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SOCIETY'S INVOLVEMENT IN SOCIAL ENTREPRENEURSHIP TO PROMOTE SMART REGIONAL GROWTH

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INTRODUCTION

The concept of social entrepreneurship, hybrid businesses are relatively new in economic research, but such forms of social benefit-oriented entrepreneurs, associations, philanthropic movements and other market players have long been seen. The development of the social economy sector, which can be described as non-commercial mass business sector. It is based on democratic values and seeks to improve social, economic and environmental conditions of society, often focusing on disadvantaged members of society. It also develops awareness of the third sector in the economy by carrying out its activities between the private sector and the business sector, or between the public sector and government. New organizations are arising, initiatives and research that defined a new type of business- social entrepreneurship.

THEORETICAL INSTITUTIONAL FRAMEWORK FOR SOCIAL ENTREPRENEURSHIP

This concept appeared for the first time in scientific literature in the 20th century. In the 60's and 70's, more visibility was gained thanks to the active functioning of the "Ashoka" organization and basic social entrepreneurship concepts which were stated by founders such as Mr.Young, Mr.Dreiton, Mr.Durands, Mr.Silbert, Mr.Junus and others. (Alter, Dawans, Miller, 2007)

During various periods of time, young social enterprises developed to deal with socio-economic problems through market mechanisms for the non-governmental sector representatives and entrepreneurs, performing functions that the public or private sector was unable to address. Social enterprises of these different forms are characterized by ethical values and responsibilities, local public interests, social and

economic opportunities and a primary social and/or environmental objective rather than profit making. In many countries, such social private or partnership companies (hybrid companies) have long been known and have many common features, but in each country, they are called and governed by completely different departments and laws. Hybrid enterprises include the competences of private (economic), national (political) and environmental (ecological) areas, developing new ways of engaging society to meet existing needs (Schieffer and Lessem 2009). These types of companies are mainly developing in countries where legislation has not provided for a clear framework for the implementation of social entrepreneurship. Therefore, through the maximum flexibility of private, non-profit and public sector borders, they form new forms of activity, which seek to maximize the integration and convergence of sectoral boundaries, with a high contribution to social benefits for economic activities. In the same way as social innovation, social entrepreneurship worldwide has raised the need for a common concept in order to promote the smooth development of such businesses across the European Union at the end of 2011, the European Commission approved and made public Social Entrepreneurship initiative that updated the concept of new social enterprises and hybrid businesses. The document clarifies their substance and seeks to establish a common approach in the style of their management and economic activities and sets out measures that will contribute to the development of the sector. This document defines a social enterprise as a member of the social economy, which is a company whose main objective is to exercise social influence and not to create benefits for its owners or partners. It operates in a market, in a business specific and innovative way of producing goods and services; it uses income mostly for social purposes. These undertakings are managed responsibly and transparently, namely by involving its employees, customers and stakeholders in the economic activities of the undertaking. (Social Business Initiative, 2011).

Social welfare can be a catalyst for the smart growth of the area, even though as the theoretical findings indicate, debates on smart development are still young (Steiner and Mossbock, 2014). However, significant changes in paradigms of regional development policy already have occurred (Vanthillo and Verhetsel, 2012). Experts in this field highlight that possible ignorance of regional and sectoral peculiarities (Steiner and Mossbock, 2014), necessity in restructuring of economy (OECD, 2013), and creating new jobs (EPA, 2015a) are the main challenges for smart development. (see more Šipilova, Ostrovska, Aleksejeva et al., 2017)

Rural areas are particularly important for ensuring sustainability and smart development of a state as a whole. The present study reflects the quantitative and qualitative assessment of smart growth challenges in the region of Latgale (Latvia) at the level of 19 districts. This is worked out within the framework of the Latvian National Research Programme EKOSOC-LV. The present study focuses on smart growth as a tool for risk pre-

vention and the use of opportunities in regional development within the framework of the concept of smart specialization. The aim is to estimate the risk factors that influence the formation of a smart territory and to analyze the interrelationship of quantitative indicators and expert opinions. By analyzing the theoretical principles, the regional actors' recommendations, taking into account the research group participants' and regional experts' findings, the authors characterize the processes and the risks of smart development, as well as make assumptions about the development of the desired situation. The significant risk in the development of Latgale region is the decline in its population. At the same time, the results of the research show that the population is the most important cornerstone of smart growth of the rural territories in Latgale region. Both the objective data processing (statistical analysis) and the subjective point of view (the results of the expert survey) highlight a number of significant risk factors for promoting smart regional space and the growth of knowledge-based economy: the insufficient development of the population's economic activity particularly in the knowledge-based segment, and the small population size. The assessment of various challenges and risks in the regional development of Latvia, as well as the integrated application of quantitative and qualitative approaches allows for the elaboration of a comprehensive vision of the smart growth processes in Latgale region of Latvia. The quantitative assessment is based on the establishment and testing of the integrated index (Smart Development Index). The qualitative assessment is based on the regional experts' opinions summarized by using the Analytic Hierarchy Process methodology. The research results have both scientific and practical applicability in promoting smart development in rural areas. Firstly, the results of the study offer a possible methodological solution for the assessment of smart development. Secondly, the obtained scientific experience can be used for solving practical problems at the level of the districts of Latgale region. (Aleksejeva, Šipilova et al., 2018)

The greatest challenge in Latgale region is related to the loss of human capital and the sluggish development trends in entrepreneurship (e.g., "Latgale's Region of Planning", 2010a, 2010b). The programme and the strategy of the region's development (e.g., "Latgale's Region of Planning", 2010a, 2010b) envisage a set of measures aimed at mitigating the negative trends. These measures are based on raising efficiency of the use of local resources, on activating the cooperation between the parties involved in the process of development, and in strengthening the business sector (e.g., "Latgale's Region of Planning", 2010a, 2010b). From an economic perspective, a significant contribution to the development of Latgale region is ensured by the relatively successful operation of the high technology sector of manufacturing, and the use of rich natural resources (e.g., "Latgale's Region of Planning", 2010a, 2010b). However, it should be noted that the potential of rich natural resources of Latgale region, due to the low economic activity, is mostly used with low add-

ed value (e.g., "Latgale's Region of Planning", 2010a, 2010b). The low growth of labour productivity is obvious not only in Latgale region and it is one of the main reasons for overall worsening of external competitiveness of Latvian economy (e.g., Baldi, Šipilova, 2014). (see more Oļehnovičs, Ostrovskā, Šipilova et al., 2017) As far as paradigm of smart development is new for Latvia and regions, possibilities of small municipalities are limited not only with their socio-economical capabilities, but also due to the lack of visible example, knowledge and experience in this area. However, such a problem is not topical only for Latvia.

NATIONAL EXPERIENCE IN SOCIAL ENTREPRENEURSHIP

Social enterprises are not artificially newly created forms of economic activity, nor do they have a future vision of the only right model for the implementation of economic activities, which has been developed over time by companies which consider the promotion of social value and its alignment as an alternative to the profits generated by the company for business owners. Regardless of the above factors and other characteristics, global practice has shown that countries where social entrepreneurship is part of the market are more stable, because during the global economic crises the social business sector acts as a stabiliser of the situation, based on activity in local markets and therefore, is less affected by economic fluctuations in the world. Especially in countries where social enterprises are found in all sectors and spheres such as the Netherlands and Belgium. (Leikuma, 2012)

In Georgia, the social entrepreneurship is evolving. The Center for Social Entrepreneurship is a structural unit of The Center for Strategic Research and Development of Georgia. Center's long term goal is establishment of the concept and promoting practical activities linked to the Social Entrepreneurship in Georgia. The Center for Social Entrepreneurship is engaged in the development of Social Entrepreneurship in Georgia. To achieve this goal, Center developed a module of trainings for interested organizations and provides thematic consultations. In order to assist beginning Social Entrepreneurs, Center announces grants competitions and provides periodical consultations to the winner organizations in organizational, financial, marketing and legislative issues. In order to better adapt Social Entrepreneurship with the Georgian reality, Center works with various State agencies on the local and central levels. (The center for social., 2019)

The Russian experience in this field is increasing. Difficulties with self-determination of social entrepreneurs show, that there is a problem with the legislation. The documents and laws from the Ministry of Economic Development of the Russian Federation identify the subject of "social entrepreneurship" as a small and medium-sized business, not NGO. Secondly, due to the lack of significant privileges and encouragement, there is no reason for such identification. Also there

is no motivation to unite such people into the professional community. When a professional community starts an activity (for example, on the basis of Center for Innovations in the Social sphere), it causes situations when more enterprises start to identify themselves as social ones. Thirdly, the reluctance to be self-defined as a social entrepreneur arises due to the fact that often "purely business" projects, which have no social component, call themselves "social entrepreneurs". The vast majority of the registered enterprises work in the sphere of socially oriented NGOs (they are social enterprises classifying themselves as NGO). Education, services sector, social services for citizens and health care are popular among entrepreneurs. The brightest projects of social entrepreneurship are successful projects notwithstanding their sphere. In other words, we can infer that it is difficult to speak about existence of certain "niche" where social entrepreneurship would be successful or demanded for sure. So, it is impossible to say that social entrepreneurship needs for some "niche" orientation. In general, common principles of effective business models and niches, could be applied for social entrepreneurship. (Social entrepreneurship in ..., 2018)

SOCIAL ENTREPRENEURSHIP IN LATVIA

In recent years, there has also been a public debate in Latvia about social enterprises, their meaning, relevance and the need for a regulation of such a type of economic activity, which would ensure equal competitiveness with other companies, as well as enabling them to compete in the market on similar terms by attracting investments and customers, etc. Such initiatives are witnessed by organised social entrepreneurship forums, blogs, media articles and other public initiatives. There are a number of events that could ensure faster development of the social entrepreneurship sector and would be able to combine the pursuit of economic activities and social objectives within the same organisation, by reducing operational costs and red tape, thereby directly contributing to the development of the sector. Support for social enterprises should focus on the following measures: common sectoral components for the implementation of public policy; legislative development governing sector action; promotion of social entrepreneurship support programmes and incentive programmes to attract private investment; use of social enterprises as tools for rural development and integration programmes for vulnerable groups of urban communities; experimental social activities; establishment of companies, analysis and research of the indicators of these companies. The following overall social enterprise activity model is proposed in Latvia. (see Figure 1)

One of the challenges is the sector's weakness in many and different forms of its expression, where synergies between the various elements are needed with a view to strengthen social entrepreneurship and the social economy

as a whole. One of the necessary measures: promoting visibility, this element would ensure that these companies are identified and that they are aware of their operational objectives and social benefits. Another element to boost the sector's visibility is to promote more and better quality sector research, as well as systematic data collection on the indicators, welfare and quality of life of existing companies and their links to the number of social enterprises. Better sector research would also improve skills and capacity building in social economy organizations, starting with specialized higher education programmes to promote awareness and diverse characteristics of social enterprises, and partly address the third challenge the lack of specialized training, practices and education. Social economy organizations operate under unfair competition compared to traditional forms of business. More research into social enterprises, analysis of laws, methods and generally accepted strategies would increase the advantages of social enterprises competing in the market. Education has a direct impact on advancing new processes and promoting specific initiatives, including the direct impact on the development of the social entrepreneurship sector on education in the development and implementation of sector related research and training programmes. The increase of informative resources would facilitate the formation of social enterprises, as well as support would be given to enthusiasts with rich ideas, driven by social benefits to start a business,

the right training and preparation to work in a traditional business-oriented environment, which would improve the sustainability of social enterprises. Such developments would also improve the provision of available support networks and infrastructure for the provision of suitable business development services to third sector players.

On April 1st 2018, the Social Business Act came into force, which aims to create a favourable environment for social entrepreneurship. Representatives of the Latvian Social Business Association also actively participated in the formation of the Law for three years. (Full text of the law is available here: <https://likumi.lv/ta/id/294484-social-networking-law>)

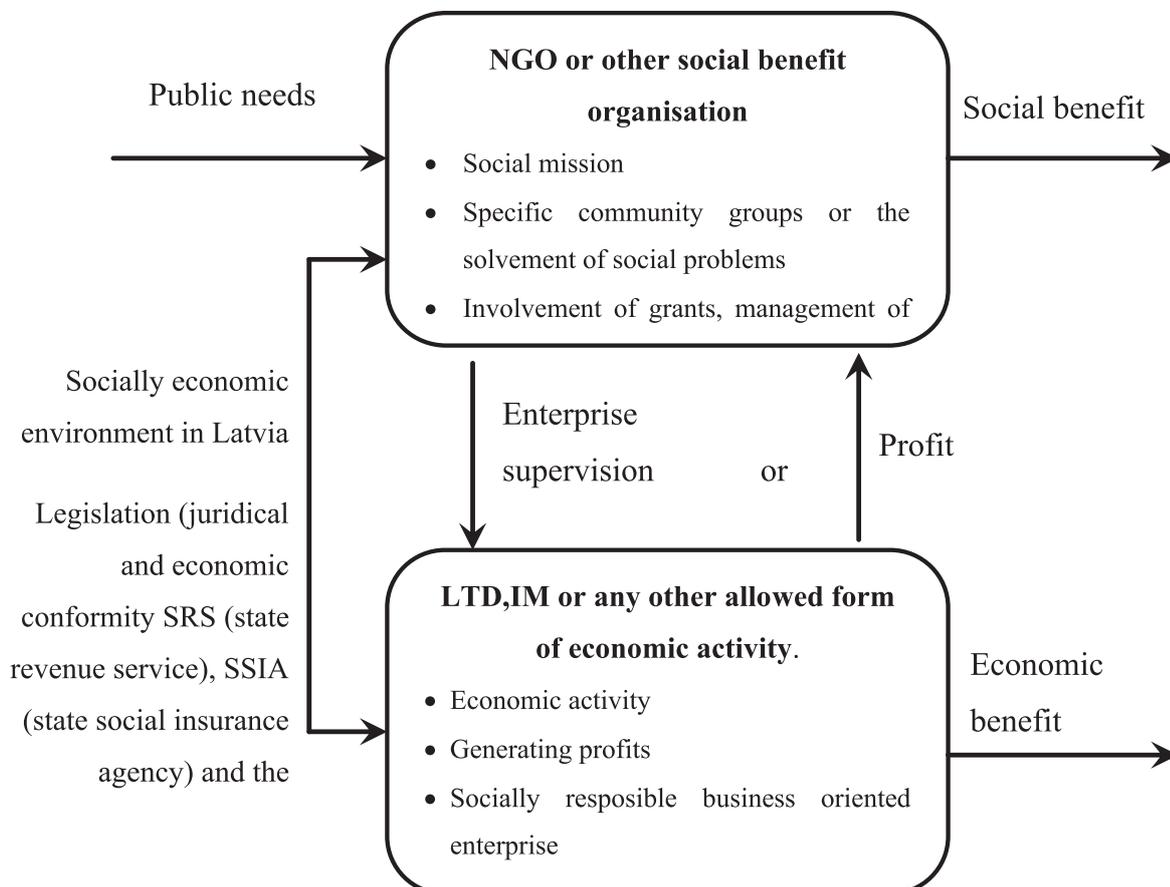
Important regulations related to Cabinet of Ministers.:

- rules on the procedures for the granting, registration and monitoring of social enterprise status of population groups at risk of social exclusion;
- rules on the Social Business Commission;
- rules on conditions for granting commercial support to social enterprises and procedures for granting aid.

The new law aims to promote the quality of life of the society and to promote the employment of people at risk of social exclusion. The law provides a legal framework for both the criteria for obtaining the status of a social enterprise and the procedures for the state to support this type of business.

The Ministry of Welfare is responsible for the promotion and development of social entrepreneurship. The status of a

Figure 1. Generalised business model of social enterprise in Latvia (Leikuma-Rimicāne, 2013)



social enterprise is granted by the Ministry of Welfare on the basis of an evaluation of specifically established Social Enterprise Commission. The Ministry also maintains the Register of Social Enterprises by publishing it on their home page.

Latvian Social Entrepreneurship Association is an organization that combines social enterprises and, in various ways, cares about the development and awareness of the social entrepreneurship sector. We participated in the drafting of the law, many meetings with decision makers and municipal representatives, the story of social enterprise work and the benefits that arise if we allow and help social enterprises to work. Also, we travel a lot around Latvia, telling the practical sides of social entrepreneurship: how to start such a company, how to find the right idea of building a business model, what the opportunities to seek financing and investment are. We also maintain the www.socialauznejdarbiba.lv homepage, which is the largest resource in Latvia for social entrepreneurship, where there are various kinds of interpretative materials available, which can help to understand the nature and the practical side of social entrepreneurship. (Johansone (Ikstena), 2018)

A fundamental problem is the financial availability. Social purpose-based organizations often find it difficult to access the same funding opportunities as traditional companies because of their specific characteristics, including social objectives, measurability of social benefits, return of profits, efficiency, etc. As a response to the market failure, new opportunities have been found for companies to follow the spotlight in the European Union, where a platform for attracting investment has been launched, which would be open to all social enterprises in the Union. Another potential development event "crowd funding", which takes the form of using small scale capital from many independent individuals to fund new business ideas. Crowd funding is easily available thanks to widely used social networks, which allow the idea to be found in a very broad spectrum and attract their investment to realize the idea. The principle has not yet gained popularity in Latvia, but it shows many features that suggest that this type of financial attraction would work directly in Latvia because of social enterprises and their public friendly objectives, because individuals are prepared to support ideas that are friendly and transparent to society as they are in social companies.

However, more financial attraction tools have been created. For the development of social entrepreneurship, project contests are often important for the development of entrepreneurship. Individual municipalities, for example, with varying degrees of regularity, organize project contests to be followed by the entrepreneurs themselves, for example, twice a year, the call for a "kick-off" grant contest. Also helpful for business development is the Business Ideas Cup.

In the second quarter, "Second Breath" offers an opportunity to participate in a scholarship contest where the winners of the scholarship are selected by the buyers when they are voted in favor. As one of the priorities, the development of social entrepreneurship is precise.

The most important support for the development of social entrepreneurship is the LM and ALTUM support measure, which includes the possibility of obtaining a financial grant for the development of meaningful social entrepreneurship. The funding is available under the measure ranges from €5 to €200 thousand, depending on the company's experience and current turnover.

The New Door is an accelerator for social entrepreneurship, helping to practically develop the idea of social entrepreneurship, while Reach for change is a social entrepreneurship incubator that helps develop social entrepreneurship ideas related to improving the quality of life for children and young people. Calls to these organizations are once a year in the autumn.

Services provided by the Latvian Investment and Development Agency are also available to social entrepreneurs. Regional business incubators are particularly suitable for social entrepreneurs, who can help develop the business idea during the pre-accession phase and support the business during the incubation phase. If the idea of social entrepreneurship is innovative, an appropriate programme is also supporting services for innovation vouchers.

SOCIAL ENTREPRENEURSHIP IN LATVIAN REGIONS AND MUNICIPALITIES

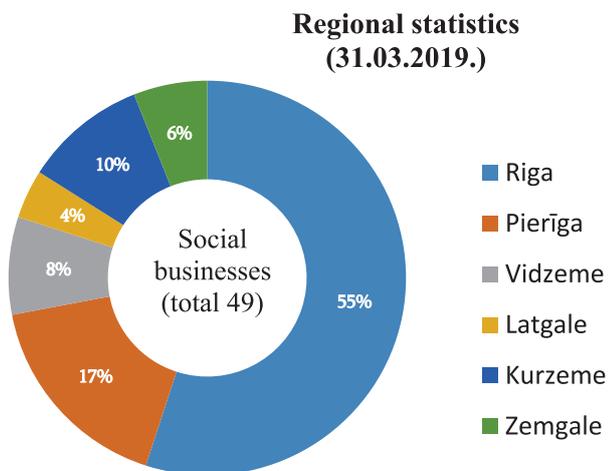
The legal framework also provides the right of municipalities to participate in the creation of a social enterprise. However, municipalities in such companies cannot have the majority of votes, and the purpose of doing so must be the employment of the target group. This provision will be in force three years after the law comes into force (until 2021), but the legislator will have the possibility to extend this period when assessing the functioning of the law if social enterprises without the participation of municipalities do not form a sufficient activity.

Municipalities can be important partners to promote the development of social enterprises. Local governments are announcing grants for business development, and they also tend to apply, for example, a property tax discount. Each municipality operates at its discretion in this respect and grant tenders are mostly published at a given time.

On the other hand, if we look at the regional representation, it is noted (see Figure 2) that most social enterprises are registered in Riga and around Riga, which makes it possible to assume that the concept of social entrepreneurship is not yet known to a large part of the society, particularly in those regions (e.g. Latgale), where there are significant and diverse social problems and the tension they create.

Statistical data regarding the regional representation of social enterprises indicate further work, which should be performed by both the Ministry of Welfare as the responsible Ministry for the policy area and the Latvian Association of Social Entrepreneurship - as an organization representing the sector. Only by telling and presenting examples of good practice will the concept of social entrepreneurship be able to reach further corners of Latvia and will find long-term solutions to various

Figure 2. Social businesses in Latvian regions at the beginning of 2019 (Frīdenberga 2019).



societal challenges –unemployment, education quality issues, environmental challenges and others. <https://sua.lv/pirmais-year-with-social-awareness-law-secinajumi/>

CONCLUSION

A merchant who conforms to the criteria specified in the Law may obtain the status of a social enterprise in Latvia. State social companies will be given a certain amount of support, but they will be prohibited from distributing profits between the owners of the company. It must be invested in achieving the objectives set out in the articles of association: creating public goods. In addition, certain areas in which a social enterprise is not entitled to operate, such as arms and ammunition, alcoholic beverages, tobacco products, gambling and betting, and financial and insurance sectors.

Developing the increase in the number of social enterprises and hybrid organizations will not only result in a strong economically active sector, but also based on the experience of other countries, will improve the wellbeing of Latvian citizens due to the social objectives of economic activity.

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SUMMARY

The essential definition of the promotion of smart regional growth is local resource, potential, exploration of operational mechanisms. That is in order to develop the understanding of local resource feasibility and the community activities. It is important to develop cross-sectoral cooperation, which is focused on non-technological, social and on the ecological innovation processes in connection with entrepreneurship. Social entrepreneurship is an essential mechanism in economic activity balancing, while creating social values that encourage the local community to participate in many areas and reduce socio-economic disparities. The "Traditional" entrepreneur whose main desire is to create a product,

find their client and thus, earn money, differs from a social businessman. An entrepreneur who has chosen the social niche, firstly, solves a social problem. In Latvia, social entrepreneurship is becoming more popular. Help and consultation at this point is provided by the Latvian entrepreneurship association (LEA), which has been in operation since the year of 2015. The region of Latgale is also becoming more popular in this field.

In order to evaluate social entrepreneurship feasibility and to determine factors in the region of Latgale, cross-disciplinary research has to be carried out. Moreover, research and development in this area involves the involvement of a wide variety of stakeholders: NGO (non-governmental organisation), state, business, representatives of the public.