

BACHELOR THESIS

TO SURVIVE AS A SOCIAL ENTERPRISE- FINANCIAL CHALLENGES AND OPPORTUNITIES. A CASE STUDY ON THE GERMAN SOCIAL ENTERPRISE “S.I.G.N.A.L.” GGMBH

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List of Acronyms

AGH	Arbeitsgelegenheit (Job opportunity)
AO	Abgabenordnung (Tax Code)
Art.	Article
CC	Corporate Citizenship
CE	Civic Engagement
CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
EFESEIIS	Enabling the Flourishing and Evolution of Social Entrepreneurship for Innovative and Inclusive Societies
ERDF	European Regional Development Fund
ESF	European Social Fund
et. al.	et alii (and others)
EU	European Union
EuSEF	European Social Entrepreneurship Funds
GG	Grundgesetz (Basic Law)
gGmbH	gemeinnützige Gesellschaft mit begrenzter Haftung (public-benefit limited liability company)
G.I.B.	Gesellschaft für innovative Beschäftigungsförderung (Society for Innovative Employment Support)
ib.	ibidem (in the same place)
NRW	Nordrhein-Westfalen (North-Rhine Westphalia)
SE	Social Entrepreneurship

1. Introduction

1.1. Problem definition

“Reducing poverty and social exclusion is one of the main challenges for ensuring social cohesion in modern Europe” (Zimmermann 2015: 1). The issue of social protection was addressed in different treaties, especially in the EUROPE 2020 Strategy framework where evidence of a growing commitment to a ‘more social’ Europe can be found. Among EUROPE 2020’s five key targets are the social and labour market inclusion and the reduction of the number of people in or at risk of poverty and social exclusion by a total of 20 million (Zimmermann 2015: 2). This objective, however, will be hard to achieve in the current context, as the Great Recession caused a steep increase in poverty rates. (Duiella & Turrini 2014: 10). As Hauser outlines, the main goals of the welfare state are: “the prevention of poverty; the coverage of social risk like unemployment, old age, invalidity, sickness, being in need of permanent nursing, the costs of children, the costs of education; and in a wider sense the promotion of equality, of social integration and of political stability” (2002: 1). However, the task of the politicians is perplexed by the consequences of globalization, processes of demographic change and recurrent financial crises. The state, as a sole actor that aims to find solution to social problems, is overwhelmed (Jähnke, Christmann & Balgar 2011: 7). People who have been unemployed for a long period of time are particularly dependent on the welfare state. Their number has been increasing in Europe since the 1990s, especially during the financial crisis. It is generally very hard to reintegrate long-term unemployed people into the job market. Therefore, the probability of impoverishment is even higher – both in social and economic terms.

Since the state has difficulties in solving the social problems of society today, people look for new opportunities and innovative strategies to overcome the challenges in the labour market. This is emphasized by Jähnke, Christmann and Balgar who state that nowadays increasing hopes are placed on people who define themselves as “Social Entrepreneurs”. They try to solve social issues with the help of entrepreneurial means (2011: 8). In order to analyse the role and influence of Social Entrepreneurship (SE) and Social Entrepreneurs in Germany, these terms should be defined and more importantly, they should be distinguished from other definitions, such as Civic Engagement (CE), Corporate Social Responsibility (CSR) and Corporate Citizenship (CC).

The essential difference between traditional business entrepreneurs and social entrepreneurs is their goal. Social entrepreneurs are working on solving societal problems. Therefore, their goal is social change and social value. Social change is measured by the social yield, which is composed of the social and

private returns. The private ones usually refer to financial returns. However, earning of financial return can be part of the social entrepreneur's work but it is not his or her primary target. As a consequence of focusing on social change, no market financial returns are achieved with social-entrepreneurship activities. Since the beneficiaries of social entrepreneurs' activities often cannot pay the services provided, some social entrepreneurs cannot even generate revenue to cover their costs. Therefore, one can differ between various financing forms of SE: from donations to equity and debt with rate of return slightly below the market level. Classical external investors such as banks or investment companies are not suitable for SE because the return is usually too low and no security can be provided. Social entrepreneurs and their organizations, the social ventures, are therefore dependent on capital that must not pay interest at market standard conditions (Heister 2010: 1-2). Volkmann, Tokarski and Ernst claim that the access to capital is "one of the most important elements in fulfilling the social mission" (2012: 158). Financing SE is not only a key element but also a big obstacle for many social entrepreneurs, since a sustainable financial foundation is a classical problem in the development of social ventures. Insufficient financing could be the biggest threat not only for the organization's growth and development but also for its existence. Thereby, the provision of adequate capital can be defined as a basic block and a central challenge of SE (Zimmer & Bräuer 2014: 32).

1.2. Research question

Since, financing is a vital element of every social venture's structure, my research will seek to investigate how a social enterprise secures its funding by answering the following questions: **How does a social enterprise operate, which are the most pressing problems and difficulties and how does it manage to survive as a social enterprise?** To conduct research on these issues, the single case study of the German social enterprise "S.I.G.N.A.L." gGmbH will be analysed. "S.I.G.N.A.L." operates in the field of labour market policy. The purpose of this paper is to do research regarding the issue of securing resources. The research will be conducted with the methodic procedure of Desktop Research, Analysis of the organization's documents, and expert interviews. The analytical approach and organizational theory will be applied.

1.3. Structure of the thesis

The following work is organized in a straightforward manner. The next section will examine the theoretical background and provide a clear conceptualization of the basic characteristics of the Social Entrepreneurship, as well as of the above mentioned terms. Moreover, the theory regarding financing of social enterprises will be offered. A brief overview of the methods applied and the sources used in this paper will follow. In the main part of the thesis,

an analysis of the single case study will be offered, starting with a short introduction to the general context of the country, followed by an investigation of the specific social enterprise - "S.I.G.N.A.L." gGmbH, including the entrepreneur's motivation, as well as the enterprise's role, financing, collaboration with the state and its relations to the current problem. Finally, the findings of my research will be illustrated in the conclusive section. The conclusion will also serve to highlight the relevance of the present research and to draft the possibilities for future research on this subject.

2. Theoretical Background

This section serves to explain the concepts used. It is dedicated to providing background information on the subject and to explaining the relevance of this research.

2.1. Definition of Social Entrepreneurship

The idea of „Social Entrepreneurship“ seems to be something new but actually the perception of the phenomenon changes throughout the years. First, it is important to clarify what does a social enterprise entail in itself. It is usual, and easy, to make a comparison with the regular business in order to clarify the difference with social entrepreneurship. Where a regular trader will approach profit as a monetary reward, a social entrepreneur will approach profit as creating social value (Dees, 1998). What does social value mean? The creation of social value can be best described as the provision of a contribution to a social problem (Seelos & Mair, 2005). The main differences between „Social Entrepreneurship“ and some similar concepts, for instance Civic Engagement, Corporate Social Responsibility and Corporate Citizenship will be offered. The distinction is very fine and one can easily miss the borders between the concepts. CE refers to private persons who voluntarily practice social activities in their free time without payment while SE uses the entrepreneurial approach to generate income. The main differentiation between SE and the other two concepts is that social entrepreneurs focus on the social purpose rather than on the economic one (Jähnke, Christmann & Balgar 2011: 9).

However, since many social sector institutions are defined as „inefficient, ineffective and unresponsive“, according to Dees, the need for developing new models through social entrepreneurs is increasing, so that the concept of „social entrepreneurship“ is „well suited to our times“ (1998: 1).

The history of the term „entrepreneur“ begins between the 17th and 18th centuries. Its definition is based on the works of classical entrepreneurship researchers like Jean Baptiste Say, Joseph Schumpeter, Peter Drucker and Howard Stevenson (Schwarz 2014: 78). Their diverse explications can be summarized as follows: The entrepreneur redirects economic

resources from lower to higher productivity by changing the standard of production through innovations. He exploits every change as an opportunity and does not allow the lack of resources to limit the realization of his ideas (Dees 1998: 2-3).

Moreover, there exists a variety of meanings of “social entrepreneurship”. Professor J. Gregory Dees was named the father of social entrepreneurship, because he was one of the first academicians who provided a full definition of the term. He united the classical explanations of “entrepreneurship” and concluded that social entrepreneurs “play the role of change agents 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” (1998: 4).

Another definition is proposed by Martin and Osberg (2007) who claim that social entrepreneurs:

- „target underserved, neglected, or highly disadvantaged populations
- Aim at large-scale, transformational benefits that accrue either to a significant segment of society or to society at large“ (Praszkier & Nowak 2012: 9).

In 1980 Bill Drayton founded a citizen-sector organization named “Ashoka” which became the largest network of social entrepreneurs. Ashoka currently has 3000 Fellows in 70 countries who aim to put their innovative ideas into practice. Ashoka provides services like start-up financing and professional support but it also offers connections to a global network across the business and social sectors (Ashoka 2015). Some of Ashoka’s requirements for being a social entrepreneur are having an innovative and creative idea for solving a social problem and envisioning its broad social impact. The possession of entrepreneurial personality and unquestionable ethical fiber are other needed and expected capacities according to Ashoka’s criteria (Praszkier & Nowak 2012: 11).

Thus, there are many different perceptions of the term. The following table provides a summary of the main definitions with their core characteristics:

Table 1: Definition of the terms "social entrepreneurship" and "social entrepreneur"

Source	Definition	Core Characteristics
Bornstein (1998)	A social entrepreneur is a path breaker with a powerful new idea who combines visionary and real-world problem-solving creativity, has a strong ethical fiber, and is totally possessed by his or her vision of change.	<ul style="list-style-type: none"> • Mission leader • Persistent
Thompson et al. (2000)	Social entrepreneurs are people who realize where there is an opportunity to satisfy some unmet need that the state welfare system will not or cannot meet, and who gather together the necessary resources [...] and use these to "make a difference."	<ul style="list-style-type: none"> • Emotionally charged • Social value creator
Dees (1998)	Social entrepreneurs play the role of change agents in the social sector by: [see above]	<ul style="list-style-type: none"> • Change agent • Highly accountable • Dedicated • Socially alert
Brinckerhoff (2009)	A social entrepreneur is someone who takes reasonable risk on behalf of the people their organization serves.	<ul style="list-style-type: none"> • Opinion leader
Leadbeater (1997)	Social entrepreneurs are entrepreneurial, innovative, and "transformatory" individuals who are also: leaders, storytellers, people managers, visionary opportunists and alliance builders. They recognize a social problem and organize, create, and manage a venture to make social change.	<ul style="list-style-type: none"> • Manager • Leader
Zahra et al. (2008)	Social entrepreneurship encompasses the activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner.	<ul style="list-style-type: none"> • Innovator • Initiative taker • Opportunity alert
Ashoka (2012)	Social entrepreneurs are individuals with innovative solutions to society's most pressing social problems [...] They are both visionaries and ultimate realists, concerned with the practical implementation of their vision above all else.	<ul style="list-style-type: none"> • Visionary • Committed

Source: Abu-Saifan, 2012: 24

In sum, the social entrepreneurs recognize new opportunities and use innovative means to solve the unmet needs of the disadvantaged populations and to create social value. They take risks, do not aim to create profit and depend mainly on external financing.

Chapter four is dedicated to examining whether the selected case – the German enterprise "S.I.G.N.A.L." gGmbH – corresponds to the academic definitions of the term "social entrepreneurship". Moreover, it will offer a detailed analysis of the enterprise's history, structure, financing, founder/ CEO etc. A deep investigation of S.I.G.N.A.L.'s performance in the social sector will aim at answering the research questions of this thesis: **How does a social enterprise operate, which are the most pressing problems and difficulties and how does it manage to survive as a social enterprise?**

2.2 Financing Social Entrepreneurship in Germany

According to Volkmann, Tokarski and Ernst, securing access to capital has a crucial role in achieving the social mission (2012: 158). In the traditional sense, financing covers all processes and measures within an organization related to the provision and repayment of the funds needed for an organization's investment or business operations development. This also includes the associated design of payment, information, control and hedging relationships between organizations and investors. The financing needs of social entrepreneurs involve some peculiarities in comparison to profit-oriented entrepreneurs (Achleitner, Pöllath & Stahl 2007: 14).

There are two possible forms of financing – internal and external. If the social venture generates cash flow through the provided services and products, it makes use of internal financing. Normally, the target group itself pays for the services but there are also cases when third-party provide the payment – either the government or service beneficiaries (Volkmann, Tokarski & Ernst 2012: 158). According to Spiess-Knafl, the government funds only concrete projects and there are complex administrative procedures that have to be fulfilled (2012: 61). Internal financing by the service recipients proceeds often in form of membership fees (ib.:70). Zimmer and Priller state that only 32,3% of the total financial volume is financed by internally generated revenues (2007: 61). Often internal financing is accessible to SE. Financing through public authorities is not available to for-profit ventures and so it is one of the differences in the financial structure of the two types of enterprises (Volkmann, Tokarski & Ernst 2012: 158).

Thus, the external financing has a significant meaning for the SEs in Germany. Social entrepreneurs use external financing for long-term investments, like equipment and buildings, or to cover negative operating cash flows. Sources of external financing are investors without or with reduced financial return expectations because of the limited financial capability of social enterprises. Therefore, it is habitual when investors lower the rate of expected financial return (ib.: 159). Basically the same external financial instruments are available for traditional companies and social enterprises: equity, debt and mezzanine capital. In addition, social ventures can receive donations or can have hybrid capital (ib.: 161).

Donations are of great importance for SE, especially in cases when other financing streams are not accessible. Since donations are not repayable and do not give any managerial rights to the donors, they are often preferred by social entrepreneurs. However, they also have their disadvantages. In most cases they are related to a specific project, short-term oriented and have fundraising costs. Therefore, money for the organizations themselves is lacking and they remain underfinanced. Sources of donations could be Corporate Social

Responsibility funds of firms, private individuals or foundations. All in all, donations form only 4% of the financial volume of nonprofits (Grohs, Schneiders & Heinze 2014: 54). Nevertheless, they are a significant part of the social sector (Volkman, Tokarski & Ernst 2012: 162).

According to Volkman, Tokarski and Ernst, “the shortcomings of donations have led to use of other financing instruments” (2012: 163). An alternative for financing working capital, negative cash flow or even long-term investments is equity capital. Formal sources of equity capital could be business angels, private equity and venture philanthropy funds (Volkman, Tokarski & Grünhagen 2010: 295-296). The shortcoming of this type of capital is that the capital provider receives shares of the enterprise and therefore gets control and voting rights (Volkman, Tokarski & Ernst 2012: 163). An option for financing long-term investments, like equipment or buildings, without giving away venture’s share is debt capital. In this case the enterprise has to pay regular interest - a payment period is defined and at its end the debt has to be repaid. Social investors are inclined to give interest-free loans with interest rate of 0% (ib.: 164). Enterprises, for which neither equity, nor debt capital is the perfect option, can choose the mezzanine financing as a hybrid concept between the other two. The dominant elements of equity or debt capital depend on the concrete case (Volkman, Tokarski & Grünhagen 2010: 337). This collective form is often chosen by social investors because their investment is repaid like a loan and additionally they receive the option of a “performance-related compensation in case of financial success” (Volkman, Tokarski & Ernst 2012: 164). However, these additional financing instruments providing external capital are often problematic, because SEs often do not generate sufficient financial returns (Achleitner et al., 2011: 270).

Financing of social enterprises shows more often hybrid character because it is not related to repayment of investments but aims at helping the organization in realizing its social mission instead. Hybrid structures are built when ventures split into for-profit and non-profit units. The Mercator Study demonstrated that social ventures basically rely on mixture of financing streams. The financing instruments in these cases vary from “private donations, sponsorship and foundation funding to public-sector grants and income self-generated on the markets and quasi-markets” (Wolf 2014: 12).

However, there are many different actors involved in the supporting of SE in Germany. Among them are the largest network of social entrepreneurs worldwide – “Ashoka” which is dedicated not only to financial support but also to consultancy and network in the form of scholarships (Ashoka 2015), foundations like the Bertelsmann Stiftung, the Vodafone Stiftung but also policy makers and traditional welfare organizations. Moreover, venture

philanthropy funds like BonVenture, also contribute to the fund-raising of social oriented organizations in Germany (ib.: 13).

The European Union also plays an important role in financing social enterprises. “The Commission wants to contribute to the creation of a favorable environment for the development of social business in Europe, and of the social economy at large.” (European Commission 2015: The EU Single Market). In the area of collective investment schemes, European law currently covers four types of harmonized investment funds. The fourth one is EuSEF, an investment scheme that focuses on all kinds of enterprises that achieve proven social impacts.

In 2011 one could notice a significant growth of enterprises whose main goal was social impact. In the EU 10% of all business belonged to the world of SE where more than 11 million workers found paid employment. Social businesses are not only by definition “key to smart, sustainable and inclusive growth” but their importance became even more clear from the consultation on the Single Market Act, “which identified social businesses as one of 12 'key levers' for an effective relaunch of the single market” (European Commission 2011). The Single Market Act from 13.April 2011 offered a road map aiming to improve access to funding, visibility and legal environment of SEs because social business was facing challenges in getting investments. There were four key actions in order the access to funding to be improved: the creation of EuSEF, development of microcredit in Europe, a creating of a European financial instrument and investment priority for social enterprises in the ERDF and ESF (Melichercikova 2013).

The Regulation (EU) No 346/2013 on European social entrepreneurship funds was adopted in March 2013 by the European Parliament and by the Council and came into force on 22.July 2013. The aim of the EuSEF is to provide “means by which investment management products could intermediate capital from investors to social businesses” (Dillon Eustace 2013: 2).

The European Social Fund is the main instrument of the European Union for promoting employment in Europe. It improves access to better jobs, provides training and supports social inclusion. The ESF plays a significant role in meeting Europe 2020’s goals, and in reducing the consequences of the economic crisis – especially the rise in unemployment and poverty levels (European Commission 2015: European Social Fund).

3. Methodological Remarks

While the theoretical framework serves to explain the phenomenon of social entrepreneurs and the different financing possibilities, the methodological framework will help to clarify the way in which I looked for an answer to the research question. This chapter will give an overview of the process of the conducted research. In addition, the methodological choices used for the analysis will be discussed.

3.1. Case study

The present research will be conducted as a single case study design in which the case of the German social enterprise “S.I.G.N.A.L.” gGmbH is examined. Gerring and McDermott defined a case study as “a form of analysis where one or a few units are studied intensively with an aim to elucidate features of a broader class of - presumably similar but not identical - units” (2007: 688). According to Johnson and Reynolds, case studies are suitable to answer “how” or “why” questions as a matter of an explanatory purpose (2012: 196) which qualifies this study’s research question to be relevant to explain the role of social enterprises within the selected case as it asks **“How does a social enterprise operate, which are the most pressing problems and difficulties and how does it manage to survive as a social enterprise?”**

3.2. Case selection

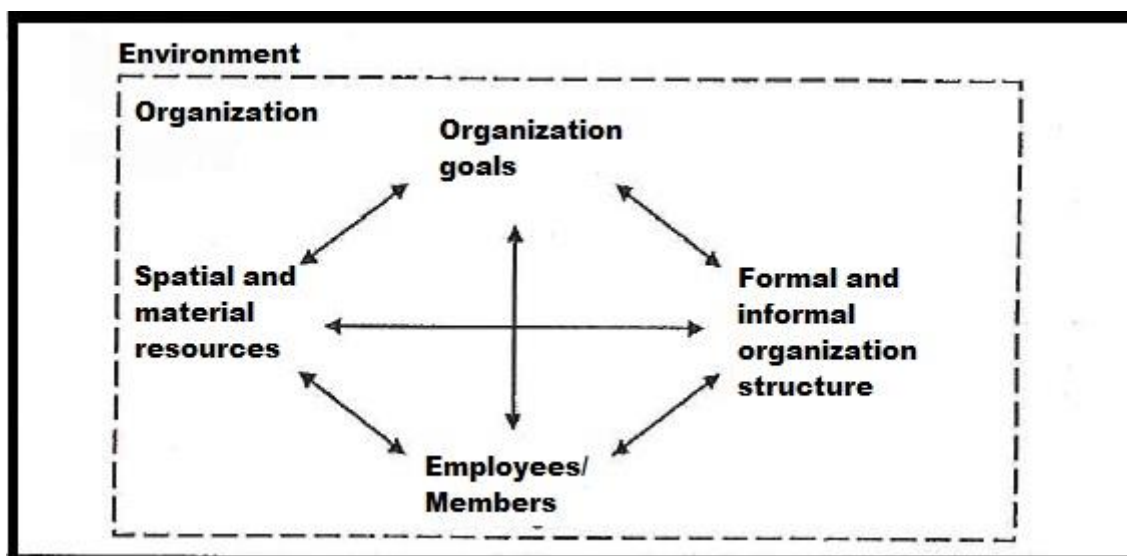
The following section will focus on the reasons for choosing the specific case of the German social enterprise “S.I.G.N.A.L.” gGmbH. It was found in the database of the European Project EFESIIS: Enabling the Flourishing and Evolution of Social Entrepreneurship for Innovative and Inclusive Societies. Part of the database of the Project was offered in the seminar “Social Entrepreneurship: the change of the welfare state: a way out of the crisis?” (“Social Entrepreneurship: Wohlfahrtsstaat im Wandel: ein Weg aus der Krise?”) at the Westfälische Wilhelms-University in Muenster. I chose this organization because of various reasons, which are to be listed next. The first important criterion for me was the organization’s policy field of activity. “S.I.G.N.A.L.” is a social enterprise for innovative labor market policy and labor market activation. Throughout my university studies, I had worked on several papers about strategies for reducing poverty and unemployment in the countries of the European Union and, therefore I was well familiar with the topic and with the existing problem. Second, was its geographical location. There are social enterprises operating in this field located in Aachen, Köln, Wuppertal etc. However, I choose the one in Schwerte, because Schwerte is a relative small town in the Ruhr Area in North-Rhine Westphalia. This region was defined as a “special poverty region in Germany” in the 2011 Poverty Report. Germany’s metropolitan area has over 5 million inhabitants and since 2006 the poverty rate in the region has increased, reaching 19,2% in 2012 (World Socialist Web Site). Therefore, this region faced

many difficulties and challenges in field of labor market policy and labor market activation. The last significant criterion was the venture itself. I read and compared the web sites of the selected organizations and found out that “S.I.G.N.A.L.” is especially interesting and innovative venture due to its services’ comprehensiveness and diversity as well as its level of networking. To sum up, the key criteria for the particular case selection were the enterprise’s field of activity, geographical location and innovative character.

3.3. Organisational analysis

After data was collected, the findings have been examined and shaped into an organizational analysis. As introduced above, the present research is an analysis of a concrete organisation, namely “S.I.G.N.A.L.” gGmbH. In order for a rational analysis to be accomplished, the term “organizational analysis” should be defined first. A simple and comprehensive definition is: “The process of reviewing the development, work environment, personnel and operation of a business or another type of association” (Businessdictionary 2015). The model of Richard Scott illustrated in Figure 1 and the guideline of the EFESSEIS project for conduction a case study will be implemented. The Scott’s model focuses on the organisation’s environment and on the basic elements of the organization with its internal processes. Moreover, the guideline of Zimmer and Bräuer (2015) will add third aspect of the analysis regarding the social entrepreneur. The last step of the organizational analysis will focus on the founded results, including developments, challenges and opportunities.

Figure 1: The Model of Organizational Analysis



Source: Based on Scott, 2003: 18

First, the ecosystem of the organization will be analysed. The environmental organizing includes, for instance, the geographical features in which the organization is involved, such

as specific funds in the field of activity of the organization and the local context. This step of analysis can contain various aspects, such as organization's cooperation with relevant established institutions or the relations with other organizations (partners, competitors etc.) (Zimmer & Bräuer 2015: 4).

Furthermore, the paper will analyse the basic elements of the association in order to get a deeper view on its internal structure. Therefore the Scott-Model will be applied, i.e. organization's goals, spatial-material resources, members and employees, formal and informal structure (see Table 2) (Preisendörfer 2005: 59). Since organizations are defined as "social entities that are goal-directed [...]" (Daft et al.: 10), one can say that the goals are part of the organization's definition and as such they are reasonably significant and should be defined as well (Preisendörfer 2005: 62). The formal structure contains aspects such as job descriptions, tasks distribution, and hierarchy of employees. It deals technically with the structure of the organization and with the organizational processes (ib.: 66). An important step, when investigating an organization, is the analysis of the founder, including his or her motives and motivation. Additionally, of great importance are the development and changes in the financing streams.

Table 2 presents the operationalization of the significant variables which set an organizational analysis.

Table 2: Core elements for organisational analysis

	Organisational analysis	Operationalization
External	<ul style="list-style-type: none"> Geographical peculiarities 	<ul style="list-style-type: none"> Geographical situation of the city Unemployment rate – high, low Poverty rate – high, low
	<ul style="list-style-type: none"> Cooperation with relevant established Institutions 	<ul style="list-style-type: none"> Yes No
	<ul style="list-style-type: none"> Other Organizations 	<ul style="list-style-type: none"> Cooperation Competition
Internal	<ul style="list-style-type: none"> History 	<ul style="list-style-type: none"> Establishment Development Changes
	<ul style="list-style-type: none"> Structure 	<ul style="list-style-type: none"> Single Business area More Business areas
	<ul style="list-style-type: none"> Legal Form 	<ul style="list-style-type: none"> Registered Association GmbH

Analysis		<ul style="list-style-type: none"> • gGmbH
	<ul style="list-style-type: none"> • Financing 	<ul style="list-style-type: none"> • Internal • External
	<ul style="list-style-type: none"> • Impact 	<ul style="list-style-type: none"> • High • Low
	<ul style="list-style-type: none"> • Innovation 	<ul style="list-style-type: none"> • Yes
	<ul style="list-style-type: none"> • Character 	<ul style="list-style-type: none"> • No
	<ul style="list-style-type: none"> • Employees 	<ul style="list-style-type: none"> • Full time / Part time job • Permanent / AGH/ Volunteer employees
	<ul style="list-style-type: none"> • CEO 	<ul style="list-style-type: none"> • Former Founder – yes/no • Internal/ External employee
	<ul style="list-style-type: none"> • Strengths 	<ul style="list-style-type: none"> • Are there any strengths – yes or no
	<ul style="list-style-type: none"> • Weaknesses 	<ul style="list-style-type: none"> • Are there any weaknesses – yes or no
	<ul style="list-style-type: none"> • Opportunities 	<ul style="list-style-type: none"> • Are there any opportunities – yes or no
	<ul style="list-style-type: none"> • Threats 	<ul style="list-style-type: none"> • Are there any threats – yes or no

Source: Own table based on Zimmer & Bräuer 2015

3.4. The techniques of the expert interview

Following Frantz, the interview is a suitable method for analyzing an organization as it complements the desktop research and offers fast access to missing information (2005: 54). In the present research an expert interview will be conducted. An expert should be first defined on the basis of different criteria. As an expert is considered someone who either has scholastic expertise on a topic or has gained knowledge due to his/her occupation (ib.: 61). In the specific case Mr. Jan-Dirk Hedt is defined as the expert due to the second point.

When conducting an expert interview, the interviewer needs a prepared list of open-ended questions as a basis of the conversation. In order to obtain one, he or she needs to implement a desktop research. This means the researcher has to inform him/herself about the organization as much as possible through secondary sources like the organization's website, the organization's annual reports, articles published about this enterprise, etc. All significant questions which stay unanswered after the primary research should be systematized and organized in an interview guide, so that the interviewer can keep the conversation concise, purposeful and systematic.

According to Gläser and Laudel, the techniques of the expert interview are suitable for cases in which several issues must be addressed or when individual, exact and specific information must be collected (2009: 111). After the implementation of the desktop research and the classification of the achieved facts, it turned out that there was a wide range of undiscovered

information, and therefore a need for further research. I could conclude that the technique of the expert interview is an appropriate method for my further investigation of “S.I.G.N.A.L.” gGmbH. I have prepared an interview guide which includes questions about various issues and specific details which were not found in the first step of the research process. The interview guide could be found in Annex 1.

Furthermore, there are formalities such as scheduling an appointment with the organization’s founder or representative, agreement about recording the conversation, settlement of the conditions of anonymity of records, etc. There are different options of an interview’s conduct: face-to-face-, telephone- or Email-interview. Gläser and Laudel recommend face-to-face interview as a source of more information such as exchange of important documents during the meeting, more control over the conversation, and of course, source of trustful conversational atmosphere (2009: 153-154). The first contact with the interviewee has significant impact on the success of the whole survey. The interviewer should be able to convince his or her partner to participate in the investigation and to trust them (ib.: 159). In order to be as convincing as possible, I decided to use a telephone call to approach Mr. Jan Dirk Hedt, director of “S.I.G.N.A.L.” gGmbH. He agreed to meet with me on the 2nd of July, 2015. In literature about the technique of the expert interview the authors are unanimous that the recording of the conversation and the full transcript afterwards are indispensable, in order not to lose any information either consciously or unconsciously (id.: 158, 193). All of these formalities were met and the corresponding declarations of agreement about recording and of assurance of anonymity of records are to be found in Annex 2 and Annex 3.

3.5. Data collection

The data collection proceeded in three stages. The first one was a desktop research including browsing of the homepage of “S.I.G.N.A.L.”, newspaper articles and publications about the organization in the internet space. Second, an own interview was conducted with Mr. Jan-Dirk Hedt – the current CEO of “S.I.G.N.A.L.”. Third, after the primary analysis of the collected data, there were still unanswered questions and missing information. Thus, second round interview questions were send to Mr. Hedt in order comprehensive information about the organization to be achieved. Moreover, an interview conducted by professor Annette Zimmer in the course of the EFESSEIS project was accessible and offered additional significant information about the financial structure of “S.I.G.N.A.L.”.

This thesis is based on both primary and secondary data. The literature collected and used is mostly from academic books and articles. For the explanation of the term “social entrepreneurship” were used mainly the works of Dees; Jähneke, Christmann & Balgar and the definition proposed by Ashoka. The different possibilities for financing a social enterprise were defined based on the authors Volkmann, Tokarski, Ernst and Grünhagen. Extremely

useful data was gathered also from various case-related online sources and from the homepage of the European Commission. The publications of the EFESIIIS were used for the investigation of the German social entrepreneurship. Suitable materials were also found in different academic journals. The website of “S.I.G.N.A.L.” gGmbH and the primary data acquired through the expert interview were used for the deeper analysis of the selected case. Thus, by collecting enough information, I aimed to elaborate on my case study’s topic: **How does a social enterprise operate, which are the most pressing problems and difficulties and how does it manage to survive as a social enterprise?**

4. Case Study

4.1. External

According to Richard Scott the ecosystem is an “indispensable ingredient in the analysis of organizations” (2003: 18). Therefore, the environment of the “S.I.G.N.A.L.” gGmbH will be introduced first.

4.1.1. Geographical peculiarities

“S.I.G.N.A.L.” is a social enterprise for innovative labor market policy which helps disadvantaged and needy people. It operates in the field of poverty reduction and labor market activation. The organization is active rather locally in the German city Schwerte than regionally or nationwide (Signal-schwerte.de). Schwerte is located in the district of Unna, in North-Rhine Westphalia, Germany. The town is situated in the Ruhr valley, at the south-east border of the Ruhr Area (Schwerte.de). In contrast to the general trend in the country, the region is marked with rising unemployment. Thereby there are problems like social exclusion and poverty. In January 2015, the unemployment rate in Schwerte reached 7,5% (see annex 4) and therefore lied 2,7% above the Federal average of 4,8% (see annex 5). According to the statistics, the ratio of unemployed men to unemployed women is 54,1% to 45,9%, while the highest percentage of unemployed people - 33,9%, fall in the age group of 50 and above (see annex 4). The statistics show that the most affected group are men over the age of 50.

4.1.2. Relevant Established Institutions

“S.I.G.N.A.L.” offers labor market services for the above mentioned group of people in various business departments. The main business sectors of the enterprise are canteen (Schwerter Tafel¹), social department store (Sozialkaufhaus), Debt and Insolvency Consulting Center (Schuldenberatung) and Unemployment Center (Arbeitslosenzentrum). In addition “S.I.G.N.A.L.” gGmbH is committed to organize new projects annually, which are to

¹ The name "Tafel" is legally protected as a registered trademark (Deutsches Patent- und Markenamt). Because of this, the researcher will further use the German term “Tafel” in the analysis of this business department of “S.I.G.N.A.L.”.

be financed by governmental funding programs . In order to receive the required funding, the enterprise should apply for each project every year. Since the submission of the applications demands qualified administration staff, which the venture cannot afford, “S.I.G.N.A.L.” works in close contact with the job center in the city and with the Federal Employment Agency. Thereby the established institutions support the enterprise with the applications (Interview 1).

4.1.3. Other organizations

Besides these institutions, the social venture works with a lot of partner organizations such as the German hypermarket chain “Real”, the world's largest furniture retailer “IKEA” (Zuvela 2008), the local society “Unternehmen Starkes Schwerte”, the companies “Ültje”, “Blumen Risse” and many other local and regional companies, which provide donations for “S.I.G.N.A.L.” in the form of both products and services. Although the enterprise operates locally, it is allowed to pick up products from the hypermarket “Real” in the neighboring city of Dortmund. The food products are used in the Schwerter Tafel, which provides people in need in the town of Schwerte with meals and food (Interview 1). Moreover, the department store operates entirely on donations from private individuals and different companies as well as from the Swedish “IKEA”. “IKEA”’s furniture could be bought by anyone at the social department store in Schwerte (Signal-schwerte.de). The social enterprise offers additional services like picking up, bringing and assembling furniture. To perform its activity, it uses three vehicles which are a source of additional costs. There are local partner companies who provide grants such as refuel or tire service (Interview 1). “S.I.G.N.A.L.” enjoys great support from local organizations and big national and multinational companies. The organization’s CEO evaluates the relationship of “S.I.G.N.A.L.” to other organizations as cooperation rather than as a competition. According to him, there are no real competitors of “S.I.G.N.A.L.” in the region (Interview 2).

4.2. Internal

4.2.1. History

The “S.I.G.N.A.L.” eV was founded in 1986, 29 years ago, as a registered association. There were four people who established the association – there were first and second chairman, a secretary and a cashier. The structure was similar to a sport association (Interview 3). It opened a canteen (Schwerter Tafel) in the town of Schwerte and later established a social department store.² In its history “S.I.G.N.A.L.” was two times “on the top”. It experienced its greatest period in the mid-90s. It was the period with the most employees, with the most activities and the most innovative projects (Interview 3). Unfortunately, due to the difficult

² With the enactment of the Hartz IV laws in 2005 the grants for furniture and household goods for poor people were canceled. This has led to the increasing popularity and establishment of social department stores (Heins, 2009).

economic decisions of the former founder and the management team, the association got into financial difficulties for the first time and became insolvent (Interview 1). In 2008, "S.I.G.N.A.L." signed a lease for a new building for the Schwerter Tafel. It was an unusual deal. The private persons Christoph Krane and Theo Spanke bought the house in order to provide the Tafel with a suitable new building. The association was supposed to pay rent for a period of 10 years, which later became 15 years. After that the building should have passed into the possession of the "Community Foundation Schwerte". There were lots of ambiguities from the beginning. However, the deal was done. Shortly afterwards the association's board of directors was dissatisfied with the expensive rental and the high renovation and maintenance costs. In addition, 15 months later the organization had energy costs of 20.000 €. The consequences for "S.I.G.N.A.L." eV were detrimental: it filed for bankruptcy and had to dissolve all workspaces. A start-up in new construction was the one and only option for the organization. The city government was responsible to pay the director's allowance (Bandagen 2010). The local council had supported the association since its establishment, so it kept helping "S.I.G.N.A.L." in the difficult moments. An attempt was made to find another carrier which would practically take over the association as a legal successor. It was offered to the concern "Werkstatt im Kreis Unna" GmbH but it chose not to take over the organization directly. Instead, the association was released from its tasks and the new "S.I.G.N.A.L." gGmbH was established in 2010. The new venture was then incorporated into the company in Unna (Interview 1).

4.2.2. Mission and Vision

In the beginning the name of the association meant "Schwerter Initiativ Gemeinschaft nicht nur Arbeitsloser" (Schwerte's initiative community not only unemployed) (Interview 3). Today, the abbreviation of the venture's name contains its motto. Mainly it is about the social character of the organization:

- **Sozial handeln** (Social Working);
- **Innovativ gestalten** (Innovative design);
- **Gemeinwesenorientiert arbeiten** (Working together);
- **Nützliches anbieten** (Useful offering of products and services);
- **Arbeitslosigkeit überwinden** (Overcoming unemployment);
- **Leistungsorientiert wirtschaften** (Output-oriented economics) (Signal-schwerte.de).

4.2.3. Structure

As mentioned above, the social enterprise operates in various business sectors. It contains four main areas of activity – the canteen - Schwerter Tafel, a Social Department Store, a Debt and Insolvency Consulting Center, and an Unemployment center, as well as constantly changing additional projects. The social canteen provides food products which do not comply

with standards, food regulations or consumer demand in order to supply the people in need in Schwerte with accessible, inexpensive and at the same time healthy meals. The Social Department Store offers furniture, household items, junk and textiles for the needy. It relies entirely on donations, affirmed Mr. Jan-Dirk Hedt, CEO of "S.I.G.N.A.L." gGmbH. The donated goods can be picked up for free. Moreover, the department store offers delivery and installation of customers' purchased goods. The Debt and Insolvency Consulting Center aims to help over-indebted and threatened with indebtedness families and individuals, with the goal to mitigate or eliminate the various problems resulting from over-indebtedness. Tasks are in addition to the financial and legal counseling, personal counseling and possibly educational assistance. The aim is to improve the overall living conditions. The fourth area of activity, the Unemployment Center, functions as an information center and meeting place for unemployed people who can share their experiences and perceive counseling. The center offers its customers help with job applications, assistance in finding a job via the Internet, support in dealing with authorities, events for recreation, information sessions on labor market policy issues and updates, as well as free brochure (Signal-schwerte.de).

In addition, the organization performs many different projects, which are financed by funding programs. It means that "S.I.G.N.A.L." gGmbH must apply every year in order to receive the required financing for the projects' implementation. Mr. Jan-Dirk Hedt defined this situation as "constant change", because the venture has to apply again and again for all projects every year and it is "always some kind of lottery" whether they actually receive the allowances for each measure or not (Interview 1).

4.2.4. Legal Form

There is a number of legal forms that social enterprises can choose from. They vary from non-profit to for-profit status or satellite models combining both options. Moreover, in countries like the United States, United Kingdom or Germany special legal forms for social ventures have been set up (Volkman, Tokarski & Ernst 2012: 161). The German alternative is a public-benefit limited liability company (gemeinnützige Gesellschaft mit begrenzter Haftung (gGmbH)). According to §55 Abs.1 Nr.1 Satz.1 AO, a company registered as a gGmbH is exempt from corporate income tax and trade tax. Lots of public-benefit oriented ventures, who want to operate economically, choose this legal form instead of registered association because it is prohibited for an association to operate for profit.

Since "S.I.G.N.A.L." experienced failure as an incorporated society, the management team decided to start an entirely new concept and changed the legal form to public-benefit limited liability company (gGmbH). Through the new legal form it is easier for grantors to donate products and services to the social venture because the enterprise has the opportunity to give an acknowledgment by issuing a certificate for each donation that comes in the right

form and in the right way to them. For some donors this may be of great benefit. It is one of the best arguments of “S.I.G.N.A.L.” gGmbH when they want to prove, fundraising can be pursued. For the social enterprise this is of great importance because it relies extremely on donations - 40% of its financial volume is donations (Interview 1).

As public-benefit limited liability company, “S.I.G.N.A.L.” is a subject to the economic analysis. For Mr. Jan-Dirk Hedt this is some kind of disadvantage compared to the other legal form – non-profit association – which does not undergo such examinations. The company must comply with Financial and Tax laws. However, Hedt said that this is not necessarily a disadvantage; however it is perhaps an additional expenditure (Interview 1).

4.2.5. Financing

The financing is always the most vital element of every enterprise’s internal structure no matter if it is a for-profit or social venture (Volkman, Tokarski & Ernst 2012: 158). Social organizations face difficulties in securing their finances more often than the for-profit enterprises do. “S.I.G.N.A.L.” had also met lasting financial hardship after its management team signed a lease for a new building that was supposed to ensure a “new home” for the Schwerter Tafel . According to the Board, the annual costs of the organization amounted to 93 000 Euro without management costs: rent - 30 000 Euro, personnel costs - 36 000 Euro, energy costs -17 000 Euro, costs of vehicles - approximately 10 000 Euro, and other additional costs. The organization had available revenues of about 26 000 Euro (donations - 12 000 Euro donations, rental income - 8000 Euro, rent allowance by the city - 6000 Euro). A loss of 67 000 was expected (Derwesten 2010). Therefore, an entirely new concept of the organization was made, the legal form was changed and a new venture was established: “S.I.G.N.A.L.” gGmbH.

According to Volkman, Tokarski and Ernst, the financing of an enterprise can be generated internally or provided externally (2012: 158). “S.I.G.N.A.L.” gGmbH makes use of both options. The venture tries to finance its costs through revenue from the sale and transportation of furniture and services such as clearing out or flat resolutions. Personnel costs are co-financed through contributions for manpower by the Job Center. For example, there is an instructor in the furniture transportation department who is responsible for the qualification of the AGH-forces. These personnel costs are funded by allowance for every single employee (Interview 2).

Mr. Hedt claims that there are no significant changes in the financing streams of „S.I.G.N.A.L.“ since its establishment. Donations are mostly preferred by social entrepreneurs, and by the managers of “S.I.G.N.A.L.” as well, because of the limited financial capability of the social organization. Assuming that the financing has a volume of 100%, 40%

of the company is financed by donations. 25% of them are direct cash donations from private persons or partner organizations and enterprises, and 15% are donations in form of services (Interview 1). He also argued that neither equity, nor debt or mezzanine financing were used (Interview 2). In addition, Mr. Hedt claims that the access to funds from the European Union is also extremely difficult due to the required complicated applications. The social venture tried multiple times to apply for European projects but did not always manage to submit all necessary documents before the specified deadlines (Interview 1). Nevertheless, "S.I.G.N.A.L." carried out various EU projects, which were supported by the ESF funds.

From 2009 to 2011 the city of Schwerte has secured funding from the support program "STÄRKEN vor Ort" of the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth. With the implementation of the program, cultural and educational operations were commissioned. Through this program, funded by the European Social Fund, funds were available to promote the educational, professional and social integration of disadvantaged young people and women, to set up a local area network, and to improve the opportunities for participation of citizens. The social organization "S.I.G.N.A.L." was holder of the following microprojects:

- 2009: "Competence assessment"; "Health at school / What does the life cost?"
- 2010: "Custom-fit Internship advising of students"; "Renaturierung des Mühlenstranges u. Naturlehrpfades Schwerter Wald mit arbeitslosen Jugendlichen"; „Qualification of long-term unemployed women in the gastronomy sector“
- 2011: "Renaturierung der Gehrenbachquelle"; "All right with your money!" (Interview 2; stadt.schwerte.de: Förderprogramm STÄRKEN vor Ort)

Moreover, in 2010 „S.I.G.N.A.L.“ implemented the project "Competence assessment for pupils at secondary schools" which was also funded by ESF funds. In addition, since 1989 the Unemployment center of "S.I.G.N.A.L." receives finances of the ESF. The last application is valid until 2017 (Interview 2). The applications are processed and edited in NRW by G.I.B. The organization has to consider the specifications of G.I.B., given by the district government. They should be also written in a way that they fit the local government requirements. Indeed G.I.B. does help the organization with the applications regardless not being able to take the final decisions itself. Since the Unemployment Center of "S.I.G.N.A.L." is funded entirely by the European Union through the ESF, it is an independent department that cannot be co-financed by the other business areas of the organization. It means that it receives funds, which are exclusively dedicated to support this organization's field of activity, to finance its projects and employee costs (Interview 3).

The situation regarding the finances in the Debt and Insolvency Consulting Center is similar. The social venture receives financial support for this business area by the land NRW. It is supported by the district government through state funds. These funds are allowance, which has to be accounted. Therefore, it is also an independent department, which functions itself. Personnel costs, rental costs, energy costs cannot be cross-subsidized. They are all paid by the funds that "S.I.G.N.A.L." receives. Moreover, in this field the social venture cannot rely on sponsoring and donations. The Debt and Insolvency Consulting Center must be independent and should not be influenced by different parties. That is why sponsoring in this case is absolutely impossible. Private donations are also difficult in a business field like this, because there are many other social projects and initiatives that are much more attractive for private donors (Interview 3).

In contrast, the main activity areas of the organization rely entirely on donations and sponsoring. The Tafel is funded purely by donations. "Tafel" is the name for a non-profit organization, which provides people in need with food products, which would no longer be used in the economic cycle and would be destroyed otherwise.³ The food products are either spread out or sold for a small fee. In Germany there are such organizations since 1993. They are organized in the „Bundesverband der deutschen Tafeln“ ("Federal Association of German Tafel") and they are mostly active at the level of municipalities (Bundesverband Deutsche Tafel e. V.: Grundsatz 5). The input (the food products) is donated by supermarkets, located in the city. According to the arrangement between the social canteens in Germany, all of them operate locally and are allowed to pick up products only in the city' supermarkets. There are only some exceptions, which are settled in specific cases. The financing of the Tafel proceeds exclusively via members, sponsors and donors. As a privately organized initiative the Tafel does not receive any money neither from the federal government nor from the state or the municipality. It can indirectly benefit from payments by the EU to food banks (Selke, 2009). Therefore, the Tafel in Schwerte has to finance its staff expenses, energy costs etc. either by donations or they can be cross-financed by the Social Department Store, which generates the biggest revenue streams of the organization. The Social Department Store uses second hand products like furniture, toys, clothing and household goods. The products can be submitted by their owners in the so-called social department stores and after small refreshing procedures they can be sold again to people in need for low prices (Heins 2014).⁴ For needy people social department stores and food distribution points are the last

³ In 2011 there are 900 Tafel in Germany. In 2009 they supplied nationwide on average about 1.5 million people once a week with 3.4 kg food. With more than 50,000 volunteers, the "Tafel" in Germany is considered to be one of the largest social movements of our time (Bundesverband Deutsche Tafel e.V.; Nettelstroth 2009).

⁴ In Germany there are between 300 and 600 social department stores. The number depends on the understanding of the term, because there is a lack of an umbrella organization in Germany and moreover, there are many different concepts of churches and communities, which contain the idea of a

life saver. There people with low-income can find not only bread, fruit and vegetables, clothing and furniture, but also long-term unemployed are engaged and qualified in the context of labor market programs (Diakonie Journal Deutschland; Focus.de: Shoppen mit Hartz IV). The both business fields of “S.I.G.N.A.L.” are extremely dependent on donations, because donations form their operation input. The department store receives all its furniture, toys, households goods, event clothing etc. in form of donations. The personnel of the store has to clean, refurbish and sell the goods. So revenues are generated and after that they are used for financing staff and other expenses not only of the department store but also of the Tafel. This two business areas are the only one in “S.I.G.N.A.L.” that can be and have to be co-financed. In the other fields the businesses are completely independent departments, carried out by the organization (Interview 3).

Furthermore, the organization has a contact and collaborates with the NRW Bank, the local savings and loan societies, the DAA Foundation, and the Bundesverband der Tafel (Interview 2).

In sum, the social enterprise tries to finance its daily operations in its main business areas by generating revenues and donations. Additionally, it performs various social projects in the town of Schwerte, which are funded by the European Union or by the German government. Moreover, the social venture works in close contact with organizations such as the NRW Bank and other diverse foundation.

4.2.6. Organization's impact

According to the venture's own assessment, 3330 people benefit annually from the work of “S.I.G.N.A.L.”. Mr. Hedt stated that at the Tafel there are about 2000 people every month who benefit from the social canteen (Interview 3). The impact of “S.I.G.N.A.L.” can also be seen by the high media presence of the organization (Signal-schwerte.de). For the managing director it is extremely important to create a strong long-lived networking in the region. Mr. Hedt participates regularly in conferences and different events where he has the opportunity to meet potential partners and sponsors. He is constantly trying to increase “S.I.G.N.A.L.”'s circle of connections (Interview 1). The venture has its own Web page and makes use of other local media like newspapers, journals, magazines and web platforms, for instance “Unternehmen Starke Schwerte” – a local organization for networking (Signal-schwerte.de). The enterprise's team thought about using media like Facebook as a marketing mean or E-bay for selling products from the department store which could increase their sales considerably. However, the fact that they do not have the qualified personal for this ideas' realization is problematic and it is impossible to receive state funding for this kind of jobs.

social department store. Only in NRW and Niedersachsen there are almost 220 similar stores (Heins 2014).

The CEO has its own functions and he cannot manage to take on additional tasks (Interview 1).

4.2.7. Innovation character

“S.I.G.N.A.L.”’s innovation character is expressed through its extremely strong regional and local networking. Moreover, its offering of products and services is multifarious. The comprehensiveness and diversity of the services provided make the enterprise extraordinary. By its diversity it reaches various groups of consumer who benefit from the social venture – from students and families with financial difficulties to disadvantaged people and people in need.

4.2.8. Employees

Unlike commercially oriented companies social ventures are not able to afford a large number of employees. They are only indirectly profit-oriented. They do generate revenues but their turnover is reinvested in new projects and means for public-benefit. In order to survive in the market they do, of course, have organizational structures and hierarchies like classic enterprises but their Human Resources Management is quite special. Hence social enterprises are unable to pay many and high wages. That is why they cut their personnel costs to a minimum and rely mainly on funding for financing their staff expenses. Although they have paid employees, it is assumed that “volunteers, along with funding, are the most wanted resource of social enterprises” (Volkman, Tokarski & Ernst 2012: 66).

Three full-time permanent employees are currently working at the department store of “S.I.G.N.A.L.” and two at the Tafel. At the Debt and Insolvency Consulting Center and at the Unemployment Center there is one full-time permanent employee in each.

There are two volunteers working for “S.I.G.N.A.L.”. Both of them support the work at the social department store. AGH employees, financed by the state through different funding structure of the Job Center, form the majority of the organization’s workforce. At the moment of my interview with Mr. Hedt 44 AGH workers were engaged in the different business fields of “S.I.G.N.A.L.”:

- 26 in the social department store;
- 12 at the Schwerter Tafel;
- 1 in the project “School breakfast”;
- 2 in a cooperation project with a psycho-social contact institution;
- And 3 people in the city’s townscape care

Of course with every new project their number is a subject to change. In most cases this kind of workers are engaged for a period of 12 to 18 months. Unfortunately, many of them cannot

be reintegrated in the labor market and do not manage to find a job afterwards. This is the case especially for older people (age 50 and above) and disadvantage people. Therefore, many of them decide to stay engaged at the organization without being paid in order to keep their circadian rhythm and day structure (Interview 1; Interview 2; Interview 3).

4.2.9. Founder/ CEO

“S.I.G.N.A.L.” is not a typical example of a social enterprise founded by an entrepreneur. It has been established 29 years ago as a registered society. The idea arose from the local people in cooperation with the local council which supported the organization in its start-up phase with a great funding. From the beginning the main activity of “S.I.G.N.A.L.” was the establishment and operation of a social canteen (Schwerter Tafel). The former director of the association Mr. Olaf Heppe and the chairman of the board of management Mr. Dr. Martin Buscher were responsible for the economic activities of the social society. In 2009 they struck a bargain for a new building for the Tafel which led to financial instability and later to the insolvency of “S.I.G.N.A.L.” (RuhrNachrichten.de).

As a result from the association’s financial crisis, hard decisions had to be made in order for the social organization to keep existing with the aim to help the local population in need (Derwesten.de). As mentioned in the history section, the legal form was changed as well as the management team. Today there is intentionally no contact with the former management team. According to the present CEO of “S.I.G.N.A.L.” gGmbH, Mr. Jan-Dirk Hedt, the transition was difficult and emotional. Interesting is the fact that he was not an employee of the big concern “Werkstatt im Kreis Unna” GmbH. Nearly 3 years ago in 2012 he received the offer to become a CEO of the newly established social venture “S.I.G.N.A.L.” gGmbH (Interview 1). In the period after the takeover and before he became the CEO of the venture, “S.I.G.N.A.L.” was managed only by a supervisory commissioner. It was finally the time, when the social enterprise had to appoint a new official manager so that the diverse functions of “S.I.G.N.A.L.” would not be coordinated by Unna anymore. Mr. Hedt was evaluated as a proper new director of the social organization. Through his professional experience as a manager in a consultancy agency in Dortmund, he could achieve the necessary restructuring of “S.I.G.N.A.L.” (Interview 2). Moreover, he studied social pedagogy and he was previously an officer in the army. His background contributed to his leadership skills. He discovered his talent to inspire and to motivate people to work together as a team for a common goal. He considers that this ability helps him a lot in his everyday work, because for him job satisfaction and motivation are very important for the well-being of the employees and respectively for the organization (Interview 3). As a new director of “S.I.G.N.A.L.”, he decided to give the organization completely new life and to make a new start which has nothing in common with the old scandals and problems. His task at the

beginning was to start entirely new projects and to establish new contacts. During the interview he shared that he has built brand new networking within the city and in the local council, he found new ways for cooperation and new partners and supporters. Among his initial goals were ensuring the quality of content and pedagogical work in the means regarding education, stabilization of the business success of the social department store, ensuring the performance of Schwerter Tafel, continuity of courses offered by the unemployment center, debtor and insolvency consulting, development of steps to increase the commercial success of the social department store (Interview 1).

Mr. Hedt defined himself less as a manager and more as a social entrepreneur. He did not establish the social venture but he built the organization's structure in the way it is today. He is the initiator of almost all social projects of "S.I.G.N.A.L.", so he feels himself as a social entrepreneur (Interview 3). He assesses his job as exciting. He likes that he has a great responsibility as a leader and it gives him also many options and management freedom. He is the person who decides which projects "S.I.G.N.A.L." will adopt, with whom they conduct the projects, how they approach them, etc (Interview 1).

The CEO of "S.I.G.N.A.L." sees as his biggest personal challenge the big efforts for annually re-applying for all projects. On the one hand, the period of 12 months is a long time, but on the other - it is often not enough for the whole application procedure. Sometimes, by the time when the application is submitted and all documents are approved, the deadlines have already passed, so the project cannot be realized (Interview 1).

4.3. SWOT Analysis

The company's' strengths, weaknesses, opportunities and threats will be analyzed in the following section. The table below gives an overview of the SWOT Analysis of "S.I.G.N.A.L." divided into an internal and external analysis.

Table 3: SWOT Analysis of "S.I.G.N.A.L."

Internal		Strengths:	Weaknesses:
		<ul style="list-style-type: none"> Diversity and network character of the organization Cooperation with regional partners Use of state resources and close cooperation Good reputation 	<ul style="list-style-type: none"> Restructuring measures New support measures New applications every year Insufficient accomodation and workforce

External		
	Opportunities:	Threats:
	<ul style="list-style-type: none"> • Holding Status Quo • No Exploitation Plans 	<ul style="list-style-type: none"> • Insufficient financing • Transfer of money to other social projects • Demographic ageing

Source: Own table based on Interview 1; Interview 2; Interview 3

Internal Analysis

The internal analysis of “S.I.G.N.A.L.” gGmbH takes its strengths and weaknesses into account. Each aspect will be separately covered.

4.3.1. Strengths

A clear strength of “S.I.G.N.A.L.” is the idea itself. Due to the diversity of the services and products offered by the venture it is highly innovative and differentiates the market. Since it operates in different business areas: a canteen, a social department store, a debt consultancy center etc., it can offer completeness to its customers. Mr. Hedt shared in the interview that many of “S.I.G.N.A.L.”’s customers use more than one of the services provided by the enterprise, for instance students, young families and older people visit daily the Tafel and in addition many of them buy products from the department store.

Through its customers the venture gains popularity and attracts new partners and donators. As shown in the previous sections, the social organization is enjoying a great network in the region. “S.I.G.N.A.L.” receives donations in form of different services, for example for its vehicles, products like furniture, clothing, toys and food products for the Tafel. It works in cooperation with big multinational companies like IKEA as well.

Other strength of the venture is that it makes use of state resources and receives funding from the state and from the local council as well. Since financing is probably the most significant building block of a social enterprise, the cooperation and connection with state resources is extremely important.

The good reputation of “S.I.G.N.A.L.” gGmbH can also be defined as strength because, due to its positive status and character, the venture attracts more customers and more important partners and supporters (Interview 1).

4.3.2. Weaknesses

One of the biggest strengths of “S.I.G.N.A.L.” – the access to both private donations and state resources - is also a weakness of the enterprise. The management team is trying all the

time to find new sponsors, new funding for projects, and to keep the financing constant. Namely because of spontaneous changes in the granted resources, it has already happened that, in the last moment, planned projects could not be realized.

Moreover, the CEO of the organization pointed out restructuring and new support measures as weaknesses because the venture's team cannot rely on standard activities for helping people in need. Almost all projects are limited to a period of 12 to 18 months. It means that after this time frame they should think out a new strategy to keep supporting their target group. Therefore, additional stress for the enterprise's directors is the necessity for reapplying every year which raises uncertainty about the projects' future (Interview 1).

In addition, "S.I.G.N.A.L." faces problems with its accommodation. The available buildings are not sufficient for the organization's needs. Especially in the refugee situation in the last months it is extremely hard to supply more people in the relatively small Tafel in Schwerte. Mr. Hedt shared that the actual problem is not that there is a deficit of donations but that they need more employees and more space for transport, storage and sorting. They cannot transport and store all donations that they receive and they reach their activity limit (Interview 3).

External Analysis

The SWOT analysis also implies an external analysis of the environment, which includes the opportunities and threats of the market environment "S.I.G.N.A.L." will operate in.

4.3.3. Opportunities

Since, as a social enterprise, "S.I.G.N.A.L." does not generate profit and therefore the financing is the most problematical aspect of the enterprise, the manager explained that they do not have any big future plans. Their actual aim is to hold Status Quo and to keep realizing their current projects and activities. Presently, Mr. Hedt does not predict any exploitation strategy. He means that "S.I.G.N.A.L." gGmbH is strongly locally concentrated venture which operates in the city of Schwerte and will not try to expand into other cities or countries (Interview 1).

There is a future plan of the "Werkstatt im Kreis Unna" GmbH to establish a new social department store in Dortmund but not under the name of "S.I.G.N.A.L.", because the local connection is really significant for such social projects. So they plan to start the project through the local "Werkhof-Project" but with the know-how of "S.I.G.N.A.L.", since the Schwerte's social organization has already proved its successful strategy (Interview 3).

4.3.4. Threats

The biggest threat for the social venture is not to have sufficient financial resources at its disposal. Financing is a big issue because all enterprise's activities depend on it.

As mentioned above, "S.I.G.N.A.L." should re-apply every year for the financing of every project. There is no guarantee that it will be refinance. The state defines certain budget for financing social projects, so often money is transferred from one project to another. Here is a recent example: a new project for preventing long time unemployment started in Berlin, so part of the funding predicted for "S.I.G.N.A.L." was allocated in order for the new project to be supported by the state. Mr. Hedt defined the lack of continuity as the most dangerous threat for "S.I.G.N.A.L." gGmbH (Interview 1).

Other threat for "S.I.G.N.A.L." and for other social ventures is the demographic ageing. Many managing directors, associate general manager, department managers are close to retirement age. The question what will happen with the social ventures after the retirement of their directors and founders remain open. Mr. Hedt shared that he can imagine himself in ten years to work in the same field but eventually in a larger company, because "S.I.G.N.A.L." operates locally and one day it will not be able to expand its activities further on a local level. Therefore, he tries to motivate young people to work in social organizations and to take part in social initiatives (Interview 3).

5. Conclusion

Financing of social enterprises is a complex topic of discussion, whose importance is growing more and more. The survival of a social enterprise depends on various factors and all SEs face the same problem regarding the generation of sufficient revenues and attraction of investors and donators (Bugg-Levin, Kogut & Kulatilaka 2012). Therefore, the aim of this study was to conduct an organizational analysis of the social organization "S.I.G.N.A.L." gGmbH, to outline the financial structure of the venture and to determine which are the most pressing financial challenges and opportunities. In addition, the conclusion section will outline which measures could be taken in order a sufficient and sustainable financing to be provided.

To sum up the findings of this research, it is necessary to highlight the research topic, which has been explained and critically evaluated: **How does a social enterprise operate, which are the most pressing problems and difficulties and how does it manage to survive as a social enterprise?**

The organizational analysis shows that "S.I.G.N.A.L." is a social organization, which went through good, as well as bad periods in its almost 30 years history. It has changed its legal form from registered association to gGmbH and more important the whole management

team was changed and new strategies were developed. The new start gave the organization a “new life”. Nowadays, “S.I.G.N.A.L.” operates in various business areas – social canteen (Tafel), social department store, debt and insolvency consulting center, unemployment center and diverse changing social projects. The goal of the organization is to help and support the people in need in the town of Schwerte, which is confronted with high rates of unemployment, social exclusion and poverty. Through its projects the organization helps annually thousands of people and reached high popularity due to its media presence.

This research aimed to focus on the financial structure of the organization and to outline the financial challenges and opportunities facing “S.I.G.N.A.L.”. The SE under study has a hybrid financial structure like the most social enterprises, according to the Mercator study. The used financial instruments vary from “private donations, sponsorship and foundation funding to public-sector grants and income self-generated on the markets” (SEFORIS: 6). The point that is especially interesting at “S.I.G.N.A.L.” is that the different fields of activity have different financial structure. The Tafel and the Social Department Store depend entirely on donations and co-financing can be applied, while the Debt and Insolvency Center and the Unemployment Center have closed financial systems, because they receive funds by the state government and by the EU. Moreover, the additional projects are also financed by the state or EU. The shortcoming of these financial instruments is that annually re-applications have to be made. In addition, complex administrative procedures have to be fulfilled. There are institutions helping the social venture with the formal applications such as the Job Center and G.I.B. but it is still an additional complication to consider the requirements of all involved parties. Furthermore, there is no guarantee that the applications will be approved in the following year. It means that projects could be shut down because of missing financial resources. One can conclude that “S.I.G.N.A.L.”’s financing situation is very unsafe, since the organization generates revenues with only one of its business areas and depends exclusively on donations, states and EU financing.

Moreover, the case of “S.I.G.N.A.L.” shows obstacles specific to the individual SE. The social venture is confronted with problems and threats such as the insufficient capacity of buildings and resources like workforce and transport vehicles, which hinder the ability of the organization to digest all donations that it receives. In addition, the demographic changes also threaten the organization, since some of its employees on managerial positions will retire in the next years, for example the director of the social department store, who works at “S.I.G.N.A.L.” since 26 years or the administrative assistant, who has been supporting the organization from 28 years. Further, the current director is the driving force of “S.I.G.N.A.L.”, because he organizes and coordinates the daily work process, initiates all new projects, motivates and unites the employees, creates partnerships and establishes stable network of

the organization. The high dependence of the organization on the social entrepreneur makes the social venture vulnerable. Mr. Hedt's ambition for a management position in a larger company with more opportunities for expansion could be threaten "S.I.G.N.A.L."s survival in the future.

Thus, some of the most pressing problems and difficulties for the SE under study were outlined. One can also find possible hypothetic solutions, which can only be offered by the researcher but it is not a topic of this study to prove in what extent these solutions could be implemented.

Bugg-Levin, Kogut & Kulatilaka (2012) argued that the lack of funding opportunities is one of the biggest obstacle social enterprises face. Therefore, sustainable financing streams for the social business have to be established and more funding mechanisms for SE have to be developed. Since social enterprises can generate financial returns, they can also try to attract wider spectrum of investors, e.g. equity investors, banks and venture capitalists. Furthermore, the case demonstrates insufficient financial support for SEs in Germany, because it shows the significant importance of private donations and sponsoring. Moreover, the support schemes of the EU also have to be improved. If there is a comprehensive institution supporting SEs by applications for EU funding programs, it will facilitate the administrative procedures and will make the access to EU financing easier. However, the question to what extent these recommendations could be used and implemented remains open. On the one hand, there are various factors influencing the social sectors and at European level it could be difficult to establish an institution responsible for SEs from different countries. On the other hand, the financial crisis of 2008 and the crisis of the welfare state in Germany increase the need of new alternatives for dealing with social problems. Therefore, the social enterprises win greater importance and play essential role. So not only on state and federal but also on European level a new ways have to be found for helping the SE to survive.

To conclude, the shortcomings of this research have to be taken into consideration. One can argue that the study is not objective enough, because the interviews, serving for the basis of the analysis, were conducted only with the organization's manager and the points of view of external actors are not included. As a social entrepreneur and director of "S.I.G.N.A.L.", Mr. Hedt aimed to present the social organization at its best and to bring its advantages to the foreground. He may have overlooked the organization's disadvantages and obstacles. However, the researcher tried to analyze the collected information critically and to conduct the study objectively. Further, as a case study the analysis is focused on the financial structure and problems of only one social enterprise in Germany. Since, in Germany there is not a common legal form for social enterprises, diverse financial instruments are available for

the social organizations with different legal forms. Therefore, each social venture may face specific financial challenges, which differ from these which other organizations meet. Thus, the case study method generates some controversies regarding the results' generalization and the case representativeness (Gerring 2007: 43). In this research the method of the case study was applied to analyze the specific case of the German social enterprise "S.I.G.N.A.L." with its financial challenges and opportunities.

The present study offered an organizational analysis, using the methods of the case study and the expert interview. The most pressing problems and difficulties of the specific case were outlined and some recommendations were offered. However, the study did not evaluate the possible solutions. Therefore, a further study may deal with the hypothetic solutions and may test to what extent, how and in which cases they can be implemented. The goal of such study would be to design a roadmap for supporting and improving the financing of SE in Germany.

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Interviews

Interview 1: Personal Interview with Mr. Hedt. July 02, 2015.

Interview 2: Second round interview questions sent to Mr. Hedt. on September 11, 2015.

Interview 3: Interview conducted as part of the EFESSEIS project. Acquired on October 29, 2015.

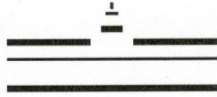
Annex

Annex 1: Interview guide

- **„S.I.G.N.A.L.“’s History:**
 - To what extent is the enterprise related to previous registered association?
 - What are the reasons for acquisition?
 - Did any innovations happen through acquisition?
 - What was the original idea of the founder?
 - What is the role of the founders today and in the various stages of development?
 - Is there a difference between founder and managing director, and if so why?
- **The Founder:**
 - What is his/her personal motivation? Own experiences?
 - What is his/her definition of success?
 - What are the biggest challenges and obstacles?
 - What is his/her background?
- **Venture’s structure and legal form:**
 - What are the reasons for choosing the legal form?
 - Which are the main problems and advantages of the gGmbH for “S.I.G.N.A.L.”?
- **Financing:**
 - How did the financing develop and change?
 - How does the financial structure of the venture look like?
 - Does the venture make use of external financing and if yes which instruments are used?
 - Does the organization generate internal financing and if yes through which business areas?
 - Which are the main problems and opportunities in establishing in terms of financial resources?
 - To what extent the venture can be financed by EU funds / from the federal government?
- **Cooperation and networking:**
 - What is the context of the individual divisions?

- How are the landscaped relations with governmental and welfare institutions designed?
- How does networking work for the target group?
- **Mission and Vision:**
 - Is there exact goal orientation available (speed specification)?
 - Holism as a conscious approach?
 - What are the future strategies?
- **Innovative character:**
 - Is there a self-understanding of the organization?
- **SWOT Analysis:**
 - What are the main opportunities and challenges for the enterprise?
 - What are the main strengths and weaknesses?
 - What are the main threats?

Annex 2: Declaration of agreement of recording



WESTFÄLISCHE
WILHELMS-UNIVERSITÄT
MÜNSTER



Einverständniserklärung

Malen Bräunrup Katerina Pava

Hiermit gebe ich mein Einverständnis, dass das mit mir am geführte Interview mit ~~XX~~ und ~~XX~~ auf Tonband aufgenommen und in Zusammenhang mit dem EU-geförderten Forschungsprojekt EFESIIS verschriftlicht und analysiert werden darf.

auf Tonband aufgezeichnete Interview sowie alle weiteren personenbezogen erhobenen Daten werden streng vertraulich behandelt und **ausschließlich in pseudonymisierter Form** weiterverarbeitet: Bereits im Rahmen der Transkription des Interviews werden sämtliche personenbezogene Daten und Namen (beispielsweise Namen von Personen, Orten, Institutionen) vollständig anonymisiert, gleiches gilt für den Auswertungsprozess der Netzwerkkarte. Auch hier werden Namen und Institutionen schon bei der elektronischen Weiterverarbeitung anonymisiert bzw. pseudonymisiert.

Ich erkläre mich zudem damit einverstanden, dass kleinere Passagen aus dem verschriftlichten und anonymisierten Interview auch für Vorträge oder Aufsätze, die im Kontext des Forschungsprojektes stehen, verwendet werden dürfen. Mir wurde zugesichert, dass dabei alle persönlichen Daten, die Rückschlüsse auf meine Person zulassen, gelöscht oder anonymisiert werden.

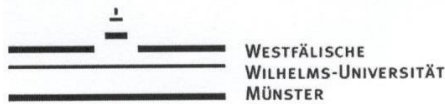
Nach Abschluss des Forschungsprojektes werden die Audio-Aufnahmen vollständig vernichtet.

Münster, den *02.07.2015*

Ort/Datum


Unterschrift des Interviewpartners

Annex 3: Declaration of assurance of anonymity of records



Vertrauensschutzklärung zum Forschungsprojekt EFESIIS

Zusicherung der Anonymität der Aufzeichnungen

Die Durchführung des Forschungsprojektes unterliegt den Bestimmungen des **Datenschutzgesetzes**. Die InterviewerInnen sind auf das Datengeheimnis verpflichtet.

Laut Datenschutzbestimmungen sind wir verpflichtet, Sie über die weitere Verarbeitung des Interviews zu **informieren** und **Ihre ausdrückliche Genehmigung** zur Auswertung des Interviews einzuholen. Zudem möchte ich Sie darauf hinweise, dass **aus einer Nichtteilnahme keine Nachteile entstehen**. D.h., Sie können einzelne Fragen unbeantwortet stehenlassen.

Zum Verfahren:

- Das Interview wird **auf Tonband aufgezeichnet**, da die InterviewerInnen eine detaillierte Mitschrift im gebotenen Tempo nicht möglich ist. Die Aufnahme wird **verschriftlicht**. Bei Interesse können Sie eine Abschrift erhalten. Diese Abschrift wird **nicht veröffentlicht** und ist ausschließlich den InterviewerInnen im Rahmen der Auswertung zugänglich. Ausschnitte werden nur dann zitiert, sofern eine Identifikation der interviewten Person ausgeschlossen ist.
- Dies setzt voraus, dass sämtliche Personen-, Orts-, Institutionennamen **anonymisiert** bzw. **pseudonymisiert** werden.
- Ihre Kontaktdaten, sofern vorhanden, werden genau wie die **Einverständniserklärung** gesondert zum verschriftlichten Interview aufbewahrt und nach Beendigung des Forschungsprojekts vernichtet. Die Einverständniserklärung dient ausschließlich dazu, nachweisen zu können, dass Sie mit der Auswertung einverstanden sind.

Wir danken Ihnen für Ihre Bereitschaft, uns ein Interview zu geben. Bei Nachfragen können Sie gern mit uns Kontakt aufnehmen unter: XXYY

Ort/Datum

Münster, 02.07.2015

Unterschrift der InterviewerInnen



Annex 4: Labor market report Schwerte January 2015

Characteristics	Jan 2015
Unemployment rate	7,5%
Presence of jobseekers	
Total	3.001
Presence of unemployed persons	
Total	1.875
54,1% Men	1.014
45,9% Women	861
5,3% 15 - 25 years old	99
33,9% 50 years old and older	636
20,3 % From them 55 years old and older	380

Source: Based on Statistics of the Federal Employment Agency

Annex 5: European unemployment rates in January 2015

	Rates (%)	Number of Persons (in thousands)
	Jan 15	Jan 15
EU 28	9,8	23 940
Belgium	8,5	425
Bulgaria	10,3	345
Czech Republic	5,9	311
Denmark	6,2	182
Germany	4,8	2 005
Estonia	6,2	42
Ireland	10,0	214
Greece	25,7	1 221
Spain	23,3	5 366
France	10,6	3 113
Croatia	18,5	350
Italy	12,6	3 224
Cyprus	16,1	70
Latvia	:	:
Lithuania	9,9	145
Luxembourg	5,8	15
Hungary	7,5	335
Malta	6,0	12
Netherlands	7,2	645

Austria	5,4	237
Poland	8,0	1 394
Portugal	13,8	705
Romania	6,5	607
Slovenia	9,4	94
Slovakia	12,4	340
Finland	9,0	241
Sweden	7,8	406
United Kingdom	5,5	1 787
Iceland	4,4	8
Norway	3,9	109

: no data available

Source: Based on Statistics of Eurostat

Declaration of Academic Integrity

I hereby confirm that the present thesis “To survive as a social enterprise – financial challenges and opportunities. A case study on the German social enterprise “S.I.G.N.A.L.” gGmbH” is solely my own work and that if any text passages or diagrams from books, papers, the internet or other sources or in any other way used, all references - including those found in electronic media - have been acknowledged and fully cited.

Place, Date

Münster, 01/12/2015

Signature

K.Peeva