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SOCIAL ENTREPRENEURSHIP

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SOCIAL ENTREPRENEURSHIP IN SCANDINAVIA AND THE FINANCIAL CHALLENGES

A main problem for social entrepreneurs is funding and financial sustainability. The purpose of this article is to identify the financial challenges social entrepreneurs in Scandinavia have. Social entrepreneurs express that investment/funding from the beginning is crucial in order to create a sustainable business. In Scandinavia there is a growing interest for entrepreneurship both in the public and private sector. This study will examine the financial systems in the Scandinavian countries and how governmental economic regulations affect entrepreneurs. The goal is to discuss the financial challenges for social entrepreneurs in Scandinavia today and to reflect upon possibilities that can be exploited.

Keywords: *Innovation in Scandinavia, entrepreneurship, social entrepreneurship, financial challenges, investment possibilities, governmental policies, financial system, risk taking, venture capital, entrepreneurial economy.*

Introduction

What is a social entrepreneur?

A social entrepreneur is a creative leader who raises capital in order to spread new combinations of land and labor in a social system. It is the entrepreneur's effort through will and action, that is essential for the success or lack of it. According to Joseph A. Schumpeter, an entrepreneur uses capital for the means of production, but he is not dependent on capital in order to combine land and labor. A social entrepreneur has never the role as a capitalist, a HR manager or a businessman. The entrepreneur's role is nonpermanent and after the transformation has finished, his/her role comes to an end. A static production function follows. The entrepreneur is not responsible for the financing and is therefore not a capitalist. The only thing an entrepreneur risks is his/her reputation and generosity.

A social entrepreneur makes his/her decisions based upon unknown factors and must be able use his/her intuition and be able to visualize the outcome of new combinations of land and labor. The entrepreneur must be able to face resistance and criticism.

The lack of consensus on the definition of social entrepreneurship means that other disciplines are often confused with and mistakenly associated with social entrepreneurship. Philanthropists, social activists, environmentalists, and other socially oriented practitioners are referred to as social entrepreneurs (Abu-Saifan, 2012). This creates an abundance of people who calls themselves social entrepreneurs, but few of them actually are.

Social entrepreneurship doesn't always happen easily, even though people are naturally inventive and curious. In some societies, social entrepreneurship is strangled at birth. This is particularly true for societies where power is tightly monopolized, where free communication is inhibited, or where there are no independent sources of money (Mulligan, 2006).

The government claims that the Scandinavian financial system is relevant for social entrepreneurship[1]. The Scandinavian countries are socialist states and private capitalism is not considered an important part of the economy, only state capitalism[2].

Through interviews with different people who call themselves social entrepreneurs, many of them address topics related to investment, funding and risk taking as challenging. There seems to be a common idea among social entrepreneurs that access to funding is a crucial success factor. There is a difference between how investors view traditional entrepreneurs and social entrepreneurs. My own research with investors in Norway shows that investors do not trust social entrepreneurs to deliver profit.

My proposition is that since capital is a big challenge for all entrepreneurs; why not focus on something that demand creativity and skills from social entrepreneurs? That could be factors that constitute market and customer segments.

The examination of the premises for the financial system and how social entrepreneurs relate to it, are the purpose of doing the study. The goal is to understand the possibilities and the challenges. There are two questions to clarify:

- Why is capital necessary in order to innovate?
- In what way is the financial system in Scandinavia beneficial for social entrepreneurs?

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[1] From the OECD report "Social entrepreneurship and social innovation", 2014. Translated by the author.
[2] Socialism - a very short introduction, Michael Newman (2005, p. 55).

Method

The layout of this article is a research into economic history, a description of the entrepreneur's and social entrepreneur's roles in a financial system, status quo about the financial system, how the Scandinavian welfare state relates to social entrepreneurs, and discussion about the financial challenges and possibilities for social entrepreneurs in Scandinavia.

This study is based on theories on the topics economic growth, entrepreneurship and innovation. Reports and statements from ministers and governments have been studied and compared with interviews, during a period of 5 years, with social entrepreneurs and other stakeholders in social issues[3].

What is a financial system?

S. Gurusamy (Gurusamy, 2008) defines a financial system as a system that aims at establishing and providing a regular, smooth, efficient and cost effective linkage between depositors and investors. A set of complex and closely constructed connections, agents, practices, markets, transactions, claims and liabilities relating to financial aspects of an economy may be referred to as a financial system. With other words, a financial system is the link between depositors and investors that encourage investments and funding. A financial system facilitates the financial market and its expansion. A financial system influence economic development. A financial system consists of financial markets[4], institutions[5], services[6] and instruments[7]. A primary function of a financial system is to facilitate the transfer of resources from savers to those who needs funds (Boot, Thakor, 1997).

Archeologists and historians[8] suggest that the earliest financial system were developed in ancient Mesopotamia about 2500 BC and were developed during a period over 400 years. From there the system spread to Persia and The Roman Empire.[9] It was during the medieval times that financial systems matured to the foundation present system depend on; the financial institutions and markets. The modern financial systems are results of the entrepreneurial initiatives during the medieval age in Europe and exchange of gold and silver versus goods. Financial systems were developed during the industrialization of Europe and the financial markets and institutions evolved to be able to process the more complex transactions of funding in industrial enterprises (F. Allen, D. Gale, 2000). Financial systems also had to adapt to the existing sectors like agriculture, mining and trade.

Significant shifts and redesigns of financial systems came with the crisis of the Great Depression, the post World-War II reconstruction, the wave of liberalization of the 1980s and 1990s, and most recently in response to the global financial crisis of 2008 and the ensuing ‘great recession’[10] (Frohlin, 2014).

Allen and Gale (2000) explained that the development of a financial system is essential to permit economies to exploit the gains from trade fully. Without a financial system, goods must be bartered on spot markets and each family have to finance capital accumulation from its own resources. It is crucial for economic development to have systems that can exploit these gains by sharing risks and create opportunities across sectors and country borders. Financial systems play an important role in the economy, but financial systems are fragile because they are sensitive to crisis, shocks, changes and misbehavior.

Financial capital refers to assets needed by entrepreneurs and businesses to buy what they need to provide goods or services, and is measured in terms of money value. Financial capital can be saved as financial wealth (used to start or maintain a business), can be provided by lenders for interests and can be assets valuable for the production, for example computers and books. Financial capital can also be obtained by producing more than what is immediately required and saving the profit.

Innovation

Joseph A. Schumpeter in his book “Teorie der wirtschaftlichen Entwicklung.” in 1912 gave innovation a key explanation in economic development. He stated that a single entrepreneur, who is able to combine land and labor (first and second input in the classical production function) in a way that previously was not possible or not as efficient as before, is the initiator of innovation. His theory is still valid in present time because an entrepreneur must have the same skills today as 100 years ago. The entrepreneur must obtain capital and are able to employ means of production. The entrepreneur must use his/her intuition, be able to

[3] Bakos (2014), Bakos (2013).
[4] Money market and capital market.
[5] Banking and nonbanking.
[6] Services and functions provided by financial institutions.
[7] Financial assets and securities in a financial system.
[8] Heather Pringle (1998), Marvin A. Powell (1996), C. Chase-Dunn, E. Anderson (2005).
[9] R.E. Cameron (1993).
[10] What started as seemingly isolated turbulence in the sub-prime segment of the US housing market mutated into a full-blown recession by the end of 2007. As a result, important economies in the European Union and Japan went collectively into recession by mid-2008. Overall, 2009 was the first year since World War II that the world was in recession (S. Verick, I. Islam, 2010).

persevere resistance, have freedom from everyday activities and enough stamina. The entrepreneur must be able to imagine the possible results of the inputs. He/she has to be able to manage himself/herself through will and action.

Innovation is a creative process and relates to a financial system but is not dependent on it because the need for capital is limited. The ability to combine land and labor does not require capital. Innovation is not controlled by the market, but is a dynamic force that is dependent on the entrepreneur's skills and actions only. There can be a monetary profit for the entrepreneur, but not necessarily.

When an entrepreneur's actions lead to a disruptive development in a financial system, the possibility to make an entrepreneurial profit occurs. The new total income versus the total costs will be much larger because the new manufacturing process will be much more beneficial than the old one. When other producers adapt to the new process, the entrepreneurial profit will decrease. When innovation is completed, the need for capital for the production assets will arise and should be covered by sales in a free market.

The entrepreneur's role in a financial system?

Richard Cantillon introduced the term entrepreneur to the field of economics in his text "Essai sur nature du commerce en general", published in 1755. Cantillon held that the entrepreneur played a social role in a financial system. He considered the entrepreneur to be a risk taker, a person who tries to balance supply and demand while he/she is bearing the risk. Several scientists[11] have created theories about the entrepreneur and his/her role in a financial system. The theories presented give the entrepreneur credibility as a catalyst for economic growth and a role in a financial system either he/she is an owner of capital or an innovation leader.

Jean Baptiste-Say was certain that the entrepreneur is an economic agent who unites the combination of land, labor and capital. The entrepreneur has the ability to bring to the market products that people need and want. Say also called the entrepreneur "the master agent". By being the master agent, the entrepreneur must have a combination of moral qualities. He has the knowledge of the world, the knowledge of business, know the art of administration and he must give attention to order and economy. The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield (J-B. Say, 1851).

Joseph A Schumpeter presents in his theory on economic development from 1912 that the most fundamental in economic development is to make new combinations of the input factors. He stated that a single entrepreneur initiate innovation. He/she are able to combine land and labor in a way that previously was not possible or not as efficient as before. Schumpeter states that a person is an entrepreneur only when he/she actually carries out new combinations, loses that character as soon as he/she has built up his business and starts to run the production function.

Bruce Kirchhoff presented an analysis in 1989 about a global shift from a managed economy[12] towards an entrepreneurial[13] economy. He stated that there is a growing interest in dynamic modeling of capitalism as recent experience has demonstrated the importance of innovation in shaping the structure and growth rate of capitalist nations. With his analysis, he gave the innovative entrepreneur a key role in capitalism and showed his/her importance in modern society.

In 1961 Organization for Economic Co-operation and Development (OECD)[14] was established. OECD states that small and medium-sized enterprises (SMEs) and entrepreneurs are fundamental to innovation, economic growth and job creation, and play a critical role in social cohesion.[15] Since 1997, the LEED Program[16] has conducted an extensive analysis of social enterprises (Social Enterprises, OECD, 1999), which produce not only tangible goods (products and services – often innovative in nature – responding to unsatisfied collective demands) but also intangible goods (social welfare, social capital, social cohesion and social innovation). This research agenda has further

[11] Jean Baptiste-Say, Joseph A Schumpeter, J. M. Keynes, Arthur Cole among others.

[12] Managed economy is defined as an economy where economic performance is positively related to firm size, scale economies and routinely production and innovation (Kirchhoff, 1994).

[13] Entrepreneurial economy is defined as an economy where economic performance is related to distributed innovation and the emergence and growth of innovative ventures (Audretsch and Thurik, 2001).

[14] OECD aims to stimulate economic progress and world trade. It is a forum of countries describing themselves as committed to democracy and the market economy, providing a platform to compare policy experiences, seeking answers to common problems, identify good practices and coordinate domestic and international policies of its members.

[15] From OECD Studies on "SMEs, Entrepreneurship and Innovation", published 20.05.2010.

[16] Local Economic and Employment Development Program advise governments and communities on how to respond to economic change.

expanded into the analysis of the nonprofit sector, from which social enterprises originate[17].

Until the late 20th century there were skepticism about entrepreneurship in Europe, but as Europe's growth stagnated in the mid-1990s and there was a rise in unemployment rate, Europe looked to US and the activities in Silicon Valley. The American entrepreneurial economy had a growth both in wages, but also in job generation. The Green Paper of Entrepreneurship of the European Commission promoted an acceptance of entrepreneurship as a vehicle for innovation and change. This has led to an increasing acceptance in European countries during the last 20 years that entrepreneurship not only lead to financial growth, but also growth in social welfare. In 2001, S. Sarasvathy stated that successful entrepreneurs have long created firms, industries, and even economies by matching up the offspring of human imagination with human aspirations.

As A. Szirmai, W. Naudé, and M. Goedhuys (2005) state that the entrepreneurs are the actors that respond to opportunities, threats, uncertainties, constraints, and incentives emanating from the economic environment in which they operate. This puts entrepreneurship at the heart of economic growth and development.

The social entrepreneur's role in a financial system

A social entrepreneur is a creative leader who raises capital in order to spread new combinations of land and labor in a social system. Michael Young and Robert Owen used the term social entrepreneur in literature in the 1960s and the 1970s, but it was when Bill Drayton used the term during the 1980s, that the term gained a worldwide spread, and embraced by entrepreneurs in US and U.K. The value of social entrepreneurs comes in three main forms (Leadbeater, 1997, p. 24):

- "In the short run, social entrepreneurs may bring measurable benefits to the wider economy by creating jobs, generating output or saving on public spending.
- In the medium run, they have great value as potential models for the reform of the welfare state, if they can work more productively in alliance with the public sector.
- Their more important long run contribution is their ability to create and invest social capital[18]."

Values social entrepreneurs create in a financial system are both monetary capital, but also social capital. The first is easier to measure, than the last. In literature, the social entrepreneur is not considered to play a key role in a financial system. Studies[19] show that social entrepreneurs do not often reach large audiences and there is a need to increase impact across the globe to be considered an important part of economy.

What is the Scandinavian financial system?

The traditional Scandinavian economy was based on farming combined with hunting, timber and fishing. In Scandinavia there has been a long history of national and international trade, and the merchant fleets have been important[20]. During the industrial revolution a development from farming communities to industrial enterprises had an impressive growth rate. From the mid nineteenth century and until WWI the financial benefit from the agricultural transformation and the expansion of world economy led the Scandinavian countries to fastest-growing economies in the 20th Century[21]. The world wars had different impact on the Scandinavian countries due to the ability to stay neutral and the opportunity to profit from warfare. When the financial crisis hit Wall Street in 1929, several of the Scandinavian trading partners like Austria, Germany and UK were affected. Banks went bankrupt, companies had to close down and 20% of the US population became unemployed. Access to consumer goods was scarce and the rebuilding of manufacturing capability was the number one priority. Still, the private consumption in the Scandinavian countries increased almost 100% from 1950 until 1962 and was termed the golden age of capitalism (Maddison, 2001). The Scandinavian countries grew to be among the richest countries in the world due to the Marshall plan[22], distribution warehouses, oil replacement for coal, chemical fertilizers, automation technology, creation of new industries. Between 1950s and the late 1970s the transportations costs fell by a third and the trade between industrial countries were doubled, creating spectacular global trading opportunities[23]. The discovery of oil in the North Sea in 1966, lead to oil production from 1971 and high prosperity for the Scandinavian countries, in particular Norway. Several financial crisis made it's setbacks on Scandinavian economy like the stock-market crash

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[17] Annually OECD creates reports, articles and holds seminars on how to address and solve challenges related to social innovation and entrepreneurship.

[18] Social capital is the network of relationships that underpins economic partnerships and alliances. These networks depend upon a culture of cooperation, fostered by shared values and trust.

[19] Made by Samer Abu-Saifan (2012), Alejandro Agafonow (2014), A.M Peredo (2005), B. Cook, C. Dodds, W. Mitchell (2003), among others.

[20] M. Alesalto (1986).

[21] M. Alestalo, S.E.O Hort, S. Kuhnle (2009).

[22] The Marshall plan, officially named European Recovery Program, was a financial aid initiative from USA to rebuilt the European countries. (Hogan, 1987)

[23] Maddison (2001)

in 1987, the real estate and banking crisis in Sweden and Finland in beginning of 1990s and the global financial market crisis from 2007 to 2008 with the collapse of large financial institutions.

In modern high-income countries, like the Scandinavian, stock markets, banks and other financial intermediaries tend to be larger, more active and more efficient (Tirez, Verhoest, 2001). Sweden has very large financial intermediaries which issue more credit to the private sector than the deposit money bank issue (Tirez, Verhoest, 2001). All the Scandinavian countries; Sweden, Norway and Denmark, have market based financial structures.

With the development of a strong welfare state in Sweden, Denmark and Norway, the government now manages the financial system. In 2009, the number of state owned enterprises, enterprises where the government had the majority of shares, and where the government had the minority of shares were 51 in Norway, 50 in Sweden and 15 in Denmark[24]. That the Scandinavian welfare state on one side set the premises for the market, regulates business competition and provide services for people dependent on the welfare system, is in conflict with the government ownership in major companies and enterprises in the Scandinavian countries. When the government owns the social problems, the competition is no longer free and the market is monopolized.

In my article from 2015[25], I concluded that the Scandinavian welfare state have had a crucial role in the Scandinavian society through the 20th Century with a tremendous growth and a major improvement in living conditions for all citizens. The conditions have changed, but the model has not been able to change accordingly. There is a growing recognition that the government is not able to adapt to the modern society and modern way of living, and there is a demand in the public sector for different and creative solutions. Scandinavians pay tax to the state, but there is a friction in the system and that is a burden for the welfare state in general. The welfare system is dependent on the third sector to provide services for the population, and without voluntary work, the welfare state would collapse. However the third sector has become as static, bureaucratic and controlling as the welfare state.

The financial climate in the 21st Century

During the recent 30 years, there has been a shift towards a more dynamic form of capitalism[26]. Access to Internet and drop in communication costs has made a huge impact on the global economy at a very rapid speed. There has been a change where the economic powers rest in the world, from US in the 1950s to Europe and Japan in the 1970s to Asia (particularly China and India) in year 2000. The emerging economies in Asia have a growing global impact on financial systems worldwide. Information technology plays a key role in the dynamic capitalism of the 21st Century. There are also other important factors such as:

- Increased globalization
- Integration of financial markets
- Knowledge based economy
- Monetary resources
- Sharing economy
- Corporate reorganizations
- Innovation capacity
- Entrepreneurship and social entrepreneurship

In the Scandinavian governments there has been an increased focus on innovation and entrepreneurship as important factors to economic growth. Many seminars, conferences, workshops[27] have been arranged with these topics on the agenda. The director of Innovation Norway stated in her innovation speech[28] that there are six areas in where Norwegian entrepreneurs have competitive advantages. One of them is bio-based economy[29].

Social entrepreneurs and the Scandinavian governments

[24] From the OECD paper "The size and composition of the SOE sector in OECD countries.", 2011.

[25] "Social entrepreneurship in the Scandinavian welfare state: challenges and possibilities."

[26] Dynamic capitalism is an economic system characterized by the dynamic of new, small firms forming and growing, and old large firms declining and failing, (Schumpeter, 1934).

[27] Professional seminar arranged by KS in Norway, 2016: «Social entrepreneurship – partnership for new solutions". Workshop with Norwegian government, 2015: "Cookbook for collaboration between social entrepreneurs and the public sector". Malmö Municipality, 2016: Social Innovation Summit. The Nordic Council in Sweden, 2016: "Conference on social entrepreneurship and social innovation in the Nordic". Roskilde University in Denmark, 2016: "Conference on new welfare conditions - research and practice in dialogue. Danish municipalities, 2016: "Seminar on Learning Cities" program and social entrepreneurship".

[28] NRK, published 31.05.16: https://www.nrk.no/norge/innovasjon-norge-ber-norge-satse-pa-seks-naeringer-i-fremtiden-1.12975060.

[29] Bio based economy is based upon the ability to develop biotechnology to increase the productivity of food, fiber, and fuel production (Wesseler, 2011).

In Norway it is the Ministry of Labor and Social affairs that are responsible for with social entrepreneurship. On the Norwegian government web page they state, "In the political platform, the government has expressed a will to better the terms for social entrepreneurship and voluntary sector in the welfare state. To reduce unemployment, the government wants a diverse group of suppliers and specialists[30]." The Norwegian government will do this through two incentives: governmental funding and mapping efforts.

In Sweden it is the Swedish Ministry of Commerce who are responsible for social entrepreneurship. The minister Annie Lööf stated in 2011 "Entrepreneurs who are motivated by a strong business idea and wants to solve a social or environmental challenge, should be encouraged because it contributes to new ideas, innovation and competitiveness. The increasing trend among entrepreneurs to start social enterprises is positive[31]."

In Denmark, the government also writes about social entrepreneurship, though to a less extent. There are some speeches the Prime Minister Anders Fogh Rasmussen has given 2007 - 2009[32] and Prime Minister Lars Løkke Rasmussen in 2010[33], on innovation and entrepreneurship in general. The government has expressed info and guidelines about social entrepreneurship.

The Nordic Council, a forum for intergovernmental co-operation between the Nordic Countries Sweden, Denmark, Finland, Iceland, Faroe Islands, Greenland and Åland Islands, started a survey in 2013 to "increase knowledge about Nordic ventures for social entrepreneurship and social innovation in the work, to include vulnerable groups in the workplace and society" (Nordic Council, 2015). The Norwegian Ministry of Labor and Social Affairs managed the survey, and a report was written with proposals on how to work with social entrepreneurship in the Nordic countries. The report explains that the Nordic countries have a tradition for strong governmental involvement in the society. With privatization and individualization of the social responsibility in the society, the report states that it is important to relate analytically to whether or not social entrepreneurship will be a privatization or a new form of private-public collaboration.

Challenges for social entrepreneurs in Scandinavia

In Scandinavian countries the state intervention in the private sector is extensive, especially if we compare it to UK and Finland[34]. The state controls the market in several niches, it controls through grants and governmental funding, and the banking and financial system. The financial sector is market-driven, although the Scandinavian governments have embraced state capitalism with their high level of governmental owned companies that also distort the countries' economies. State capitalism challenges the free-market both conceptually and practically.

The report published by the Nordic Council explains that the Nordic countries have a tradition for strong governmental involvement in the society. The report discusses whether or not social entrepreneurship will be a privatization or a new form of private-public collaboration in the Scandinavian countries.

A social entrepreneur is a creative leader who raises capital in order to spread new combinations of land and labor in a social system. Challenging for a social entrepreneur to access capital unless he/she have profit from previous innovations. Capital accumulation for production facilities from private investors in Scandinavia can be difficult. Investors do not trust social entrepreneurs to deliver large profit nor to establish scalable enterprises that have international potential.

Individuals who call themselves social entrepreneurs believe that capital is required to be able to create new combinations of land and labor in a social system. As explained in Schumpeter's theory, innovation is a creative process and relates to a financial system but is not dependent on it because the need for capital is limited. The ability to combine land and labor does not require capital. The ability to manage the activities is crucial for the entrepreneur in order to move an idea to realization. This entrepreneur leads the innovation process and employs the means of production.

Scandinavian governments have created a diversity of grants and funding programs where entrepreneurs can apply for capital. The funding comes with limitations for whom and what activities

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30 Translated by the author. From the Norwegian Government website, published 25.09.15: https://www.regjeringen.no/no/tema/arbeidsliv/arbeidsmarked-og-sysselsetting/innsikt/sosialt-entreprenorskap/id2009201/.

31 Translated by the author. The Swedish government website, published 25.04.12: https://www.riksdagen.se/sv/dokument-lagar/dokument/svar-pa-skriftlig-fraga/socialt-entreprenorskap_GZ12537

32 The Danish government website, published 07.10.08: http://www.stm.dk/_p_10562.html#socialiv%E6rks%E6tteri

33 The Danish government website, published 24.02.10: http://www.stm.dk/_p_13087.html#socialiv%E6rks%E6tteri

34 Epsing-Andersen (2002).

can get funding. In societies where power is highly monopolized, where free communication is guarded, or where there are no independent sources of money, entrepreneurship will be limited.

Possibilities for social entrepreneurs in Scandinavia

According to Schumpeter, an entrepreneur is a creative leader that combines land and labor in a new way using his/her creativity, knowledge and ideas. The actual need for capital in order to combine land and labor is nonexistent. The only thing the activity requires is an individual person's will and action. It also requires that the entrepreneur has the financial freedom to be an entrepreneur.

The opportunity for a social entrepreneur is always present in all countries at all times. It is the entrepreneur's ability to respond to opportunities, threats, uncertainties, constraints, and incentives that creates new products, markets, organizations, methods of production or the conquest of new source of raw materials.

Economic development and possibilities for the private sector is dynamic and always changing. Since 1990 there has been recognition of the importance of small firms and entrepreneurs for economic growth. Entrepreneurs serve a key mechanism to contribute to economic growth due to the knowledge created which can be commercialized in an enterprise. This is also valid for social entrepreneurs. When the innovation process is terminated there is a need for capital for the production assets and should be covered by sales in an open market.

The welfare state is dependent on innovations to efficiently run their hospitals, military, public transport etc. The welfare state is static and can never innovate or be a social entrepreneur. In a free market an entrepreneur will only have competition from other entrepreneurs.

Conclusion

Entrepreneurship opens up for new solutions. There are unlimited possibilities for social entrepreneurs in a changing global economy. Anybody can be an entrepreneur and it is his/hers ability to raise capital in order to spread new combinations of land and labor in a social system that is important. Innovations are not dependent on the financial system, but have to adapt to changes in the economy when the innovation process has finished and the production function has been established.

Findings indicate that state capitalism undermines future innovations because it changes the entrepreneurial efficiency. That fact creates an environment that prevents entrepreneurs to test their combinations in an open market. Dependency on governmental funding limits the entrepreneur mentally, creatively and ability to act. In countries with high level of state capitalism, social entrepreneurship is strangled at birth. The political statements and the report from the Nordic Council can be a signal that the Scandinavian governments do not take social entrepreneurs seriously as leaders in financial growth, but only as a provider for the welfare state on the same level as the voluntary sector.

The ability to manage the activities is crucial for the entrepreneur in order to move an idea to realization. If the entrepreneur does not manage the innovation process, then the ideas will most likely not be fulfilled.

Obtained results can be taken as an introduction to further studies on innovation management and the ability for the Scandinavian social entrepreneurs to lead the process of innovation. Further studies in social entrepreneurship and financial system should include international potential and social capital.

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