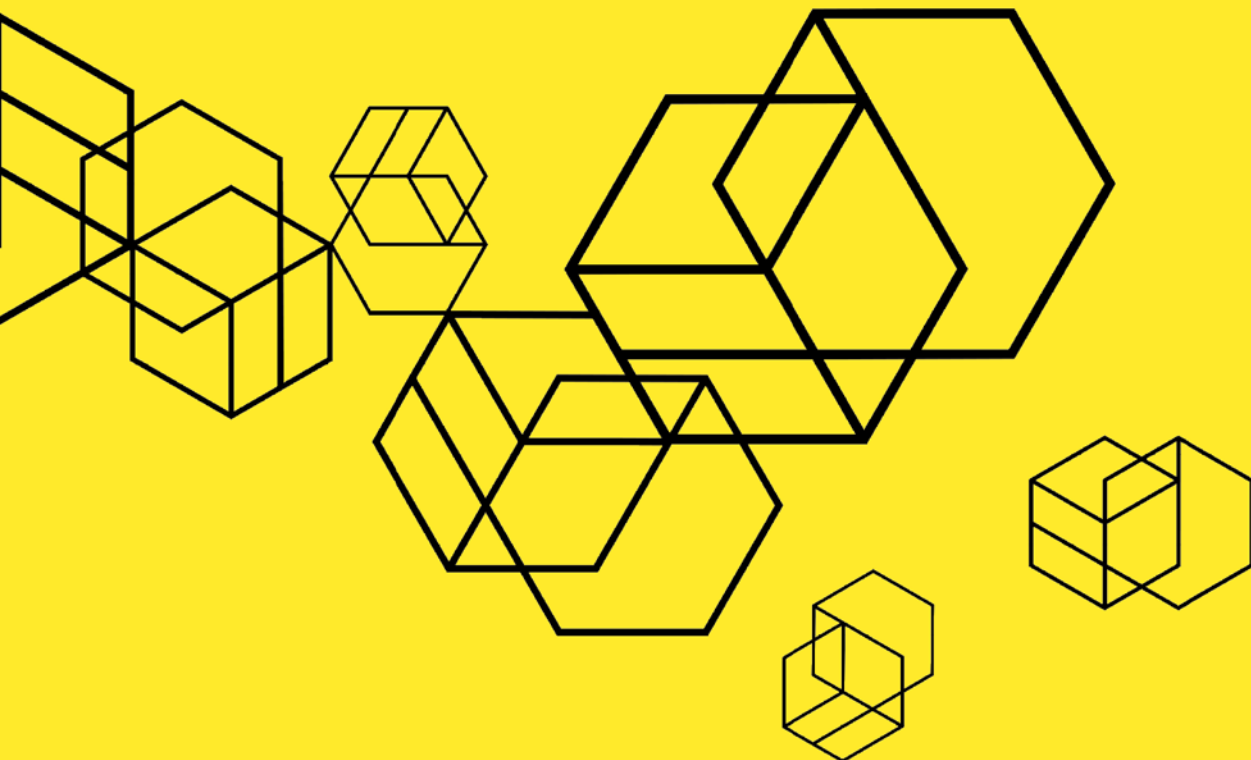




**SOCIAL
INNOVATION
COMMUNITY**

Social Cooperative Humana Nova

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Social Cooperative Humana Nova

From textile recycling and employment of the marginalized population to social impact

1. INTRODUCTION

The social cooperative Humana Nova is a social enterprise dedicated to finding solutions for social, ecological and economic problems. It does so in several ways:

- 01 Reducing textile waste: in 2015, Humana Nova collected 370,943 kilograms of discarded textile items. Its reuse, sorting and recycling resulted in a reduction of 1,335,000 kg of CO² emissions in the atmosphere (produced by the decay of textiles in landfills); reducing the use of 2,226 billion liters of drinking water and reducing the use of 11,300 kg of fertilizer and 74,200 kg of pesticides used in the production of raw materials in the textile industry.
- 02 Employment of marginalized groups in the labour market: the cooperative employs 14 workers of which four persons with disabilities, 5 long-term unemployed women over 50, 1 highly educated young person, two long-term unemployed young mothers and one long-term unemployed man. Economist and manager Ivan Bozic, the only non-marginalized person, manages the cooperative.
- 03 Creating positive social impact in the community: in 2015, the cooperative donated goods and services to 80 families and individuals and 10 local organizations.

The cooperative was founded in 2011 as the result of the project “ESCO - Education for Social Cooperatives: New Opportunities for People with Disabilities” implemented by a non-governmental organization active in Medimurje County: Autonomous Centre (ACT). The aim of the project was to provide education for people with disabilities in order to increase their competitiveness in the labour market. The participants in the program gained new skills and qualifications starting from web administrators, accountants and professional sewers leading to the foundation of several social enterprises employing people excluded from the labour market; one of which was Humana Nova and their members are four associations of persons with disabilities in the region, as well as employees.

Today Humana Nova has sewing manufacture in Cakovec, which converts clean but unusable textile items into new products such as patchwork covers, handbags, slippers, laptop and mobile bags, garments etc., which can be bought in the cooperative’s shops in Cakovec and Koprivnica or in other greenware shops in Croatia. In addition, the manufacturer sews for other external clients, converts unusable textile into industrial cloths or delivers it to the recycling companies. In addition, usable textile after cleaning and sorting is sold in second hand shops. Moreover, in September 2016 Humana Nova opened a new outlet



shop and sorting unit in Zagreb thanks to the support for social entrepreneurship provided by City of Zagreb. The financial investment of half a million kuna (roughly 66.000 EUR) donated by the City of Zagreb contributed to the realization of this project resulting in the employment of an additional 4 workers last month and 3 new persons from marginalized groups that will be employed in the next few days.

2. DESCRIPTION OF THE CASE

THE CONTEXT

Humana Nova was founded in Cakovec, capital of Medimurje County, the northernmost county and according to the surface, the smallest Croatian county. Situated on the intersection of important European corridors, it represents the "Croatian door" to Central and Eastern Europe. It has a long industrial tradition, especially in the segment of the textile industry. Unlike the rest of Croatia, this county attracts significant amounts of foreign investments. Having a favourable business climate and an educated workforce attracted not only numerous foreign companies to the area but also contributed to the growth of small and medium enterprises, resulting in one of the lowest unemployment rates in Croatia (after Varaždin and Istria County).

While during the 70s and 80s the textile industry was one of the main drivers of economic development, the recession the textile industry in Europe has been experiencing over the last 30 years has affected Medimurje County as well, resulting in the continuing trend of job loss, decreases in profit and low levels of average salary. Average wage in Medimurje County is below the Croatian average because a large proportion of the workforce is employed in labour-intensive industrial sectors such as the textile industry.

According to the Croatian Employment Service, the unemployment rate in Medimurje County in September 2016 was 9.9% meaning that 4,370 people were unemployed. Although the overall unemployment rate decreased in comparison to the previous year, the latest data showed trends of unemployment growing among the young population and people over the age of 50. Moreover, unemployment is considerably greater among women (56%) than men (44%).

In Croatia, there is more than 530,000 people with disabilities, while in Medimurje County there is more than 12,000 registered people with disabilities and most of them are in active working age. In June 2016, Medimurje County had 174 unemployed people with disabilities. The total number of registered unemployed people with disabilities in Croatia was 7,542 in February 2016. Taking into account that there is more than half a million people with disabilities in Croatia, at first sight the number of unemployed disabled persons might give the wrong impression that the situation is not so bad. However, only about 17,000 of these people were employed, and together with registered unemployment, there are only 24,000 disabled persons active in the labour market. The reason why a huge number of disabled persons are outside the labour market is the experience of difficult employment, leading to a large number of them rather "choosing" supports from pension or social welfare systems instead of coping with the uncertainty of



the labour market. The reasons for the bad position of these people in the labour market are numerous starting from uncompetitive qualifications due to limitations of the educational system which is not adapted for these people, to the prejudice of the public and employers whether persons with disabilities can perform various tasks. Employment of people with disabilities is not only socially responsible, but it is also a legal obligation for companies with more than 20 employees. However, change in legislation so far has not been sufficient for significant improvements.

In addition, Medimurje County is the region with the largest disadvantaged in the labour market. Hence, social and work 50 and young people without working experience, Roma are one of the main problems that ACT decided to address and cooperative. Moreover, a long-standing textile tradition in the region accompanied with the new learning and skills obtained through the ESCO project naturally led to starting Humana Nova.

2015.

Better planning of the business process and cash flow, broadening the range of services for Croatian designers, new clients from EU searching for socially responsible partners



THE CASE

2011.

ESCO project, foundation of Social cooperative Humana Nova

2013.

Cooperative is growing, employing 17 employees with two new stores opened in Koprivnica and Čakovec

**2012.**

Employment of 10 new employees including a manager and a young designer, redirection from project-oriented to business-oriented enterprise, cooperation with Croatian designers

2014.

Start of the year was bad with layoffs and closure of the store in Koprivnica, but the year ended well due to the new client from Belgium buying large amounts of the second hand clothes and cooperation with preschool institutions which became the main source of income

Humana Nova is a social cooperative with the mission to employ disadvantaged persons in the through recycling and redesigning discarded textile. The foundation of the social enterprise started project, initiated by the non-government organization ACT (Autonomous Centre Cakovec). The initial funding for the purchase of the sewing, ironing, washing and drying machines, as well as office equipment. Moreover, one of the project activities was requalification training, enabling persons to gain sewing skills and an accompanying certificate. As the non-government association, the leading civil sector organizations in Croatia dedicated to the support of social entrepreneurship, the decision to start the cooperative came easy and naturally. Today, the NGO runs six social enterprises covering different areas from accounting, graphic design to organic farming.

2016.

New outlet shop and sorting unit on 250m² opened in Zagreb with the support of the City of Zagreb. The majority of the employees are the cooperative's members

Although at the start the cooperative gained public support, they had to raise their visibility in the local community and encourage the cooperation of citizens. Under the motto "Textile is not waste" they organized actions of collecting unused textile from citizens. Together with the public utility companies, several events were organized at which citizens could bring their outdated and unused textile garments and other items knowing that they will be used for a good purpose and in an environmentally conscious way. The cooperative started with promotional activities and participated in several events and fairs connected with the themes of ecology and social responsibility. In this first phase, in Cakovec and Varaždin, two so called "Little Stores" were opened that sold redesigned items while also working as second hand shops. When it started to work, Humana Nova had one employed person and eight members of the cooperative. In 2012, Humana Nova worked on capacity building and empowerment of the team. At that time, 10 persons were employed along with the new manager Ivan Bozic. His employment was a great contribution to the team. Firstly, his 12 years of experience in the textile industry in indifferent positions enabled him to gain valuable knowledge about the sector, the production process, suppliers, market and other important facts and actors. Moreover, a young and highly skilled engineer of textile technology (but without previous working experience) was employed and her young enthusiasm and creativity upgraded the design of the recycled products. In addition, several workers were employed with experience in the textile industry with skills in sewing, tailoring and sale management. The more skilled employees transferred their knowledge and skills to their less skilled colleagues through joint work on everyday delivery of customer orders.



However, as the government supports the employment of disadvantaged groups, the total cost of their salaries was lower at the beginning. The major challenge in this first period was the prevailing “project” way of thinking.

Specifically, the cooperative was founded as the result of a project that also provided funding not only for equipment and education, but also for some operative costs. On the other hand, several workers were employed under the active labour market policy measures aimed at unemployed persons who are disadvantaged in the labour market. Due to these measures, the cooperative gained funds for the salaries of the newly employed workers for the first year of their employment. On the other hand, funds gained through donations and the project created a false sense of security and insufficient engagement in the creation of a sustainable business model after the exploitation of project money. A lot of organizational and HR problems occurred creating a lot of pressure for the new manager who came from the business sector and had a very different perspective. Nevertheless, he successfully addressed problems and started with a complete restructuring of the cooperative.

First of all, as the cooperative worked on its visibility, they were gaining more orders from larger companies that needed tailoring and sewing services. One of the most important partners was ELFS, a very popular and successful Croatian design brand. Along with them, other prominent designers and Croatian brands found their interest in cooperation with Humana Nova like Goran Cizmesija, Maja Virgej and Jet-lag, Roba je roba, Mini Greeny, Rodin let and others. It was not only due to the professionalism and quality of the provided services and product (which had to be raised in order to fulfil their demands), but also because giving an advantage to Humana Nova over the other similar manufacturers improved their image as socially responsible brands and companies.

The cooperative was targeting two groups; on the one side, they were focused on a young, conscious, urban population looking for redesigned products and from the other side, an affordable collection for low budget groups (second hand shops). However, due to the reduced purchasing power and negative economic trends, low-income collection had much bigger commercial success than redesigned products. The third target customers were large companies reselling second hand clothes.

In 2013, the cooperative had 17 employees including six seamstresses, two saleswomen, two women working on the sorting of the clothes, a sorting manager, a designer, an administrative assistant, a head of the Koprivnica office and a cooperative manager. Although 2014 did not start well (store in Koprivnica was closed, the year began with the debts that had to be covered by the loan), it ended well due to several new partnerships. The main source of income became sewing the uniforms for preschool teachers in the county and the production of textile bags. One of the lessons learned from that year was that the cooperative needed much better planning and thus 2015 was more successful due to more careful planning of the business processes. Moreover, cooperation with ELFS was extended on more garments resulting in the employment of four new seamstresses and one salesperson. In addition, cooperation with two EU companies was established. One of them was DNA Merch from Berlin and the other was Göttin des Glückes from Vienna. Both companies searched for a partner with incorporated social and human values within its business and they found it in Humana Nova. For DNA Merch, the cooperative produces t-shirts made from organic cotton while for Göttin des Glückes a complete collection of linen garments is sewn. Both partners are satisfied with the high quality standards provided by Humana Nova.



2016 started with also new challenges. One of the biggest was that the already approved ESF project was cancelled which resulted in the change of the whole business plan for 2016. An additional obstacle is insufficient support on the institutional level. While there is a lot of “talk” about inclusion of the disabled people in the labour market, in practice concrete measures are missing (regulations are missing or they exist but are not enforced in practice, state support to cover lower productivity of disabled persons is not sufficient etc.). These circumstances create additional pressure and a constant need for higher levels of competitiveness of the cooperative.

However, despite not so favourable circumstances one of the major accomplishments is that almost all employees are members of the cooperative (out of 16 employees, 13 are cooperative members) meaning that they share the same values and vision necessary for the further growth.



DESCRIPTION OF THE LEARNING PROCESS

The cooperative was founded with the mission of employing the disabled and other marginalized groups in the textile industry. It was founded as the result of the ESCO project through which several persons with disabilities were re-qualified and later employed. The project provided funds not only for education but also for equipment and part of the operating costs. Moreover, support from the Croatian Employment Service covered a large portion of salary costs for one year. However, without all these supports the business model as it was set in the beginning was not sustainable. The situation had to be changed before the funds were spent. The new manager was engaged with vast experience in private sector and textile industry. With the background of the private sector, he immediately detected several gaps in competences and skills from organisation, marketing and visibility, business planning to creativity and design. One of the biggest problems was the lack of defined responsibilities among employees, goals and ways of their achievement. The organisational structure was not clear and employees were not aware what their duties were, who was responsible for which part of the work and so on. Furthermore, some



mistakes were made in the beginning causing additional costs for the cooperative. One of them was the complicated way of calculating the price for the second hand products: it was calculated for each item and it was very time consuming. This was changed and pricing per kilogram of the second hand items was set up. However, one of the most painful changes was salary cuts that had to be made in order to achieve viability. All these changes created many tensions among employees and cooperative members. The manager said that it was not only that he had to persuade employees that the former business model had to be modified, but it was also that he had to learn HR skills and find a way to keep the employees motivated despite such unpleasant changes. Specifically, this meant that he had to dedicate a considerable time for talk with employees and consider their position from the different perspectives. They were not "only" workers but persons with specific issues arising not only from their health problems but also lack of the support from institutions, the community and sometimes even family members. On the one side, they needed someone to hear them and on the other, the manager had to learn to take all these circumstances into account. In his own words, it took time until they finally learned how to detect problems and find appropriate solutions. Despite the salary cuts, this personal approach resulted in a higher degree of motivation because the employees gained the feeling that they work in company for which they are not only a working force, but actual persons.

In addition, it was important to find strong and reliable partners that could ensure stable orders and cash flow. This decision resulted in the termination of cooperation agreements with some actors from the civil scene because they did not have clear missions and a worked out business model. The cooperative oriented itself to the several new partners. On the one hand, Humana Nova started cooperating with designers not only because of the help with the redesign but also because there is a lack of the manufacturers of cotton products in Croatia, created new market niche in this segment. One of the most important partnerships was established with successful Croatian design brand ELFS who needed a tailoring and sewing service of high quality. The partnership was useful in several ways; not only that it contributed to the stability of the cash flow but also it required several other changes. Due to ELFS, the cooperative had to restructure its production process in order to be able to fulfil their demands and had to become more flexible and able to deliver orders in a short time. Moreover, because ELFS is a popular brand in the higher price range, Humana Nova had to raise the quality of its services and introduce quality standards. These efforts were recognized by ELFS and they became long-term partners, supporting the work of the cooperative and gaining in return a reliable partner able to provide high-quality services. Humana Nova started with tailoring and sewing four ELFS garments and now more than 20 items are sewn on a regular basis. Moreover, successful cooperation was established with other Croatian designers (Roba je roba, Maja Virgej, Goran Cizmesija and other) helping the cooperative team to gain new skills and competences, not only needed for redesign but also for the business in the fashion industry.

In addition, the problems that occurred with the sale of unused textile required changes in the approach and search for new customers. Previously, the majority of textile was sold to domestic clients, but during 2014, Humana Nova had to find new markets in order to get out of debt and achieve positive business results. Finally, a new partner was found in a Belgian firm that was exporting second hand textile to India and thanks to this move, the cooperative was back on a positive track in summer 2014. Moreover, the shift towards public institutions was made as they were recognized as the natural partner in supporting the social mission of the cooperative. Hence,



cooperation with the preschool institutions in the region was established and Humana Nova made the most of its revenue on sewing the uniforms for the preschool teachers.

Moreover, it became clear that the cooperative had to improve its visibility and invest in marketing. In this area, the cooperative benefited from another social company also founded by the ACT group: ACT Printlab that transferred skills and knowledge in market positioning, promotion and visibility. In addition, a new employee responsible for marketing and promotion was employed. The redesigned collections became an important tool for increasing visibility through participation in the various fashion shows (such as Cro A Porter etc.).

The turbulence that occurred in 2014 helped the team of the cooperative to learn that they need better business planning. The seasonal character of their business led to the situation that several months during the year generated huge costs and little revenue; for instance, during January, utilities costs are high due to heating while on the other hand the purchasing power is lower due to the excessive spending during the Christmas season. Thus, amore careful planning of the business process was made in order to bridge the gaps and ensure stable cash flow. Specifically, it was agreed that long-term partners' delivery and payments of the larger projects will be executed in that "critical" period. Moreover, it was realized that there are companies willing to cooperate with Humana Nova because in that way they achieve their social goals and a step forward toward the EU market is made in that segment.

However, the policy actors remained the factor of the instability for the cooperative. Several important issues need to be solved. One of the most important is the low state support for lower productivity of people with disabilities. Specifically, lower productivity is "compensated" by the state with only 1,000 HRK (approximately, 130 EUR) which does not cover all the costs incurred due to the health problems of the employees. Moreover, there are several other problems at the institutional level: a lack of regulations for waste management resulted in total chaos in the market, a strategy for the development of social entrepreneurship was not implemented, the Croatian Employment Service did not provide centres for the support of the employment of the disabled people although the deadline expired in January 2015, etc. All these circumstances put an additional pressure on the sustainability of the cooperative. The team decided to deal with this problem by using a bottom-up approach and by involvement the working groups indifferent strategies and laws regulating employment of marginalized groups. In this area, the cooperative gained a lot of help, knowledge transfer and networking from the ACT group who has a long experience in initiating social changes, lobbying and bottom-up initiatives.

However, the most important segment of the learning process occurred in human relations. The manager, Ivan Bozic admits that the employees are faced with a lot of problems, starting from their health issues to the lack of understanding and support from the health system, institutions and sometimes even from their families. For him, this was very different from the business sector that was more profit than people oriented. In order to keep up the motivation, they all had to learn to communicate their problems and try to find appropriate solutions. Regular weekly staff meetings became part of the routine and way of achieving higher degrees of efficiency. Today they are all proud of the large number of employees becoming the cooperative members and to paraphrase the manager it was all due to the lot of "talk, talk and talk".



In the context of the existing literature on the learning and social innovation, several conclusions can be drawn. First of all, like many newly founded social enterprises Humana Nova at the beginning had lack of the business and industry knowledge as well as managerial knowledge¹. While the establishment of the cooperative was followed by clear social mission and vision (employment of the marginalized women and textile recycling), on the other hand there was a serious deficit of knowledge about textile industry. Examples of these gaps in skills and knowledge varied from price calculation that was inefficient and time consuming to insufficient understanding of the sector, suppliers, distributors, buyers and other key actors. After 2011, it became obvious that once the funds from ESCO project will be spent, the cooperative will not be sustainable any more. In addition, the cooperative was founded by civil society organization that had experience in work with marginalized group, but the founders were not so much involved at the operational level and also had no experience in the textile industry sector. Luckily, this gap was recognized on time and new manager was employed with vast experience in the sector as well as in the business management. Although he proved to be the perfect person to fill that gap, it turned out that he lacked skills in working with vulnerable groups. In this respect, case of Humana Nova slightly diverges from research findings and literature stating that "considering the experiences of engaged people in the SI process it becomes evident that the initiators and almost any actor from the inner core has experiences in working with vulnerable people"². Moreover, case studies from SIMPACT project showed that specific HR skills for work with vulnerable people are result of the "school and academic education"³. None of that was case with Ivan Bozic and Humana Nova; his knowledge in HR management with disabled and marginalized people was result of the learning through experience; trials and errors methodology rather than theory. Although, the manager as well as other employees attended trainings and educations, they had a far greater benefit from the tacit knowledge which "unlike explicit knowledge which can be formulated, abstracted and transferred across time and space independently of the knowing subjects requires close interaction and the build up of shared understanding and trust among them"⁴. The case of Humana Nova confirms the thesis that "the learning and innovative capability of an organization is thus critically dependent on its capacity to mobilise tacit knowledge and foster its interaction with explicit knowledge"⁵. The employees of the cooperative participated in various trainings ranging from vocational and professional educations to courses in social entrepreneurship and social business trainings (for instance, Investment Ready Program, trainings in sewing and tailoring etc). However, considerable transfer of knowledge occurred between the manager and employees proving that "individual learning intention and knowledge absorption from individual to group to organization could be significant for effective organizational knowledge transfer"⁶. On the other hand, while the manager transferred some of his business skills to the employees, he also learned a lot from them about human resources and work with vulnerable groups.

¹Comparative Report on Social Innovation across Europe, (SIMPACT project), August 2015, p.51

²Ibid., p.48

³Ibid, p.49

⁴Lam, A.: Alternative societal models of learning and innovation in the knowledge economy, UNESCO 2002, p.68

⁵Ibid, p.69

⁶Rhodes and others: An integrative model of organizational learning and social capital on effective knowledge transfer and perceived organizational performance", Journal of Workplace Learning, Vol.20 No.4, 2008, p.245



Finally, this transfer of knowledge resulted in improvement in the financial (higher sustainability) and non-financial performance⁷ (improvement in processes etc).

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⁷Ibid, p.248