

## SOCIAL ENTREPRENEURSHIP AS AN INNOVATIVE SOLUTION MECHANISM OF SOCIAL PROBLEMS OF SOCIETY

Irina Kostetska<sup>1</sup>, Ivanna Berezyak<sup>2</sup>

<sup>1</sup> PhD in Economics. Lviv National Agrarian University. Ukraine, Lviv region, Zhovkva district, village Dubliany, 1 Vladimir the Great str. E-mail [ircosa@meta.ua](mailto:ircosa@meta.ua)

<sup>2</sup> PhD in Economics. National University "Ostrog Academy". E-mail [ivone@ukr.net](mailto:ivone@ukr.net)

Received 05 10 2014; accepted 30 05 2014

For each country, regardless of its socio and economic development, one of the main key indicators of success is the social stability of society. That is why the use in practice of such innovation to our society as a social technology social entrepreneurship became actual. The aim of the paper is theoretical and methodological grounding of necessity and feasibility of using social entrepreneurship as a generator of socially oriented economic development and the development of practical recommendations for implementation and development in Ukraine. The methodological basis of the study were theoretical methods of scientific knowledge, the use of which has made it possible to reveal the wider possibilities of social entrepreneurship in solving the social problems. According to the results of the study it can be stated that social entrepreneurship as a social innovation has found its niche and its place in the new information and innovation, innovation economy and continues to gain momentum. In Ukraine, such a business can set a goal of occupational therapy, social rehabilitation, and introduction new mechanisms in order to solve these social problems. Based on a systematic approach to the problems of integration of social enterprises in the economy of Ukraine was founded that for further development of the state should provide favorable conditions, in particular, to establish the legal and tax conditions for the creation of social enterprises, to realize favorable form of systemic interaction between government, business and citizens, to create favorable institutional environment for social enterprises.

*Keywords:* social entrepreneurship, social innovation, social goals, social enterprises.

*JEL Codes:* H80, M14.

### 1. Introduction

The modern society characterized by a situation where the market is unable to solve all economic problems, as legally defined measures and means to solve social problems are not effective in solving the current social issues. Impossibility of market and government – are the factors that contribute to the emergence of social enterprise that provides partial and dynamic solution for local social problems. Creating a variety of ways to attract a combination of resources, forms of exchange and interaction between people, social enterprises are the focus of social innovation, they are essential to our society.

This social innovation form an environment that promotes scientific, technical, technological and informational innovations, increase efficiency of new techniques

and technologies, reduce innovation costs. Social entrepreneurship is that social innovation that serves as a mechanism of social changes and sustainable economic development.

The aim of the paper is theoretical and methodological grounding of necessity and feasibility of using social entrepreneurship as a generator of socially oriented economic development and the development of practical recommendations for implementation and development in Ukraine. Object of the study is a social enterprise as one of the instruments of social development. The subject of the study is the innovative aspects of introduction the social enterprise in Ukraine economy.

## **2. Method**

The theoretical basis of the study is a systematic approach and the results of studies of social enterprises of Ukrainian and foreign researchers. The phenomenon of social entrepreneurship in the Postsoviet space were explored by A. Arapetian, (2008), A. Moscovska (2008), V. Shapoval (2013), Z. Galushka, (2013), Y. Shchetynska (2014), who found that social enterprise is a promising way to solve pressing social and economic problems and the focus of social innovation.

The issues of separation and highlight of characteristics of social enterprises were investigated by G. Dees (2001), who explored that the continued functioning of the social enterprise leads to positive changes in society, thereby differentiate this field. The positive effects of versatile social enterprises can be traced to the work of I. MacMillan (2013) and F. Spreckley (2011).

Regarding the obstacles of establishing the institute of social entrepreneurship in Ukraine and key recommendations for improvement, these issues were investigated by A. Andriushchenko (2010), I. Kireeva (2011), V. Udodova (2013), A. Nabatova (2014). Thus, according to I. Kireeva (2011), the primary measures for the development of social enterprises should be the development of a proper legal framework for regulating their activities and develop mechanisms to attract businesses and the public to solve social problems. A. Nabatova (2014) focuses on the challenges of raising funds at the initial stage of development of social enterprises, the lack of special programs providing credit and debt, so introduction of a social enterprise needs support from the government through financial and credit mechanisms.

According to V. Udodova (2013), promotion and implementation of social enterprises in the economy of Ukraine should take place with regard to the adapted international experience, which is the benchmark that shows what needs to change in the law and the enterprises and the state. In turn A. Andriushchenko (2010) argues that the key to the success of the concept of joint ventures in Ukraine is to develop a national strategy for the development of social entrepreneurship, which would coordinate the efforts of all stakeholders – entrepreneurs, NGOs, donors and the state. Thus, today a significant theoretical basis for the conceptual providing the implementation of social enterprises in the economy of Ukraine and forming its own model of

social entrepreneurship is formed. However, today in Ukraine there are no favorable conditions for the development of social entrepreneurship.

The study using monographic method defined benefits and opportunities for social entrepreneurship in the social and economic system. Using the methods of analysis, synthesis, comparison and abstraction defines the main problems of development and implementation of social enterprises in Ukraine. Using survey data on the raising role of social enterprises conducted by the UNDP Regional Bureau for Europe and CIS gave an opportunity to develop recommendations for creation the favorable conditions for the development of development of social entrepreneurship in Ukraine.

### **3. Results**

Social entrepreneurship is an innovative form of business, which successfully combines social aims and commercial practice. Social entrepreneurship has emerged as a response to chronic social problems: unemployment, poverty, community fragmentation etc. Social entrepreneurship works where the government cannot work (due to the lack of funding), and the business does not want to (because of low profitability).

International private and public funds are aimed for the development and maintenance of social entrepreneurship (Schwab Foundation for Social Entrepreneurship (Switzerland), Skoll Foundation (USA) and the Ashoka Foundation (India)) define social entrepreneurship as an innovative business activities for the advancement of the community and the restoration of social justice (Spreckley, 2011).

Exploring the importance of social entrepreneurship in the context of intensified social oriented innovations, we have formulated the following definition: social entrepreneurship – is an activity in order to solve or mitigate the problems of disadvantaged populations, carried out under the terms of self-sufficiency, innovation and financial independence. It means that social entrepreneurship – is a combination of social mission and commercial approach. Aiming at solving a specific social problem, entrepreneurs attract resources to achieve its mission, receiving income from such activities.

Social entrepreneurship is a symbiosis of charity and business approaches to solving social problems. Social entrepreneurship takes from charity social focus of activity and from business – entrepreneurial approach (Fig.).

Unlike traditional business that works for the sake of profit, social enterprise performs social functions and works where the government can not work (due to the lack of funding), and the business does not want to (because of low profitability). The advantage of social entrepreneurship is that this approach allows us to solve existing social problems without interference from the state (Shchetynska, 2014).

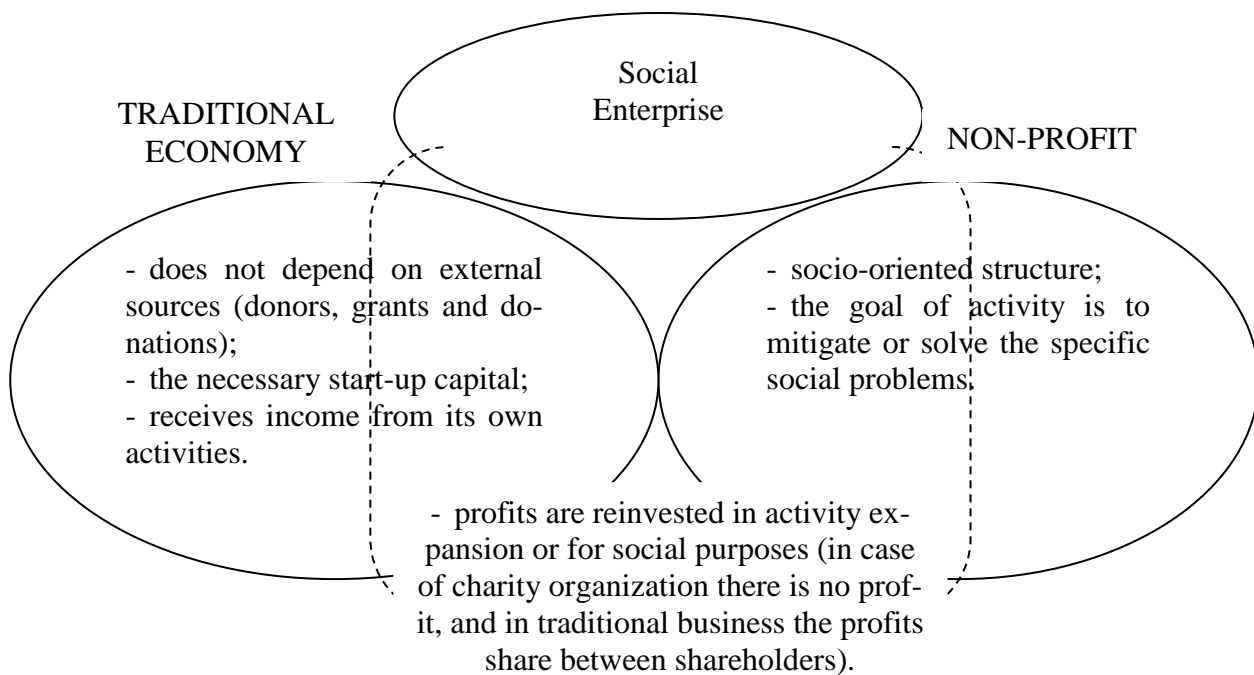


Fig. Social enterprise as a symbiosis of traditional business and charity

The factors that most accurately define social entrepreneurship include (Dees, 2001):

- assuming the mission of creating and maintaining social values (weal);
- identify and use new opportunities to implement the chosen mission;
- the implementation of continuous innovation, adaptation and learning;
- determination of action not limited by disposable resources;
- high responsibility of entrepreneur for his activity results before direct customers and society.

Social entrepreneurs engaged innovative approaches that are unusual for a standard solution of complex social problems (poverty reduction, energy conservation, environmental protection, education, health care, affordable housing, etc.). The School of Economics at Stanford University, USA, which specializes in researching social entrepreneurship, believes it has the following criteria (Udodova, 2013):

- developing and implementing an innovative mechanism to solve the problem that exists for a long time in the community because of limited access of certain target group for financial and political resources for solving the one;
- creating the conditions for obtaining the resources by task group, providing a better future not only for socially vulnerable groups, but also for society as a whole. (Udodova, 2013).

The activity of social enterprises in Ukraine concentrates on the following areas (Galushka, 2013; Nabatova, 2014):

- the integration into society of socially unprotected groups of population (the disabled, the unemployed, the homeless, ex-prisoners, people who lost their alcohol and drug addiction, “difficult” teenagers, etc.), especially into employment;
- attracting people to entrepreneurship by providing financial assistance to socially vulnerable groups (micro credit);
- production and sale of products for disadvantaged groups at a reduced price;
- the formation of cross-cultural relationships between members of the territorial community to maintain stability and social cohesion;
- solving the problems of preservation of the environment (environmental designs of orientation).

The business of social enterprises aimed at improving the situation of the community and the restoration of social justice. The positive effects of social enterprises are:

- contribute to the development of economy and society, providing opportunities for the job creation and new forms of entrepreneurship and employment;
- help to overcome social isolation (due to their activity it is possible to employ people with disabilities and mental capabilities who have been unemployed for a long time, at-risk populations);
- offer new ways to reform the state and social services;
- stimulate participation and voluntary work of citizens, strengthening thus the unity of the community;
- the contribute to the development of a wide range of social services necessary for society, but those that regular business does not want to work with (inefficient, prestigious, those who require special training);
- allowing more efficient use of the available resources of the region in solving social problems;
- reducing the burden on local governments to solve social problems (actually in chronic budget deficit);
- extending the structure of social programs in the region;
- contribute to creating a favorable business environment;
- allow NGOs to have a stable financial support for social purposes;
- create opportunities for increasing business competitiveness through integration into the European network of social enterprises and creating social brand company.

Due to the content and aims of social enterprise, several models can work in a modern legislative field of Ukraine. Thus, the NGO can register a business, which profit will focus on the development of the organization and implementation of its stated goals, or go to the community needs. Another common model – is employment and training people who cannot create competition in the traditional labor market (people with disabilities, the homeless, the socially disadvantaged young people, and ex-convicts). This model is widely used in public organizations of different areas. Traditional businesses that use such model of employment: urban landscaping com-

pany, coffee shops, and courier companies (Arapetian, 2008). For example, in the UK 20% of social enterprises work with people with disabilities, 17% – with teens and troubled youth, 15% – with the elderly (MacMillan, 2013).

The most prepared for activities as social entrepreneurs (and hence a successful combination of social and economic goals) in post-Soviet countries are organizations of disabled people. This is because they are more cohesive and often separated from the rest of the world by a common affliction that makes the social goal more sustainable, and the searching for economic mechanisms for its implementing – more diverse. In addition, high cohesion creates a social network that is both sustainable and social resources of the organization and its sales network (Moscovska, 2012).

Prevalence of organizations of disabled people in Ukraine are also conditioned by the fact that these companies receive state support in the form of tax benefits, returnable and non-refundable financial aid, loans, grants etc. Social entrepreneurship is an innovative mechanism for improving the quality of life of the most vulnerable people and solving social problems in general and in Ukraine, there are new examples of such work (Andriushchenko, 2010; Kireeva, 2011):

- social Enterprise “Vyhoda” (Zhytomyr) – is an enterprise of the production of non-standard hardware, which operates on a rehabilitation center of charitable organization in Zhytomyr. Ex-alcohol and drug addicted people and former prisoners study and work here;

- social Enterprise “Zlahoda” (Kramatorsk, Donetsk region), which has created more than 80 work places for people with disabilities;

- social bakery “Gorihovyi Dim” (Lviv). Cookies that baked in the social bakery Lviv cafeteria buy and serves to visitors of the city as a compliment to the ordered coffee. This company is engaged in supporting the non-profit project aimed at helping the vulnerable residents of Lviv (the maintenance of an integrated care center, rehabilitation of women in distress);

- a community of mutual support “Oselia” (Lviv region). This organization deals with employment and social inclusion of homeless people and people with alcohol dependence who have lost family and social ties;

- medical Rehabilitation Center “Zdorovia” (Novoazovsk, Donetsk region), which specializes in preventive recovery and rehabilitation treatment of patients with diseases of the nervous system, musculoskeletal, respiratory diseases, cardiovascular and urogenital system.

Such activity helps to improve the crime situation in the country, because people that often socially unclaimed (ex-convicts, drug addicts, people who because of various reasons left without means of livelihood) is pushing for a crime hopelessness. Such a man is hard to find a job; employers do not tend to attract these workers.

Social enterprises contribute to consistent and sustainable improvement in consumption, providing access to disadvantaged groups for quality social services, reforming the most important sectors of the social sphere. At the same time, the majority of local social enterprises do not meet all the criteria of social entrepreneurship as their activity is much more nuance. Almost each of them has a certain fund or grants

because to start a business after all, you need a start-up capital. Achieving profitability for the companies involved in social entrepreneurship – is the long-term goal: their current challenges are more relative to the implementation of social programs rather than developing effective business approaches.

Other factors that affect the development of social enterprises in Ukraine are:

- the lack of a systematic approach to the popularization of social entrepreneurship;
- low financial stability (most social enterprises can not operate systematically without additional investment);
- limited access to qualified specialized services (legal, financial, marketing, advertising);
- no system on activities related to the development of social entrepreneurship;
- the absence of a favorable internal and external environment for the creation and development of social enterprises;
- the lack of legislation to regulate the activities of social enterprises;
- the lack of a systematic approach to education and training of qualified personnel to carry out activities in the field of social entrepreneurship;
- low degree of commitment to public values of social solidarity and indifference to problems that do not affect them personally.

To increase the number of social enterprises in Ukraine as an alternative source of resources to address social problems in communities and support vulnerable groups should:

1. Creating an enabling legal and tax conditions for the development of social entrepreneurship:

- developing new or improving existing legislation, particularly in the legal recognition of different legal forms of social enterprises;
- establishing tax incentives for social enterprises: reducing indirect taxes in cases where market income is insufficient to support social activities;
- participation of social enterprises in competitions for public contracts;
- support the development of social entrepreneurship in the regions through financial and credit mechanisms (soft loans), etc.

2. Implementation of favorable forms of cooperation with NGOs, especially in the production of goods / services public service:

- recognition of the social importance of ongoing activities and the establishment of a permanent and consistent policy for social enterprises at all levels of government;
- ensuring access to services of social enterprises to improve business skills and management skills.

3. Creating an enabling institutional environment for social enterprises:

- the creation of a state structure that represents the interests of social entrepreneurship;

- development of infrastructure support, including financial, to increase the capacity and efficiency of social enterprises;
- the creation of an educational consulting, educational and information center that would develop and represented the social enterprise sector in the region;
- providing advisory support to social entrepreneurs in preparing business plans and their implementation;
- providing consulting support on legal issues of management and marketing and social entrepreneurs wishing to establish such enterprises, etc.

#### **4. Conclusions**

1. Consequently, we may sum up that social entrepreneurship – is a real mechanism of solving social problems of society, which aims at maintaining economic and social well-being of a certain territorial community and country in general. Embracing various socio vulnerable segments of the population, social entrepreneurship may state as the aim occupational therapy, social rehabilitation, introduction of new mechanisms of solving the current social problems, but overall his feature is the social innovativeness.

2. Introduction of social entrepreneurship becomes one of the ways of solving acute social problems, as well as deprivation from dependence in identifying priorities of its activities. After all the development of social entrepreneurship – is harmonization of social and commercial interests, the mechanism of inclusion the representatives of economically active population for productive labor.

3. Success of social enterprises depends on the willingness of business to contribute to the development of this direction – to show social responsibility and to invest in this segment. The state, in turn, should pay special attention to the development of social entrepreneurship: an enabling legal and tax conditions for the development of social entrepreneurship; implementation of favorable forms of interaction with civil society organizations; creating an enabling institutional environment for social enterprises. Creating conditions for the development of this area of business activity will enable to enhance the initiative of citizens, will perform as a stabilizing factor in the crisis of socio- economic system, promote more coherent functioning of the entire socio- economic system.

#### **References**

1. Andriushchenko, A., Riabets, I. (2010). Social Entrepreneurship as an Innovative Mechanism for Improving the Quality of Life of the Most Vulnerable Segments of the Population // SOCIOPROSTIR: An Interdisciplinary Collection of Works on Sociology and Social Work. No. 1: 195–198.
2. Arapetian, A., Arhypchik, O., Pan, L. (2008). Socially Responsible Business: Advantages and Limitations // Practice Management. No. 7: 12–18.
3. Dees, J. The Meaning of Social Entrepreneurship. – [http://www.caseatduke.org/documents/dees\\_sedef.pdf](http://www.caseatduke.org/documents/dees_sedef.pdf) [2014 04 14].



4. Galushka, Z. (2013) The Phenomenon of Social Entrepreneurship: Concepts and Prospects in Ukraine // Economics. No. 148: 15–17.
5. Kireeva, I. (2011) B. Social Entrepreneurship as a Tool for Social Policies // Public Administration: Theory and Practice. Vol. 2(6): 79–82.
6. MacMillan, I., Thompson, J. (2013). The Social Entrepreneur's Playbook. – Kiev: Publishing House "Kyiv-Mohyla Academy". 32 p.
7. Materials of research conducted by the UNDP Regional Bureau for Europe and CIS and the EMES – European Research Network Project: «Social Enterprise: A New Model for Poverty Reduction and Employment Generation. An Examination of the Concept and Practice in Europe and the Commonwealth of Independent States» (2008). 191 p.
8. Materials of research conducted by the UNDP Regional Bureau for Europe and CIS and the EMES – European Research Network Project: «Study on Promoting the Role of Social Enterprises in CEE and the CIS» (2006). 138 p.
9. Moscovska, A. The Phenomenon of Social Entrepreneurship and its Prospects in Russia. – <http://www.maecenas.ru/libs/index.html?117> [2014 04 28].
10. Nabatova, O. The Main Features of Social Enterprise and the Prospects for its Development in Ukraine. – [http://asconf.com/rus/archive\\_view/145](http://asconf.com/rus/archive_view/145) [2014 05 04].
11. Shchetynska, Y. Organisation of Social Enterprises as a Form of Implementation of Social Policy. – <http://www.economy.nayka.com.ua/?op=1&z=2677> [2014 04 20].
12. Spreckley, F. Guide to planning social entrepreneurship. – <http://www.locallivelihoods.com/cmsms/uploads/PDFs/Social%20Enterprise%20Planning%20Toolkit%20-%201st%20Edition%20June%202011%20-%20Ukrainian.pdf> [2014 04 12].
13. Udodova, V., Shapoval, V. (2013). The Research of Experience of the Functioning of National Models of Social Enterprise // Journal of V. N. Karazin Kharkov National University. No. 1042: 105–108.

## **SOCIALINIS VERSLAS KAIP INOVATYVUS SOCIALINIŲ VISUOMENĖS PER- OBLEMŲ SPRENDIMO BŪDAS**

**Irina Kostetska<sup>1</sup>, Ivanna Berezyak<sup>2</sup>**

<sup>1</sup> *Lvovo nacionalinis agrarinis universitetas*

<sup>2</sup> *Nacionalinis universitetas „Ostrog akademija“*

*Įteikta 2014 05 10; priimta 2014 30 05*

### **Santrauka**

Socialinis visuomenės stabilumas yra vienas iš svarbiausių rodiklių kiekvienoje valstybėje, nepaisant jos išsivystymo lygio. Dėl to, tokių inovacijų kaip socialinis verslas taikymas yra ypatin-  
gai aktualus. Straipsnio tikslas – teoriškai ir metodiškai pagrįsti socialinio verslo taikymo būtinybę  
ir galimybes skatinant socialiai orientuotą ekonominę plėtrą ir pasiūlyti praktines rekomendacijas  
Ukrainos atveju. Tyrimas remiasi teorinių mokslo metodų taikymu. Tyrimo rezultatai rodo, kad so-  
cialinis verslas sėkmingai užėmė savo nišą kaip socialinė inovacija inovacijų ekonomikoje. Apta-  
riami būdai, kuriais vyriausybė gali prisidėti prie socialinio verslo plėtros.

*Reikšminiai žodžiai: socialinis verslas, socialinės inovacijos, socialiniai tikslai, įmonės.*

*JEL kodai: H80, M14.*