social enterprises and entrepreneurs to recognize and identify patterns between the periods. It provided us with their views and perception of the business environment, the organizational challenges they faced and how they were bridged, but most of all what are the business lessons they have learned during the period of December 2019 and September – October 2020.

Given the complexity of the business ecosystem and its components, we focused on

the identified factors from the literature including political, legal, institutional and financial determinants. On individual level we were focusing on the changes in the business operations of the social enterprises and developed practices which lead to business lessons learned.

## SAMPLE

Our objective was to have a sample with social entrepreneurship understanding, its development and the contemporary ecosystem. We used purposive and snowball sampling as a method that allowed us to identify and contact a small group of people and then to contact others. We started with purposive sampling (the first three interviews) and then applied the snowball approach to gather various data related to social enterprises' sustainability.

We clustered the interviewees into two groups – social entrepreneurs and employees of social enterprises and key stakeholders. We interviewed six social entrepreneurs, two employees of social enterprises and 2 key stakeholders (academia and support organization for social enterprises). This selection provided us with a view on different aspects of the business environment and the sustainability of social enterprises.

## ANALYSIS

During the research phase, we audio-recorded the interviews and gathered notes. We developed the identified concepts on the field and coded them accordingly. We used the Text Analysis Mark-up System, a qualitative coding and analysis program, mostly known as TAMS Analyzer. It helped us to be more organized and fasten the process of comparison and data analysis.

During the interviews, we started asking more general questions and then steer



the interviewees towards more specific topics and questions to provide sufficient data on both the environment and the pandemic effects on their social enterprises.

## LIMITATION

The first limitation was contacting the interviewees for the follow-up interview given that we were in the midst of the pandemic. This limitation was mitigated by contacting them one month earlier and adapt to their schedule for an interview. It was vital to explain that they are the key actors of this research and without their follow-up interview this would not have been possible.

The second limitation was the change of scenery from interviews face-to-face to online interviewing. We mitigated this limitation by asking the participants for additional 15 minutes for the interview to have more time in investigating their views, perceptions and experiences.

## SUSTAINABILITY OF SOCIAL ENTERPRISES IN THE POST-PANDEMIC WORLD – BUSINESS LESSONS LEARNED

Social entrepreneurship is a new and upcoming field that has been developing for the past 30 years. Some of the reasons for the emergence of the field globally has been the uncertain economy, lack of trust in state institutions, lack of government capacities and many other depending on the context.

Its development has its ups and downs with many questions that remain unanswered. Political and legal recognition, defining of the concept, and institutional and financial support are some of the accelerators and barriers for the development of a conducive business environment that fosters the sustainability of social enterprises. The case of North Macedonia is no different.

In the last two years, the government has expressed political will to contribute to the field by designing and adopting the first National Strategy for Development of Social Enterprises in the Republic of North Macedonia, along with an Action Plan that will facilitate actions in that course.

## PRE-PANDEMIC RESEARCH

In the pre-pandemic era, the interviewees (social enterprises) have touched upon several challenges that hinder their development and accomplishing sustainability.

In terms of political factors, they have highlighted the adoption of inadequate policies that are selectively implemented without consulting the actors that are on the field as one of the main concerns. They underline the civil society and international projects as the main factors for elevating social entrepreneurship and contributing to the development of policies on a national and local level. This goes in line with the lack of government effectiveness and recognition as one of the main challenges for a conducive business environment.

Although they recognize the change in political will, the uncertainty was still present. Social entrepreneur 2 states *“I am aware of the new developments, but I do not see yet a policy with a clear objective to support the social entrepreneurship.”* To the same question, Key stakeholder 1 highlighted that *“we as a country are still behind the developments in Europe despite the change of attitude towards social entrepreneurship. We need more concrete action, to see that in practice. The situation as such does not help us at all.”*

The legal setting of the business environment was classified by the interviewees as partially enabling. They state that there is no obstacle for a social enterprise to operate per se, but lack of legal identi-

ty and organizational legitimacy is hindering their prospects for growth.

Social entrepreneur 4 argued that *“without proper regulation, there could not be suitable support and response to the challenges that social enterprises are facing.”* Social entrepreneur 6 stated that *“the lack of proper regulation is considered as lack of interest from the governmental institutions to develop the field”*. Social entrepreneur 5 added, *“despite being able to work as a social enterprise under these settings, the existing regulation put social enterprises in a grey zone, not fitting to the civil or private sector obstructing their access to market and recognizability.”*

The lack of informed public officials and institutional support are also seen as challenges for developing a conducive business environment. Social entrepreneur 1 argues that *“the institutions do not know how to provide a respond to a social enterprise administrative issue such as financial reporting or registration-related staff. They are not convinced and clear about what applies to the social enterprise. There are a lot of contradictions, and it is essential for us, institutions to provide support, however, they are uninformed and confused just as the social entrepreneurs are.”* Employee 1 added *“I had an idea for a social enterprise but did not know how to develop a business plan, work on marketing, finances and so on. What I found is that no institution that can provide support. I had to turn to civil societies and private businesses that teach those things.”* Key stakeholder 2 contributed to this issue by stating that *“Education is necessary for both social enterprises and public officials on how to converse, co-operate and support each other’s work.”*

Access to funding has been a major obstacle to the development of the sector and its environment. Social entrepreneur 3 emphasized that *“there is an option in the law on public procurement for social enterprises to participate in tenders. However, no one has used it”*. Employee 2

stated *“we asked ones how can we participate on the tender, and it was the same as business entities. They said they cannot use the criteria of the reserved contracts yet. It is another option on paper that does not work in practice.”*

The interviewees considered the business environment non-conducive which is an issue because it provides just enough for them to operate, but not nearly enough to be sustainable. Social entrepreneur 4 discusses sustainability saying *“to provide sustainability of the social enterprise, we need stable and operational policies, regulation to be recognized, institutional support at the beginning and access to funds and market to start, scale a bit and reach sustainability. None of these elements is an option in the country.”*

## POST-PANDEMIC RESEARCH

After almost one year of the first interviews with the target groups, the country was hit by the pandemic, quarantine was applied, businesses were closed and understandably, the focus was on mitigating the effects caused by Covid-19. Despite these unfortunate events, the business environment has slowly shifted. It was not a result of new and conducive policies or regulation, increased institutional support or access to funding, but from the creativity and innovativeness of the social enterprises and entrepreneurs.

Social entrepreneur 1 said *“I don’t think that the situation with the Covid pandemic was handled well by the state. The people are undisciplined and the measures are ever-changing. Both, for individuals and businesses.”* Employee 2 stated *“from what I saw and heard; many companies had difficulties in bridging this situation. And the situation continues. We will see at the end the ways social enterprises have leap-frogged the challenges. It would be good practice for sure.”*

The situation was even worsened by the state measures according to the

interviewees. Social entrepreneur 4 stated *“the state obligated us to release our staff from work, we had to pay their wages, and we had to manage that without any kind of support. We were left behind. At that point, we were really afraid that we would need to close the social enterprise.”*

For many of them, this period was very challenging in leading the business when everything was closed and they had to change their leadership style and the way they operate. Social entrepreneur 3 explained *“we had to adapt. We had to make quick decisions, in an instance, for that specific situation. It was as if someone was testing our decision-making skills, our determination. I cannot explain it. This was and still is not a time for planning and strategizing. It is make it or, in our case, close it. We could not allow that to happen, so we were doing and are going to do what we have to. Adjust, work hard and hope that better times are ahead.”* Social entrepreneur 2 said *“I was always the one to organize everyone. I lead by being present, but to lead in a time of a pandemic required something else. We had to change our work style, otherwise, we would have closed the company.”*

The interviewees foresaw the change in the business scenery through the change in the way of thinking of their customers. Social entrepreneur 5 explains further that *“people started to change their attitude, conduct, even their mentality. They started to trust more in technology, started to realize the marks they leave on the planet, started to think more about their own life. The pandemic has changed the point of view for sure.”*

To be able to bridge this period most of them had to innovate by digitalizing their businesses and offering their products and services online. They also stated that partnering and collaborating with other actors have provided them with an edge on the market.

Social entrepreneur 4 clarified further *“we established an online store and con-*

*nected and collaborated with delivery companies to distribute our products to the customers. It was a simple, yet effective solution to our income challenges.”* Social entrepreneur 1 added, *“we made an online campaign to sell merchandise and with every sale, we would plant a tree.”* Social entrepreneur 5 said that their company has gone online and digitalized the process of offering their services. The change of business environment from physical to online has provided opportunities for social enterprises to mitigate the loss of income which they have recorded at the beginning of the pandemic and some of them have even increased it.

From an outside perspective, the key stakeholders were fascinated with the ways social enterprises have found to keep their income and go through one of the most difficult times for doing business. Key stakeholder 1 stated that *“they have found ways to keep their income and some even increased it and scaled up a bit. It is a combination of hard work and innovation that impresses.”* Key stakeholder 2 concluded that *“their investment in continued education and practical experience has paid off just in time when it was most needed. The ability to adapt and innovate to persevere has been astounding.”*

However, none of this guarantees sustainability. They have found a way to exploit the increase of e-commerce and digitalize their work which could lead to increased income and sustainability when things return to normal. Many challenges remain such as cash-flow problems, supply-chain disruptions and shortages in labor. Also, the lack of political, legal, institutional and financial support remains which is the primary sign of a non-conducive business environment for social enterprises.

## BUSINESS LESSONS LEARNED

Over this period of pre and post-pandemic world, the social entrepreneurs and enterprises have been having trials and errors,



but also, they have successfully bridged the most difficult times of running a business, nonetheless a social enterprise. The business lessons they have learned over the past year are not a novelty in the literature, but certainly are motivation and good advice for new and upcoming social entrepreneurs.

**Adapt.** Being able to adapt is one of the main features of being an entrepreneur. Although it is easy to say it, it is hard to do it. Social entrepreneurs in this study had an adaptation period of approximately 3–5 months. The process they were going through was explained in several stages as uncertainty – what should we do now; fear – are we going to close the enterprise; acceptance – this situation is going to last; empowerment – we have to do something; application – we are going to try this. Grasping the situation, accepting it and trying something new is a process that takes time and it is an individual experience that a social entrepreneur has to go through, in a situation like this.

**Innovate.** When discussing innovation, it is vital to remember that it also encompasses new ways of management, sales or simply doing business. Most of the social entrepreneurs involved in this study has found a new sales channel and a new product that had the potential to boost their income. Also, innovation does not have to come as an idea from the social entrepreneur itself. It can be from an individual (e.g. employee) or the team. The process of trial and error is vital in introducing innovation.

**Collaborate.** Partnerships and collaboration can provide you with an edge on the market and scale up your resources. By doing that, your social enterprise is already more successful. Collaboration can open new markets and provide you with the ability to outperform competitors. The majority of social enterprises in the study have partnered up with delivery services, travel agencies, printing companies,

supermarkets and IT companies. It provided them with a new segment on the market, increased their market access and consequently their income.

**Perseverance.** This is one of the most important qualities in social entrepreneurs. Being able to go through the trial-and-error process without getting discouraged is a valuable trait to have. The involved social entrepreneurs have experienced deal breakers with institutions, lack of communication with authorities, rejected projects and other obstacles, but they have continued with their ideas and activities. Given the fact that they are working in a non-conducive business environment and have overcome the last year in a pandemic, is saying enough about their perseverance.

**Hard-work.** There is no social entrepreneur that we have interviewed that have not mentioned that if you are not committed to your work and truly invested in it, it would blow off. Every one of them had turbulent periods as previously described, but what has provided them with the skills to overcome those periods are determination and hard work. Being invested in your work means you believe in the efforts and others will believe in it too.

## DISCUSSION

In the last 20 years, the concept of social entrepreneurship has been broadly investigated with a noteworthy development in business administration and micro-economics studies (Nagler, 2007). The significance of the field has been increasingly recognized given that it contributes and generates social and economic values. To contribute and produce the aforementioned values social enterprises need to be innovative in their area of work. They create, cultivate and apply innovation that contributes to economic and social development while inventing new goods and services. Some examples of social

entrepreneurship inventions that changed the economic and social setting can be found in Nobel Committee (2006) and Bornstein (2004).

To provide the described impact, social enterprises need to be sustainable and focused on social change. The sustainability of social enterprises is affected by multiple interconnected factors. Starting from the country's political stability (Chowdhury et al., 2013), political activities which create standards and regulate entrepreneurial operations (Griffiths et al., 2013), policy changes, regulation and political agenda focused on social entrepreneurship (UNDP, 2012; Wronka, 2013), clear definition (Christie and Honig, 2006), legal identity (Fici, 2015), institutional support (Stephan et al., 2014), access to funding (Rangan et al., 2008) and many other factors that present the business environment for social enterprises.

If we take the case of North Macedonia, as a country in which this research was conducted, and compared it with the aforementioned factors to provide a picture of the business environment for social enterprises we would find that the environment is not conducive. The country's political stability is always questionable, the political activities are not enabling for commercial enterprises and therefore for social enterprises, there are no policy changes, regulation and political agenda focused on social entrepreneurship, lacks a clear definition, without regulation there is no legal identity, the institutions do not recognize social enterprises and the access to funding for social enterprises is hindered without criteria which makes them eligible for funding based on the registered legal entity (Chichevaliev, 2020). These factors make the environment unfavorable toward social enterprises. This was not a surprising result given that it has been mentioned across the years in various research and national reports (Reactor, Konekt & Public, 2016; Rosandic & Kusinikova, 2017; Ilijevski & Iloska, 2018; Chichevaliev, 2019).

Social enterprises in the country are struggling to achieve sustainability and consequently their social purpose. They have to tailor their undertakings for the supporters and the funding calls to be eligible for the sponsorship. Consequently, hybrid organizations are rising. To be able for more funding social entrepreneurs and enterprises are opening companies and civil society organizations to have more available sources of funding and improved access to it. Surely, this is a matter of lack of legal identity and increased hybridity of social enterprises incorporating more legal entities into one (Battilana et al., 2012).

What has been extraordinary is the flexibility of social enterprises and shown social entrepreneurs' characteristics in a period of crisis. Social entrepreneurs have exceeded our expectations by showing a strong entrepreneurship spirit which is one of the fundamental traits (Mair & Marti, 2004). They have also shown creativity and talent for problem-solving, vision, and refusal to back down (Bornstein, 2004). They played the part of change agents and continued to create and sustain social value, identified and pursued new opportunities to serve their goals, acting courageously with scarce resources and a heightened sense of accountability to the constituencies they serve and for the results generated. The approaches they have used are nothing short of exemplary, contemporary practices and envisioned future. Utilizing digital tools and software, increased their online presence and modified their business models to stay and be even more current on the market. Seeing these traits in practice was refreshing and inspiring. What drew our attention was the potential of matching such social entrepreneurs with a conducive business environment.

One of the positive developments in the country related to social entrepreneurship is the start of the EU project "Support to Social Enterprises". Besides the adoption

of the already mentioned strategy, the project's objectives contribute to the creation of favorable and coherent legal, regulatory, financial support and monitoring framework for social enterprises; establishment, organization, management and operation of a support structure for social enterprises with local support contact points; capacity building for all actors in the sector and awareness-raising for social entrepreneurship. It is an all-round project that should facilitate the creation of an ecosystem for social entrepreneurship.

In that sense, we recommend:

- the creation of tailored policies for the development, support, and promotion of social entrepreneurship.
- development of regulation for social enterprises that will include: definition, multisectoral and multilevel responsibility for social entrepreneurship; criteria and operational standards and norms; operational public procurement procedures for social enterprises; legal harmonization and an instrument for monitoring and evaluation of development and implementation of the legal framework.
- increase the communication and coordination with the national and local institutions; provision of institutional support and education for both public officials and social entrepreneurs to increase the institutional recognition and information about social entrepreneurship.
- increase the funding sources; improve the access to funding; increase business sector involvement and collaboration; and foster partnerships and networking across sectors.
- Raise citizens' awareness about the potential and the positive effects of social entrepreneurship and increase civic engagement in social enterprises and their activities.

## CONCLUSION

Social entrepreneurship has been on a pedestal, particularly for individuals and businesses determined to achieve social change and sustainable development. Social entrepreneurship is a novel method of doing business where social accomplishments come in first. That is how social entrepreneurship varies from commercial entrepreneurship. However, the sustainability of these enterprises seems like it is always in question. Covid-19 have just highlighted the critical areas in their sustainability.

Social enterprises and their operations have been critically hit by the pandemic. They were left behind to deal with the consequences. Despite operating in a non-conducive business environment, they have managed to remain active and continued to offer their services to their constituents. More importantly, they have shown resilience and flexibility, and have implemented new approaches to their work which strengthened their place on the market and increased their income. These actions and results have contributed to their sustainability and enhanced their impact both economically and socially.

Without proper backing, social enterprises and entrepreneurs are left by themselves to compete with already established and recognized ecosystems and businesses. Such a situation hinders not only the growth of the social enterprises but the development of the sector. Creating a conducive business environment requires vertical and horizontal intersectoral coordination that would facilitate the process at all levels. The creation of tailored policies and proper legislation for social entrepreneurship in combination with institutional support and financial backing can offer them the possibility to realize their potential and their role as agents of change.

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