

# **Social Entrepreneurship in Sheltered Employment Centres: A Case Study of Business Success**

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## **Abstract**

Sheltered Employment centres (CEEs) are part of the social economy companies, based on the primacy of people over capital, social benefits and solidarity. Its aim is to carry out productive work and they are a means of integration of the greatest possible number of disabled people. There is a growing interest in this type of business because its number has increased considerably. The objective of this chapter is to give academic visibility to CEEs due to its great contribution to the social corporate responsibility and to encourage the so-called social entrepreneurship. The reasons for creating social firms are analysed and the characteristics that can contribute to the success of this type of companies are studied. Using the case study methodology, a CEE is analysed in depth showing the main features of social economy business by means of a specific case and the key variables that has conducted to its success.

**Keywords:** *Social Responsibility, Sheltered Employment Centres, Case Study, Social Entrepreneurship, Social Economy*

## 1. INTRODUCTION: SOCIAL ECONOMY

The financial crisis started in 2008 has highlighted the need for a revision of principles that guide businesses. Concretely, in Spain the unemployment rate arose more than 25% and GDP annual variations have been negative since 2008. However, in a capitalist context, there is a growing interest in businesses whose main objective is to serve a collective or the society in general. The so-called 'social economy' sector and the principles on which it is based are becoming more and more important, representing around 12.5% of GDP in Spain<sup>1</sup>. The legal framework in Spain for this sector is the Law 5/2011, March 29<sup>th</sup>, on Social Economy. This regulation defines social economy as the private set of economic and business activities that pursue the interest for a particular collective or the general economic and social interest. The principles that guide this type of companies are based on the primacy of people over capital, the social and equitable sharing of benefits and solidarity. Moreover, the development, promotion and encouragement of social entities are considered as a general interest task. Article 5 of Law 5/2011 considers that social insertion enterprises, cooperatives, worker-owned companies, mutual companies, foundations and sheltered employment centres (CEEs) are part of the social economy. Yet, the European Commission declares that "social enterprises devote their activities and reinvest their surpluses to achieve a wider social or community objective either in their members' or a wider interest. Therefore, there is a social dimension to its initiatives, that is: an initiative launched by a group of citizens, a decision-making power not based on capital ownership; a participatory nature, which involves the persons affected by the activity; limited profit distribution and an explicit aim to benefit the community (work integration, personal services and local development disadvantaged areas)."<sup>2</sup> Taking into account the European Commission criteria, social enterprises would be the insertion enterprises, sheltered employment centres and social initiative cooperatives (Triper, 2015).

In Spain CEEs are socially responsible companies because they play an important role for society in helping people with disabilities to enter the labour market but also in a normal life. A sheltered employment centre is a business in which at least 70% of its workers are disabled people (with an official certification of disability degree higher than 33%) and because they are being responsible companies, they receive public financial aid for their creation, for business payments, for social security, for maintenance of jobs, etc. (Royal Decree 2273/1985 of 4<sup>th</sup> December). Therefore, the creation of social enterprises, in general, and a sheltered employment centre, in particular, involves a new kind of entrepreneurship and the emergence of the figure of social entrepreneur.

The aim of this paper is to characterize the social entrepreneur profile in a CEE giving academic visibility due to its great contribution to the social corporate responsibility and to encourage the so-called social entrepreneurship. Therefore, the reasons for creating social firms are analysed and the characteristics that can contribute to the success of this type of companies are studied. Using the case study methodology, a CEE is analysed in depth. A case study is also important for building theories (Eisenhardt, 1989). This CEE was founded ten years ago and, at present, it is in an expansion process.

The principal contribution of the paper is to show the main features of social economy business by means of a specific case and the key variables that have led to its success. In particular, we show that CEEs are profitable firms if managers run them in a professional way. In our case, a solid financial situation with high solvency ratios, a good financial leverage and low level of short-term debts are fundamental for success. Its high gross margin is due to this company having used the official subsidies for promoting disabled employees to get an advantage in its labour cost structure. There is a tradeoff between possible workers' inefficiency (because they have a disability) and their lower labour costs. Additionally, in our case study, there is also a positive return for the Public Administration with CEE because they give more than they really receive. This means that these business tactics have the potential to increase overall social well-being and the creation of value for the company. Moreover, external and internal managerial competences are part of the success of the CEE analysed, apart from the established strategic plans and training programs as main tools in its management system. Professionalization is essential for its survival

in the market and for its sustained growth, without forgetting the manager's discipline with work, along with the inspiration, initiative and humility. Thus, we can learn from this case the viability of social firms, with a high impact on the life of disabled people as well as society due to their social responsibility. We believe that increase of this type of companies with strong management can solve existing problems about employment of people with disability and give visibility to social firms as a successful business.

The rest of the paper is organized as follows. A review of the existing literature on social entrepreneurship and sheltered employment centres is displayed in section 2. The following section develops two empirical analyses taking into account the economic and social role of the studied sheltered employment centre. The results and discussion are presented in section 4. Finally, some practical lessons are highlighted and some future lines for research are offered.

## **2. LITERATURE REVIEW**

The main objective of this paper is to analyse a case study of social entrepreneurship with success, in particular, a sheltered employment centre, in Spain. There are two main lines of research about this topic: social entrepreneurship and the sheltered employment centres.

### **2.1. Social entrepreneurship**

A social entrepreneur starts a business trying to meet social needs and the viability of the business is essential to achieve social aims (Melián, Campos & Sanchís, 2011; Sullivan, 2007). Nowadays, social entrepreneurship has increased and, therefore, the interest in its study has also grown among researchers belonging to very different fields and with different approaches too (Weerawardena & Sullivan, 2006). As a consequence, there is not a rigorous definition of what a social entrepreneur is and does (Harding, 2004; Moulden, 2009). Most of the literature available on this subject has focused on entrepreneurship in general (among others, Drucker, 2014; Shane & Venkataraman, 2000; Stevenson, 1983) rather than social entrepreneurship. Indeed, some authors ask if social entrepreneurship can exist (Roberts & Woods, 2005). Therefore the difference is in the word *social* and its implications.

The critical distinction between entrepreneurship and social entrepreneurship lies in the value proposition itself. According to Martin & Osberg (2007), for the entrepreneur, the value proposition anticipates and is organized to serve markets that can afford (or pay for the innovation of) a new product or service, and it is thus designed to create financial profit. Therefore, it is expected that the entrepreneur and his or her investors will derive some personal financial gains. However, the social entrepreneur aims for value in the form of large-scale, transformational benefit that accrues either to a significant segment of society or to society at large. That is, the social entrepreneur's value proposition targets an underserved, neglected, or highly disadvantaged population that lacks the financial means or political clout to achieve the transformative benefit on its own. Indeed, a social entrepreneurship uses the same tools as the private sector but for trying to solve social problems (Olsen, 2004).

In the pioneering and seminal work of Dees (1998), it is stated that social entrepreneurs play the role of agents for change in the social sector by: "adopting a mission to create and sustain social value (not just private value); recognizing and relentlessly pursuing new opportunities to serve that mission; engaging in a process of continuous innovation, adaptation, and learning; acting boldly without being limited by resources currently in hand, and exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created". Consequently, the mission is explicit and fundamental, and the mission-related impact becomes the central criterion (not wealth creation) that reflects the primacy of social benefit (Dees & Economy, 2001).

Martin & Osberg (2007) define social entrepreneurship as having the following three components: identifying a stable but inherently unjust equilibrium that causes the exclusion, marginalization, or suffering of a segment of humanity that lacks the financial means or political clout to achieve

any transformative benefit on its own; identifying an opportunity in this unjust equilibrium and developing a social value proposition that forges ahead to create a new, stable equilibrium that ensures a better future for the targeted group and even society at large.

Austin, Stevenson & Wei-Skillern (2006) distinguish between commercial entrepreneurship and social entrepreneurship using four variables. The first variable is the market. The lack of a market is a problem for a commercial entrepreneur but an opportunity for the social one because the latter tries to meet a social need. The second variable is the mission. It has just been seen that for the social entrepreneurship the mission consists in the creation of social value while commercial entrepreneurship seeks private profitability for the shareholder. The resources are the third one. The limited profit distribution of social entrepreneurship can condition and restrict access to the capital markets. Finally the last variable is how to measure the performance because social entrepreneurship faces great difficulties and it is very difficult to measure the social impact. A similar distinction can be found in Dorado (2006) but focuses on the definition of the opportunity, the organizational structure and the achievement of resources. Social entrepreneurship is carried out by men and women but frequently, female entrepreneurship develops social enterprises aiming to promote women's social and professional inclusion (Ferraz, Piau, Pessoa, & Fontens, 2014).

Nevertheless, nowadays there are other activities (such as social activism or the provision of social services) that could not be included in this concept of social entrepreneurship as they are different realities (Martin & Osberg, 2007). What is more, social enterprises cannot be confused with corporate social responsibility by means of which large companies carry out projects, events or even new business lines that develop social activities, but not at all social businesses (Triper, 2015). Therefore, the creation of a socially sustainable social value by means of innovation is the key feature to characterize social entrepreneurship and social businesses (Harding, 2004; Reis & Clohesy, 2001). This social value consists basically in changing the lives of people for the better by means of the achievement of objectives socially desired (SEKN, 2006). This preservation of the social value would imply the sustainability of the organization and its services including the financial point of view (Novy-Hildesley, 2007). As a result a social value and an economic value would be obtained (Chell, 2007).

Bearing all this aspects in mind, social entrepreneurship is a specific type of entrepreneurship whose aim is to find solutions to social problems by means of creating opportunities that generate a sustainable social value (Guzman & Trujillo, 2008). Therefore, we associate social entrepreneurship with social business as previously defined.

## **2.2. Sheltered employment centres**

Sheltered Employment Centres (CEEs) arose in Spain in the year 1982 to meet the need for integration of people with disabilities in the labour market (KPMG, 2014). The Royal Legislative Decree 1/2013, of 29th November, defines CEEs as those firms "whose main objective is to make a productive activity of goods or services, regularly participating in market operations, activity and aiming to ensure a paid job for people with disabilities; while they are a means of inclusion of the greater number of these people in the ordinary employment system"(art. 43).

The CEEs enter in the list of companies that have a chance to develop it in a social responsible way and can be created by public administrations, institutions, individuals, legal or community property having legal capacity to act (Camacho-Miñano & Pérez, 2012). The main requirement is that the staff of CEEs should consist of, at least, 70% of workers with disabilities of more than 33%, and be enrolled in the corresponding regional registry.

According to the Royal Decree 2273/1985 of 4 December (B.O.E. 9-12-1985) by which the regulations of the CEEs were approved, the CEEs may be profit-making or not. In this way, entrepreneurs or public entities are free to choose whether their company might seek profit or not, or take advantage of only a part of them for different purposes. CEEs will be obliged to conduct a management subject to the same rules and requirements as any company in the same sector.

Thus, they must be productive and profitable, and, at the same time, show their social efficiency and professionalise their employers. It is therefore essential to CEEs to reach the peak of excellence, in order to maintain competitiveness levels that allow them to remain active (Giménez, 2012).

In Spain CEEs have access to the following public subsidies in terms of employment support programs for people with disabilities, among others: grants for creation of CEEs; grants for the maintenance of jobs; bonuses related to social security payments; grants to eliminate architectural barriers and adaptation of the job (Laloma, 2007). With respect to social security, contracts made in CEEs have a bonus of one hundred percent of the employer's contribution (Cueto, Malo, Rodríguez, & Francos, 2008).

Studies on CEEs in Spain indicate that these companies are an important element of generating employment for persons with disabilities (Laloma, 2007; Barea & Monzón, 2008; Cueto et al, 2008; Rodríguez, García, & Toharia, 2009; Jordán de Urriés & Verdugo, 2010; Camacho-Miñano & Pérez, 2012; Redondo & Martin, 2014). Moreover, the number of CEEs has increased considerably in the last two decades (Rodríguez, 2012). So nowadays, we can say that the growth of the CEEs in recent years has been considerably high as well as the labour insertion of people with disabilities. This increase is due to a social policy which develops necessary measures and programmes that have configured the CEEs as the main work option for disabled people and, no doubt, they have enabled them to develop the role of worker. In many countries with the help of social policies, family and disabled people themselves have acquired more standard labour integration.

It is important to note the role of CEEs in the economic sphere of the country. During the economic crisis, many jobs and firms have been significantly destroyed but the entrepreneurship in the social sector has been less affected. For this reason, this book chapter analyses the CEEs' success, using the method of case study. The results will help to understand the survival of these types of companies on the labour market and it may be possible to propose the improvement of management of them, at the same time making visible the importance of CEEs for a society.

### **3. THE EMPIRICAL STUDY**

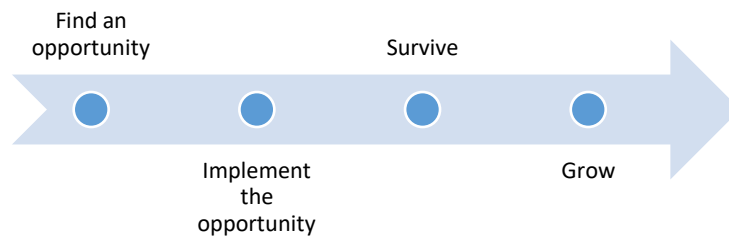
#### **3.1. Data and variables**

The case study is based on a Spanish CEE named "Coolaboro". This firm was founded by its director manager and owner, Mr. Antonio Cobo, in Madrid during the year 2004.

Nowadays Coolaboro offers four services to its customers: technical and commercial support, telemarketing, document processing/management and support for administrative work. All of these are almost carried out by disabled workers. In 2014 the firm has 2 non-disabled out of 52 workers.

The first step in an entrepreneurial process is to find an opportunity (see Figure 1). While commercial entrepreneurs look for opportunities that generate profits, social entrepreneurs seek opportunities that allow them to generate social value. They focus on social problems and find solutions to these problems. In words of Mr. Cobo, the main motivation to create Coolaboro was "to achieve that my work will be useful to help people who face most difficulties in their lives".

**Figure 1: Entrepreneurial process**



Source: own elaboration.

The social problem that motivates the creation of Coolaboro was the huge unemployment rate detected for disable workers. In Spain the unemployment rate for disable workers was, in 2012, 33.1%. The economic crisis had affected dramatically this group of workers, who presented an unemployed rate 8.1 points higher than non-disabled workers. In addition 60% of the disabled workers unemployed are long-term unemployed (being in this situation for more than one year)<sup>3</sup>.

Nevertheless, in the way in which they describe their mission it is easy to identify that this social objective is not in conflict with economic efficiency: “our mission is to provide qualified work for disabled people, adapting positions to personal characteristics of each worker, and at the same time, offering our services at the same level of quality as ordinary firms do”.

When we asked Antonio about their business model, he described their value proposition underlying the importance of being able to offer to their customers work with the same quality level as the competitors. As we can see in Coolaboro web, their customers believe that services offered by this CEE meet high quality standard.

In its ten years of life, Coolaboro has demonstrated that social entrepreneurship could be at least as successful as ordinary firms. In fact, during this period, Coolaboro has been able to survive (opening its first office during the most difficult years of the economic crisis in Spain).

Its survival is the first index of its success. This is especially so when we analyse the number of firms that disappear before their third year of life in Spain (on average 39.1% disappear) (see Table 1).

In addition, the number of firms that disappeared in their first year of life rose because of the economic crisis. In 2013 this average reached 40% of the startups, while 60% did not survive their second year<sup>4</sup>

**Table 1: Firms that disappear during their first three years of life (%)**

	First year	Second year	Third year
2009	20.1		
2008	20.8	13.2	
2007	20.9	14.6	10.1
2006	17.4	15.3	11.3
2005	14.5	12.0	11.8
2004	15.5	9.3	9.3
2003	17.2	10.9	7.4
2002	14.2	10.2	10.3

2001	16.7	9.5	7.7
<b>Average</b>	<b>17.5</b>	<b>11.9</b>	<b>9.7</b>

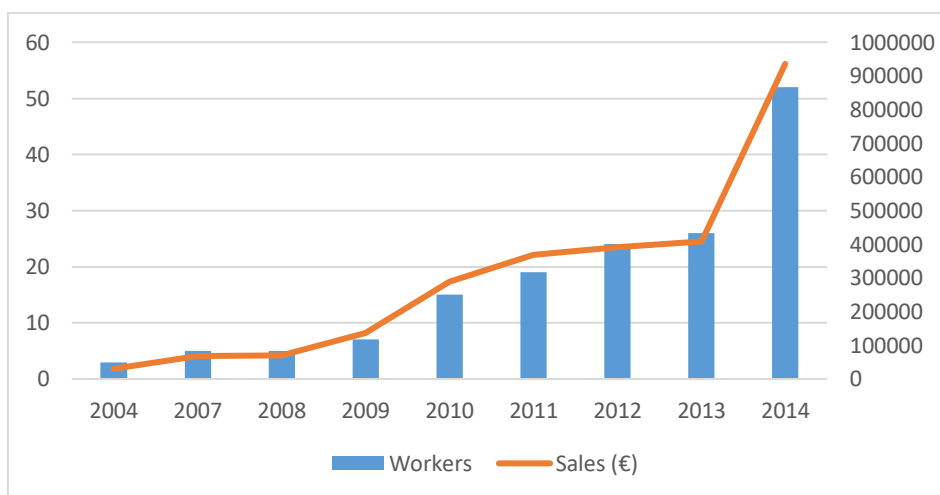
Source: Own formulation based on INE (2010) [www.ine.es/prensa/np749.pdf](http://www.ine.es/prensa/np749.pdf)

Coolaboro not only has been able to stay in the market but also demonstrate its capability to grow (a firm's growth could be the second index to assess CEE's success). In this sense Coolaboro has presented sustained growth since its birth, in terms of workforce as well as in sales, with no bank indebtedness, by means of profit reinvestment (Figure 2). For social entrepreneurs to create social value is not only important, but also creates a business model which is financially stable and, if possible, self-sustaining (Mueller, Chambers, & Neck, 2013).

They were able to grow during the worst years of crisis in Spain (2008-2010), creating two new positions, increasing sales by 197% and adding a new service to their customers.

During the period 2010-2015, workers' growth was from 15 in 2010 to 52 in 2014, meanwhile sales rose 325%; showing that Coolaboro is able to consolidate its development.

**Figure 2: Workforce and Sales of Coolaboro (2004-2014).**



Source: Own formulation based on the questionnaire information

Furthermore, as we can see in Figure 2, the number of employees has been increased significantly in 2014 and sales have also doubled in the same year, meaning that the year 2014 was crucial for the success of Coolaboro.

In this case study, we also compare our CEE firm, Coolaboro, with two other firms, direct competitors because they are in the same sector, in the same area and have similar size. The main figures for these three firms of our case study are the following (see Table 2):

**Table 2. Main figures for the firms**

MAIN FIGURES	2011			2010		
	COOLABORO	HELVIA	SOLVENTIA	COOLABORO	HELVIA	SOLVENTIA
Non-current assets	248,604	239,762	758,622	740,754	12,077	13,805
Current assets	154,636	137,144	36,770	15,893	94,665	136,393
Liquid assets	3,172	20,562	4,380	8,712	13,427	56,624
Equity	193,810	135,410	196,990	193,118	63,333	80,200

Non-current liabilities	184,865	206,583	93,709	180,579	0	0
Current liabilities	24,566	34,913	504,693	382,950	43,408	69,998
Working capital	132,779	104,201	-34,386	-34,299	67,969	79,073
No. of employees	19	5	9	15	13	25
Turnovers	368,245	287,786	402,707	391,917	514,821	819,389
Operating results	59,473	93,075	13,234	13,600	-16,566	-119,422
Net income	51,490	80,975	3,872	3,557	-16,867	-120,881
EBITDA	77,521	106,772	36,340	40,562	-9,523	-112,328

Source: Own elaboration from SABI

Analysing table 2, the largest firm is Solventia because it has more assets, mainly, non-current ones. However, Solventia is also the firm with the lowest net income amount and with a reorganized process from 2010 to 2011 because the number of employees decreases from 25 to 9, and half reduction of revenues (around 50%). Thus, this firm has suffered most the negative impact of the economic crisis. Helvia also had an employee reduction process from 2010 to 2011, although its revenue reduction was less (around 44%). On the contrary, Coolaboro had increased the number of employees from 2010 to 2011 (15 vs. 19). And now Coolaboro has 52 workers. Additionally, its turnover decreased but only by 6%. This is a hint of its growth and financial success, compared with its competitors. In this sense, the impact of the economic crisis could be less for CEE than for non-CEE firms because of its financial support from governmental aids. In this line, the own financing is also another key of Coolaboro's success due to 77% of non-current assets being financed with own resources while this percentage is 56% and 26% for Helvia and Solventia, respectively. Moreover, Solventia is highly indebtedness in the short term, around 63% of its total assets financed with current liabilities, while this percentage is 9% for Helvia and 6% for Coolaboro. This debt pressure could condition many managers' decisions and even create difficulties in making strategic decisions for the firms (Laverti, 1996).

### 3.2. Methodology

The methodology based on case studies provides the basis of success management theories (Castro, 2010). Qualitative and quantitative data are analysed. This paper has two methodological parts: one empirical, analysing the financial ratios of the CEE chosen, Coolaboro, and the other part more qualitative, through an ad-hoc questionnaire.

#### 3.2. 1. Analysis of financial ratios.

One of the main uses of accounting is to perform an analysis of the firms' financial statements in order to serve the decision-makings by stakeholders of any business. The analysis of financial statements is based on management of accounting information in order to interpret the past, present and foreseeable situation of the company. There are many definitions of the concept of "analysis of financial statements". Lev, Castañeda, Ordóñez, & Abad, (1978, p. 1) consider that "the analysis of financial statements is part of a system or information process, whose mission is to provide data for decision-making". This allows significant changes in operations, which require a corrective action to be observed.

For this research we used one of the most commonly employed techniques analysis that is analysis of the ratios. There are many ratios that cover short-term analysis as well as long-term, such as the economic and financial structure (Rivero & Rivero, 2000). The literature has studied in depth the valid ratios for analysis and the most accepted include four groups of ratios:

- 1) The ratios of solvency, that analyse whether a company can face its debts or not. A company can be solvent if it can cope in a short period with short-term debts. As a general rule, it states that: If  $\text{current assets}/\text{current liabilities} > 1$ , then  $\text{working capital} > 0$ . It means that a company generates enough cash to pay its debts in the short term. If  $\text{current assets}/\text{current liabilities} = 1$ , then  $\text{working capital} = 0$ . It means that the company has temporary instability since



if there is any delay in the payment of any right, it cannot meet its debts in the short term. If  $\text{current assets/current liabilities} < 1$ , then  $\text{working capital} < 0$ . It means that the company has instability and cannot pay its debts in the short term with its available current assets. Additionally, the liquidity ratios analyse whether the company has enough money in the short term to meet its payments in relation to its charges. It is also called the “acid-test ratio”. It analyses whether with the cash the company has, it can meet its payment obligations in the short term. It removes the solvency ratio heading of “goods”, for being the least liquid current asset because a sales process has to be made that is not always possible. Another test of liquidity is the “immediate liquidity” ratio that is different from the previous because it only takes into account the cash assets, the most liquid part of current assets. It examines the possibility of paying their short-term debts with cash available at the time

2) The debt ratios, which determine whether the company has too much debt level depending on its business and its structure. It can be calculated for short and long term. It analyses the proportion of equity in relation to its debts in the short or long term. That is, the relationship between external financing and self-financing owned by the company.

3) The profitability ratios, which determine whether the company generates sufficient resources in terms of its economic or financial resources. They give an indication of the efficiency of the enterprise in the use of capital invested by shareholders and creditors (Lev et.al., 1978). It is possible to calculate the economic profitability, financial profitability and shareholder returns. It is considered that the economic profitability is the most used and “measures the efficiency with which employed resources are being used” (Lev et al., 1978, p. 13). It is also referred to as the profitability of the assets. The higher ratio of profitability means that the company is the more efficient and can develop better its principal activity, its social objective. The profitability ratio is always measured in percentages. The purpose of this ratio is to analyse the profitability of a company’s assets.

4) Finally, productivity ratios are also interesting to consider when an analysis of firms is taken in labour-intensity industries. The idea is to check the amount of operating revenues, profits, costs and assets per employee because they are average measures of the efficiency of production.

There are many utilities that have ratios for decision-making. In addition to investment decisions, recruitment, need for financing, comparison between companies and/or sectors ... they also have been used for aspects such as company insolvencies (Camacho-Miñano, Akpinar, Rivero, Urquia, & Eskola, 2012).

### 3.2.2. Questionnaire

An ad-hoc questionnaire was designed to achieve in depth information about the CEE of our case study, the firm Coolaboro. The structure of the document was separated into four parts as follows:

1) Business Model: In this section we tried to obtain general information about the origin and evolution of Coolaboro (we asked Mr. Cobo to provide us with the main milestones of his CEE during its ten years of life) and its business model. In order to get in depth information, we asked Mr. Cobo to complete Osterwalder’s Canvas model. This tool provides in detail information about nine aspects related with a business model: value propositions, customer segments, channels, customer relationships, revenue streams, key sources, key activities, key partners and cost structure.

2) Manager’s Profile: The objective of this questionnaire part was to discover a manager’s degree of professionalization by means of three different indicators: academic and complementary training, professional experience and manager’s competencies. Information about training and experience was obtained by means of direct questions. As it is impossible to obtain competencies information in this way, we used the Bosch, Lee, & Cardona, (2013) model to test 12 competencies by means of valuation of 21 items in a Likert scale. In addition, and in order to

avoid respondent bias, this part of the questionnaire was filled in not only by the manager but also by his subordinates.

3) Management Model: Two questions were included in order to analyse which management tools have been implemented. Firstly, one was a check list in which a manager should choose the options that best reflect the CEEs' level of development. In the second one a list of management tools was included (strategic plan, training plan, marketing plan, product and process innovation plan, quality systems...) and the respondent should point out those that had been implemented in Coolaboro.

4) Return to Public Administrations: In this part several data related to the taxes paid and all types of public subsidies received by the CEE were requested to calculate the difference between both flows. By means of this difference, the effectiveness in the use of the public aids received by the centre can be measured.

## **4. RESULTS AND DISCUSSION**

Sheltered Employment Centres cope with a double objective: economic and social. That is why it is necessary to estimate economic indicators and social return indicators in order to analyse their success.

### **4.1. Results for the ratio analysis (Economic success)**

In this section we analyse the financial ratios of three active companies, one of them is a sheltered employment centre, and the other two are companies that have the same business characteristics, such as activity (administration, management, consulting, realization of market research), location (Community of Madrid), number of employees, etc. The CEE is called Coolaboro, which is ten years old and the staff is formed by people with disabilities (70% minimum). The companies that will be compared with Coolaboro are: Solventia with an age of seven years and Hevia Consulting which is twenty years old. Table 3 shows the main ratios of the three selected companies for the years available in the commercial database SABI:

**Table 3. Ratios for years 2011-2010**

		2011			2010		
		COOLAB	HELVIA	SOLVETIA	COOLAB	HELVIA	SOLVENTIA
SOLVENCY RATIOS	Current (CA/CL)	6.29	0.07	2.18	3.93	0.04	1.95
	Liquidity (L/CL)	0.13	0.01	0.31	0.02	0.02	0.81
	Solvency (TA/TL)	1.93	3.29	2.46	1.56	1.34	2.15
DEBT RATIOS	Interest cover ratio	444.82	1.57	-47.032	n.s.	0.998	-80.046
	Long term debt	45.84	11.78	0	54.81	23.87	0
	Short term debt	6.09	63.45	40.67	9.26	50.61	46.60
	Gearing (%)	95.384	47.57	0	153.321	108.378	0
PROFITABILITY	ROE (%)	26.57	1.97	-26.63	59.8	1.84	-150.52
	ROCE (%)	15.70	4.55	-26.07	27.21	4.83	-148.86
	ROA (%)	14.75	1.66	-15.52	24.69	1.80	-79.51
	Profit margin (%)	16.15	3.29	-3.22	32.34	3.47	-14.75
	Net assets turnover	0.91	0.51	4.82	0.76	0.52	5.46
PRODUCTIVITY	Operating rev. per employee (mil)	33.48	44.74	39.60	57.56	48.99	32.77
	Profit per employee (mil)	5.39	0.54	-1.30	18.61	0.55	-4.83
	Costs of employee/Operating rev. (%)	0.97	1.38	8.13	0.84	1.05	10.22
	Total assets per employee (Mil)	36.66	88.38	8.21	75.38	94.58	6.00

Source: Database SABI

As Table 3 shows, the ratio of current solvency ratio (CA/CL) is higher for Coolaboro than for its two direct competitors and almost double in the year 2011 comparing with 2010 (6.29 vs. 3.93). It means that this company has enough current assets to pay its current liabilities. Considering the ideal current solvency ratio as 1.5, the company Solventia has also enough current assets to pay its current liabilities. However, Helvia Consulting has almost the same amount of current assets as current liabilities. It means that if this company wants to pay back its current debts and has any liquidity problems with current assets, it cannot do so. Regarding liquidity, any firm has large amounts of cash, although Solventia has the highest ratio (0.31 in 2011 and 0.81 in 2010). The solvency ratio in the long term (total assets/total liabilities) is very different between firms. Helvia Consulting, with the lowest liquidity ratio, is the highest in solvency ratio in 2011, with almost half in 2010. Solventia has the highest solvency ratio in 2010, and more or less the same in 2011 (2.15 vs. 2.46) due to its low level of debt. Coolaboro has more or less the same solvency ratio in both years (1.93 vs. 1.56).

Regarding debt ratios, the strategy of Coolaboro is completely different from the other both because this company has the lowest level of short-term debts whereas the other two have a higher level of short-term debts. It means that Coolaboro could face any contingency better because it does not have to pay back a huge amount of short-term debts. Gearing ratio is a measure of financial leverage, demonstrating the degree to which a firm's activities are funded by owner's funds versus creditor's funds. This is also another disparity for Coolaboro because this firm has the highest gearing ratio, the best financial leverage. Solventia has no long-term debts so its financial leverage is zero.

According to profitability, two ratios are selected to measure the return of shareholders and another for all providers of capital: the return on equity (ROE) and the return on capital employed (ROCE). ROCE for Colabooro, which is a financial ratio that measures a company's profitability and , has a very high value (15.705 for 2011 and 27.215 for 2010) compared with the other two

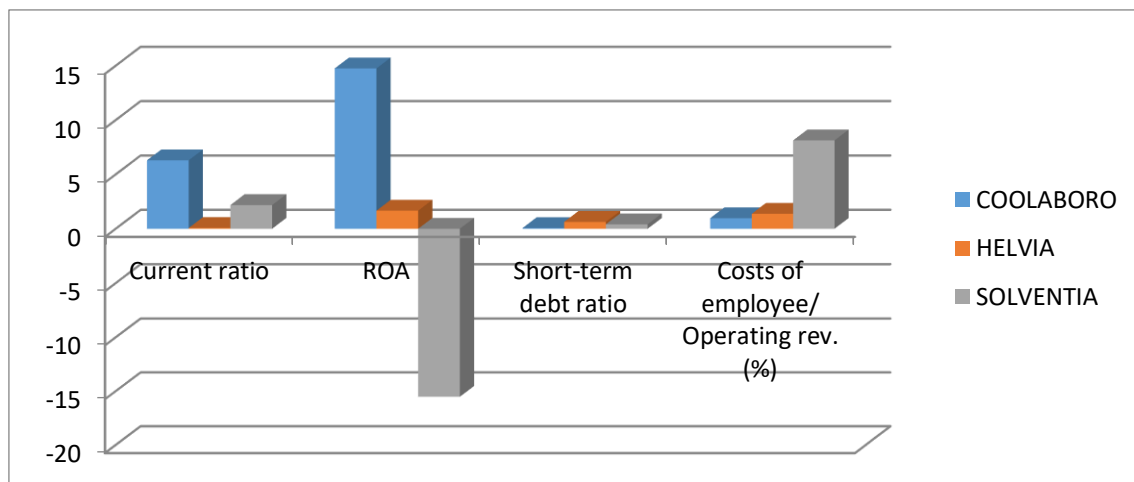
non-CEEs companies. This is the strength of this CEE. It indicates that Coolaboro as CEE is a company that has more profits than other companies that do not belong to the social sector. ROE measures a firms' profitability by analysing how much profit a firm generates with the money that shareholders have invested and it is the single most important accounting ratio of performance (Brigham & Daves, 2004). Coolaboro has the highest ROE of the three firms although in 2011 it decreased compared to 2010 (26.57 vs. 59.8).

Another important profitability measure is the ratio of return on total assets (ROA) where the other non-CEE companies have less percentage than Coolaboro. ROA is an indicator of how profitable a company is compared with its total assets. Coolaboro has 14.75€ of operating profits for each 100€ of asset investment in 2011 and 24.69 the previous year. However, Helvia has only 1.66€ per each 100€ of assets in 2010 and 1.80 in 2011 although Solventia shows negative profitability due to its losses in both periods. If we disaggregate ROA, two elements have to be considered: profit margin and asset turnovers. Although the asset turnover percentage is higher for Solventia, the other two firms have higher profit margins. It means that the best strategy for a successful CEE is to have a significant gross margin, that is, the difference between the price of services and its costs.

Taking into account the productivity of the companies analysed, Coolaboro has the best ratios related to employees. It has the highest operating revenues and profits per employee and the least cost of employees related to operating revenues. However, Helvia is the firm that has most assets related to employees.

In Figure 3, we can see clearly the important difference of these three companies for the most important financial ratios, one of each part of the analysis: solvency, debt, profitability and productivity.

**Figure 3. Ratio comparison between a CEE and two non-CEE companies**



Source: Own formulation based on the database SABI

Summarising, Coolaboro, the CEE, has the better main ratios than the non-social firms, because it has financial independence, its return on assets is the highest, the debt ratio in a short term is the lowest and the productivity per employee is the best.

#### 4.2. Return to Public Administration

It has been mentioned that in Spain CEEs have access to several public subsidies to support programs for people with disabilities such as grants for creation of CEEs, grants for the maintenance of jobs, etc. This fact can lead to the wrong idea that CEEs do not generate a return for the Public Administration but they only consume resources from the State. As we can see (Table 4), Coolaboro contributes to the State's resources to a greater extent than the received resources. Therefore the balance is positive for the Public Administration. Consequently, encouraging this type of social entrepreneurship not only can contribute to the welfare of disabled people, but it can contribute to the welfare for the society in general due to the fact that it can generate net incomes for the State.

**Table 4. Coolaboro's contribution to the State's resources.**

Inflows for Public Administration: Taxes	169,049
Outflows for Public Administration: Subsidies	(94,627)
<hr/>	
	<u>Cashflow</u> <u>74,422</u>
<hr/>	

Source: Own elaboration

Definitely, after a literature review on the employment of people with disability we can affirm that the effectiveness of the CEEs as an instrument of labour integration is indisputable, especially for people with disabilities who have more difficulties in finding work, helping to reduce their rates of unemployment and inactivity in society (Cueto et al, 2008; Rodriguez et al, 2009). Also the literature review demonstrates a significant relevance: the people with disability show characteristics such as resistance to monotony, responsibility, thoroughness, commitment to the task, empathy with heads, etc. With necessary support, people with disability have a high professional performance, higher than generally expected (Gascón, Cid-Enríquez, & Figueroa, 2012).

As a matter of fact a study that was conducted by the Association of nonprofit Employment Centers of Navarra (Acemna) has discovered that each euro invested in CEEs returns into society a total of 3.94 euros<sup>5</sup>. So we can say that the creation of employment for people with disabilities has high significance for the economy of a country as well as for people with disability.

#### 4.3. Keys to Success

Parents' associations or foundations are usually the origin of CEE, and sometimes this causes managers of these firms to present a nonprofessional profile. Compared with the process followed in the succession in family businesses in which the professionalization of the business has become a key aspect (Fernández, 2012), a nonprofessional profile in the CEE could restrict the capability of getting profits and/or even limiting their growth.

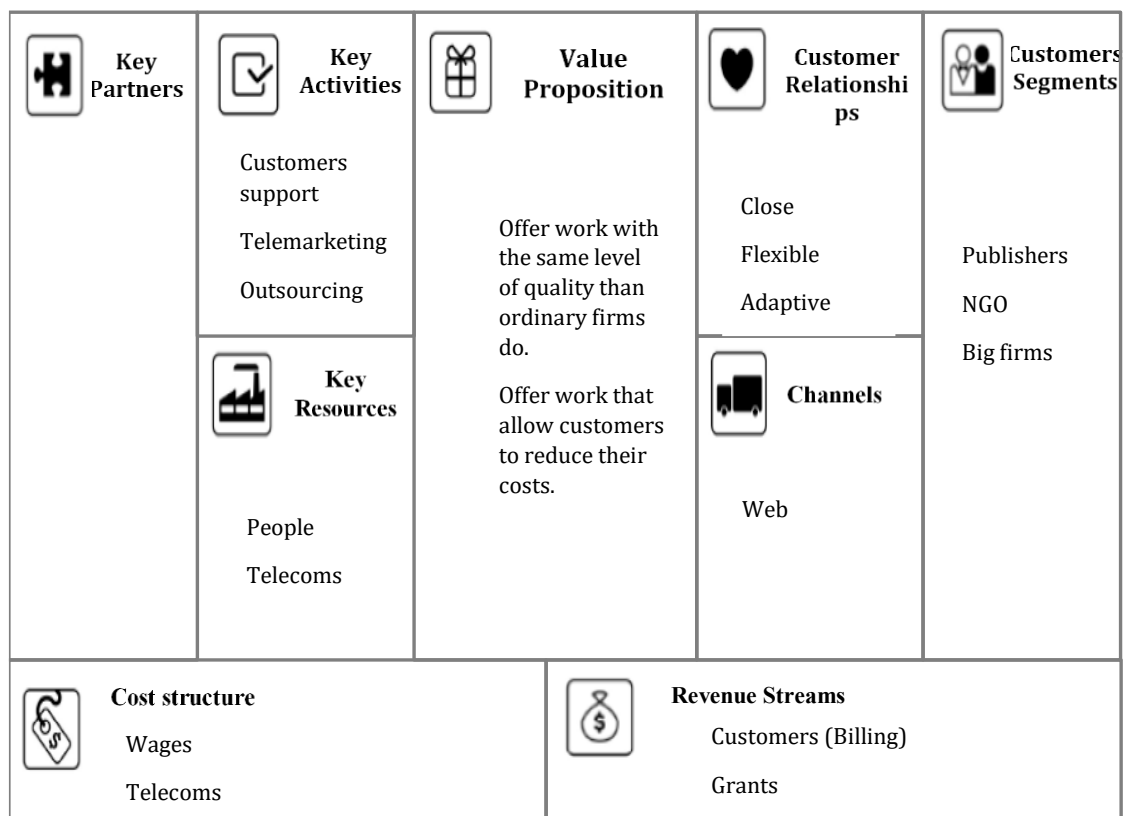
However, the origin of Coolaboro was the personal motivation of his founder to help disability workers. And furthermore Mr. Cobo is a bachelor in Management and MBS, with more than ten years as manager. He is a social entrepreneur with training, experience and competencies desirable to manage a CEE. We think that is one of the keys of Coolaboro's success.

Moreover, Mr. Cobo presents an appropriate degree in all the competencies that we have tested using the Bosch et al. (2013) framework of managerial competencies. In this model 21 items have been used to test 12 managerial competencies, grouped in three dimensions: external, interpersonal and personal.

In the external dimension, competencies are oriented toward producing the best economic value for the firm. Belonging to this category are competencies such as: business vision, resource management, negotiation and networking. Results for Mr. Cobo's managerial competencies (Figure 5) show that he demonstrates strength in terms of competencies related to external dimension (4.06 taking into account self and subordinates' evaluation), overall in business vision and resource management. Both of them are critical in order to analyse properly strengths, weakness, threats and opportunities that affect his business.

These competencies are also indirectly detected analysing business model that Mr.Cobo presents in Osterwalder's Canvas Model. As we can see in Figure 4 he presented a complete and coherent business model, in which all the decisions in each segment take into account the way in which they could help to reach value propositions.

**Figure 4. Coolaboro's Business Model**



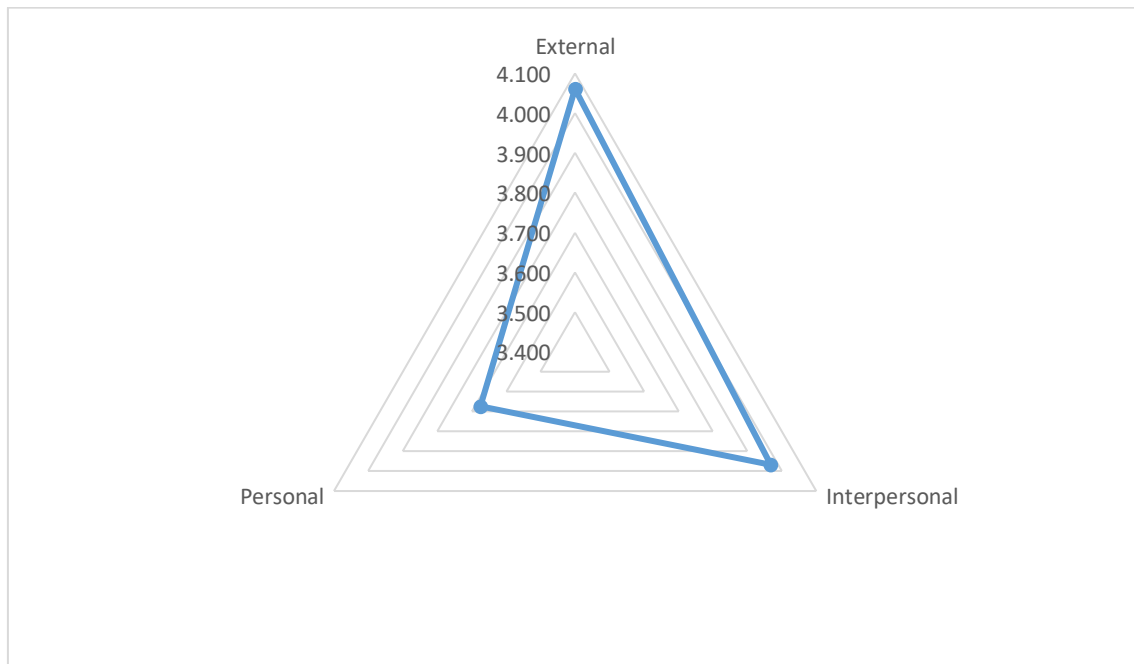
Source: Own elaboration based on Osterwalder's Canvas Model and questionnaire

Integrity, communication, delegation and kindness belong to interpersonal dimension and are competencies oriented toward building effective relationships within the organization. In this dimension (3.96 total score) the main strength is observed in communication, demonstrating that our manager is able to expound ideas in an organized manner and to assert his opinions in a convincing way. In line with this Cobo's strength, the ability of establishing and managing

complex relationships with multiple stakeholders has been briefly mentioned by researchers on social entrepreneurs' competencies as one of the most important (Mueller et al., 2013, p. 323).

Personal competencies (inspiration, initiative, humility and discipline) are oriented toward developing leadership and professionalism, and being an exemplary manager. Discipline is the competence best valued in this dimension.

**Figure 5. Managerial Competency Dimensions**



Source: Own elaboration.

In addition, social firms need, as well as ordinary ones, an accurate management model to guarantee their survival and growth. Melián et al. (2011) noticed that only 61% of the firms surveyed had strategic plans, identifying this as one of the main handicaps to reaching their targets. That indicates that many managers run their business thinking in the short-term. When a firm is growing, instinctive management systems (maybe useful in their first stages) must be replaced by more formal ones, and especially a strategic plan should be designed in order to obtain accurate identification of long term objectives, policies and actions. In this sense, Coolaboro has established strategic plans and training programs as main tools in its management system.

When we asked Mr. Cobo about Coolaboro's level of development, he selected the last stage in firms' development model proposed by Leach (1993). This stage is the one in which the firm is maturing and focuses on formalizing permanent activities, identifying at the same time new opportunities to guarantee growth. Once again, this CEE demonstrates a good level of coherence between its stage of life cycle and its strategic model.

## 5. PRACTICAL LESSONS

Nowadays, the resurgence of the social entrepreneurship is a consequence of the renovation of the spirit of people that consider relieving social problems is their responsibility (Olsen, 2004). A social entrepreneur's main objective is to look for solutions to social problems and its implementation.

The main challenge that social enterprises have to face is to stay in the market, especially with the current economic crisis. The following ideas are suggestions that we can implement in order to run a CEE successfully, namely:

- 1) CEEs are profitable firms if they are running in a professional way. In the case of Coolaboro, its main strengths are a solid financial situation with high solvency ratios, a good financial leverage and low level of short-term debts. Profits of Coolaboro have been reinvested in the firm as equity in order to invest in their growth. It does not depend on any bank. The CEE analysed has high levels of return on assets and a significant high gross margin. According to the employee ratios, this company have been used the official subsidies for promoting disabled employees to get an advantage in its cost structure. There is a tradeoff between possible workers' inefficiency and their lower labour costs.
- 2) There is a positive return for the Public Administration with CEE because they give more than they really receive. This means that the creation of employment for people with disabilities is highly significant for society in general, for the economy as well as for people with disability.
- 3) Also undoubtedly, these business tactics that are carried on by analysed CEEs have the potential to increase overall social well-being and the creation of value for the company.
- 4) External and internal managerial competences are part of the success of the CEE analysed, apart from the established strategic plans and training programs as main tools in its management system. Professionalization is essential for its survival in the market and for its sustained growth.
- 5) Another factor that has important value for the company success is manager discipline with work, along with inspiration, initiative and humility.

In summary, we present a business case study of a social firm, a CEE, with economic success based on professionalization, good financial health and high external and internal managerial competences. We can learn from this case the viability of social firms, with a high impact on the life of disabled people as well as society due to their social responsibility. We believe that increase of this type of companies with strength management can solve existing problems about employment of people with disability and give visibility to social firms as a success business.

Related to future research in this topic, it has been previously mentioned that the critical distinction between commercial entrepreneurship and social entrepreneurship lies in the value proposition itself. For a social business, the maintenance of the social value would also imply the sustainability of the organization and its services including the financial point of view. Consequently both values, economic and social, would be obtained in a social business. In the paper we have compared a social business, specifically a sheltered employment centre, with two commercial enterprises. Therefore, the majority of the results have been obtained from the economic point of view, without taking into account the social results. In fact, the success of the three firms has been measured taking into account the values for the solvency, debt and profitability ratios. Nevertheless, Coolaboro creates not only an economic value, but a social one too. The problem is that this social value is not reflected in the Financial Statements. The fact that this social value does not appear together with the economic one makes it an incomplete description of social business in general and of Coolaboro in particular. Nowadays, methods for evaluating the social impact of a project are being developed. For instance, the Social Return of



Investment (SROI) method represents a great advance in this direction. This method tries to analyse, contextualise and quantify the impact of the activity of a firm in society (Narrillos, 2012). Therefore, one of our future research lines will be to go more deeply into this important topic trying to present the economic and social results together when studying social enterprises.

This paper is not without limitations. One of the key variables for the social enterprises is the calculation of the return to the Public Administration. This return could be considered a measure of the efficiency in the use of the public aids received by sheltered employment centres. In our paper, this return has been calculated taking into account the cash inflows and outflows. But there are other inflows and outflows that do not involve cash movements such as the savings in pensions, etc. It has been impossible to get this information that would increase the accuracy in the calculation of this return.

During the exposition, it has been highlighted that the managerial skills have been crucial for the creation of value for the company. The creation of value has been measured using profitability ratios as indicators of the efficiency of a firm in the use of capital invested by shareholders and creditors. Another good measure of the management and creation of the value in a company is the so-called EVA, Economic Value Added. EVA considers the productivity of all factors used in a company's activity, and, therefore, is an indicator of value creation insofar as the return generated is greater than the shareholder opportunity cost (Camacho-Miñano, et al. 2012). Nevertheless, the financial information in SABI does not allow us to calculate the EVA accurately. Finally, as Mueller et al (2013, 306) affirms: "an ability to create social value, quantitatively measure it and report it to all key stakeholders, and in particular to financiers, is a critical skill for social entrepreneurs". Accordingly, more empirical evidence is necessary to identify social entrepreneurial skills, distinguishing for these required for commercial entrepreneurs.

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## KEY TERMS AND DEFINITIONS

**Case Study:** is a research method which study of an individual unit, as a person, family, or social group, usually emphasizing developmental issues and relationships with the environment, especially in order to compare a larger group to the individual unit.

**Economic Value Added (EVA):** A measure of a company's financial performance based on the residual wealth calculated by deducting cost of capital from its operating profit (adjusted for taxes on a cash basis).

**Entrepreneurship:** process of starting a business, especially when this involves seeing new opportunities.

**Grants/Subsidies:** an amount of money given especially by the government to a person or organization (often a nonprofit entity) for a special purpose such as: education, business, individual case, etc.

**Professionalization:** social process by which any trade or occupation gives itself professional character or status to and make into as a profession. It is required that individuals within the profession have met established educational, legal, or other recognized standards for the field (e.g., licensure).

**Sheltered employment centres (CEE):** are companies whose aim is to make a productive activity of goods or services in market operations to ensure a paid job for people with disabilities. A sheltered employment centre has to have at least 70% of its workers are disabled people (with an official certification of disability degree higher than 33%) in order to get the official certification and receive public financial aids.

**Social Responsibility Policies:** it is a form of corporate self-regulation integrated into a business model whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and international norms.

**Social Entrepreneurs:** are people who start-up companies adopting a mission to create and sustain social values (not just private values).

**Social Economy:** the private set of economic and business activities that pursue the interest for a particular collective (such as disabled people or women) or the general economic and social interests (such as environment, gender inequality or poverty). In Spain, firms that belong to this

sector are social insertion businesses, cooperatives, worker-owned companies, mutual companies, foundations and sheltered employment centres.

## ENDNOTES

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<sup>1</sup> According to the report of CEPES 2014. [www.cepes.org](http://www.cepes.org).

<sup>2</sup> European Commission. Social enterprises

[http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/social-economy/social-enterprises/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/social-economy/social-enterprises/index_en.htm)

<sup>3</sup> INE, Nota de prensa, 9/12/2013, “El empleo de las personas con discapacidad”.

<sup>4</sup> Dirección General de Apoyo a las Pymes, [www.lne.es](http://www.lne.es), available at 20/01/2014.

<sup>5</sup>[http://www.diariodenavarra.es/noticias/dn\\_management/2013/09/26/por\\_cada\\_invertido\\_por\\_a\\_dministracion\\_los\\_centros\\_especiales\\_empleo\\_retorna\\_sociedad\\_131511\\_2542.html](http://www.diariodenavarra.es/noticias/dn_management/2013/09/26/por_cada_invertido_por_a_dministracion_los_centros_especiales_empleo_retorna_sociedad_131511_2542.html)