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ENTREPRENEURSHIP WITH SOCIAL RESPONSIBILITY AS AN INNOVATIVE TOOL FOR SOLVING SOCIAL NEEDS

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Abstract. The article deals with a historical retrospective of the emergence of social entrepreneurship. Approaches to the definition of the concept of “social entrepreneurship” are given and characterized. They are broad, combined, and problem-oriented. According to a study by The Possibilists, today businessmen from 138 countries are not motivated to start a business for their own needs and desires, they are motivated by the goal of improving the lives of others globally and locally. This is a huge paradigm shift in the cause of business that the world is living in right now. This change can be accelerated by crisis factors, which, unfortunately, occur in society.

The article also analyzes the impact of the war in Ukraine on the development of social entrepreneurship. Often in our country, social entrepreneurship exists as a volunteer or charitable organization that has limited resources. Sometimes they are created in combination with business approaches and give a more sustainable effect. The legalization of the term “social entrepreneurship” has been analyzed. In Ukraine, there are false statements about it that need to be clarified.

The authors’ definition of the essence of the category “social entrepreneurship” is presented. The main activities of social enterprises are listed and examples are given. The key differences between social entrepreneurship, charity, and traditional business are revealed. The characteristics of organizations engaged in social entrepreneurship are given. Current trends in the development of foreign social entrepreneurship are identified. The dynamics of the number of social enterprises in Ukraine are analyzed and the main organizational and legal forms of functioning of social enterprises in Ukraine are presented. The current problems and obstacles in social entrepreneurship are given, and the directions promoting the development of social business are defined.

Keywords: social entrepreneurship, business with social responsibility, organizational and legal forms, social mission, innovative entrepreneurship.

JEL Classification: L31

1. INTRODUCTION

Social entrepreneurship originated in the early XIX century. J. McClurg claimed that its prototypes were monasteries (as a place of refuge for socially vulnerable groups), church schools

established at the expense of the community or patrons, hospitals, and nursing homes, which have their own social mission (Kozhemyachenko et al., 2018). The very concept of “social entrepreneurship” was widely introduced by Nobel Laureate in Economics Mohamed Yunus, who attributed social entrepreneurship to an innovative initiative aimed at helping people. He considered entrepreneurship with social responsibility as an “ideologically managed business” (cause-driven business), at the same time, society receives direct benefits from the activities of this structure (Kozhemyachenko et al., 2018).

Social entrepreneurship in Ukraine currently does not have the special status provided by law. Since 2014, Ukrainian business has been affected by an armed attack by Russia in the east of the country, and with a full-scale invasion of Ukraine, the business has suffered huge losses. The war, on the one hand, has a negative impact on social entrepreneurship, on the other, it has positive trends, the spirit of patriotism and unification connected with increasing the number of organizations and entrepreneurs who provide assistance to the Armed Forces of Ukraine, refugees and displaced persons, create new jobs for them.

The first attempt to introduce the concept of social entrepreneurship in the legislation was made in 2013 by MP Oleksandr Feldman, but the bill was not approved.

There are no provisions or even mentions of social entrepreneurship in the legislation of Ukraine. According to the document, social enterprises were supposed to be those where at least half of the employed workers would belong to socially vulnerable groups. To the same extent, their services would be used by representatives of socially vulnerable categories of citizens. Enterprises had to invest profits in the implementation of social projects (Baranova, 2021), which provided for government benefits and the possibility of loans.

Feldman also presented for consideration the draft law “On Amendments to Article 154 of the Tax Code of Ukraine on Support of Social Enterprises”. It proposed exempting social entrepreneurs from income tax. The first bill was rejected by Verkhovna Rada Committee at the stage of its consideration, after which Feldman withdrew his second bill as well (Baranova, 2021). The document received an unsatisfactory assessment, including because the commission members did not like the wording of social entrepreneurship.

2. THEORETICAL BACKGROUND

Kim Alter calls social entrepreneurship a “double bottom line concept” and gives the following characteristics: the use of business tools and approaches to achieve a social goal (mission); a combination of social and commercial capital; creation of social and economic value; receiving income based on commercial activity to finance social programs; market-driven and mission-led; measurement of the results of financial activity and social effect; formulation of financial tasks depending on their contribution to the achievement of the public good; financial freedom (no restrictions on profit distribution); orienting the company’s strategy to the realization of the social mission (Alter, 2007).

Today, more and more scientists are investigating the peculiarities of social entrepreneurship, however, there is still no consensus on the definition of the essence of the “social entrepreneurship” category. Therefore, summarizing the existing interpretations, three main approaches to defining social entrepreneurship can be distinguished, such as broad, combined, and problem-oriented (Tab. 1).

Table 1. Approaches to the definition of social entrepreneurship

The name of the approach	Authors	Features
Broad	E. Shaw, J. Verawarden, G. Mort, A. Fowler, H. Haugh	Activities that, in the end, involve the achievement of a social goal. It is the activity of state social organizations; traditional business organizations, and it always has a social component.
Combined	J. Meyer, E. Noboa, E. Austin, J. Way Skillern, H. Stevenson, F. Perrini, S. Wurro, J. Deese	This approach significantly limits the scope of social entrepreneurship, as not all business organizations use innovation in the social component of their activities. However, this approach expands social entrepreneurship by supplementing its activities with non-profit organizations and public social institutions that develop and implement innovations in their activities.
Problem-oriented	K. Lidbiter, Schwaba Foundation, M. Yunus	The activity of the enterprise, the social results of which are aimed at a particular social group or problem.

Source: Compiled by the authors based on (Dees, 1998; Haugh, 2007; Svinchuk et al., 2017)

3. RESEARCH OBJECTIVE, METHODOLOGY AND DATA

Carrying out a comparative analysis of the institute of social entrepreneurship through a section of the prerequisites for its formation and activation with the aim of further implementation to solve social problems. Methods used for the study are integral, indices, formalization, modeling, economic analysis.

4. RESULTS AND DISCUSSION

The given approaches show the multifaceted nature of the notion of “social entrepreneurship”, however, each of these approaches demonstrates its own specificity. In our opinion, social entrepreneurship is an innovative economic activity that involves solving social problems using business methods. It is an activity that takes into account the needs of society and the planet, which does not harm the environment and other people, but at the same time is profitable.

The main components without which social entrepreneurship cannot exist are social value, innovation, and profit. (Fig. 1) The distribution of the ratio of these components remains at the discretion of the founders, but the presence of three at the same time is mandatory.

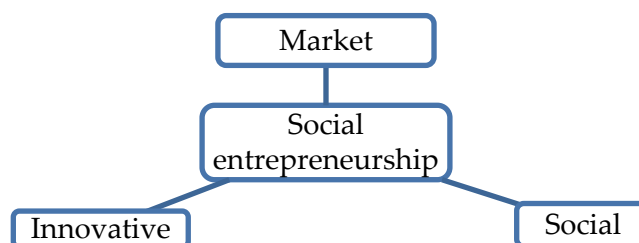


Fig. 1. The main components of social entrepreneurship

Source: Compiled by the authors based on (Svinchuk et al., 2017)

The main tasks solved by social enterprises are:

1. Distribution of profit.

2. Employment of representatives of vulnerable population categories.
3. Solving a social problem with a product (goods or service).

Examples of social enterprises are summarized in Tab. 2.

Table 2. Examples of enterprises with social responsibility

Examples of social enterprises	Distribution of profit	Employment of representatives of vulnerable population categories	Solving a social problem with a product (goods or service)
“Urban Space 100” (Ivano-Frankivsk)	80% of profit through grants goes to the implementation of public projects in the city of Ivano-Frankivsk		
“WoodLike” Family Workshop of Eco-souvenirs (Kostyantynivka)	10% of the profit is given to finance a public organization and the development of educational videos		
“Stare misto” (Lutsk)		half of the employees are people with Down syndrome	
“Simka” (Ternopil)		employs people with disabilities and anyone who, due to circumstances, finds it difficult to work away from home	
“InvaFishki” (Kyiv)			engaged in raising the level of self-awareness of people with disabilities, as well as the development, production and sales of special devices to facilitate the lives of such people
“Re:ban” (Kyiv)			manufactures and sells backpacks, bags, cosmetic bags from the fabric of used advertising banners
PIZZA VETERANO (Kyiv)	10% of the profit from each pizza purchased goes to a good cause	only veterans are employed	
bakery-confectionery “Nut House” (Lviv)	40% of the profit goes to the social projects of the Nut House Foundation, in particular to the maintenance of the Center of Integral Care for women in crisis situations		

Source: Compiled by the authors based on (<https://www.urbanspace.if.ua/uk>; <https://svoi.market/uk/eko-suveniri-woodlike>; Yaroshenko, 2020; Kornetskyi, 2021)

From Fig. 2 we see that 35% of social enterprises deal with the issue of employment of socially vulnerable segments of the population, 24% generate profit for the organization, 19% generate profit for the provision of services, and 14% finance certain types of services, 8% solve environmental problems.

In addition, in their activities, they pay great attention to the involvement of young people, solving gender issues, etc. Moreover, there is no strict division by type of activity among social enterprises: one enterprise can engage in various types of activity at the same time. Investigating the issues of personnel working in social entrepreneurship, we concluded that the majority of them are young people (69%), and according to the gender division - women (54%). Today, social entrepreneurship is unlimited in the choice of type of activity.

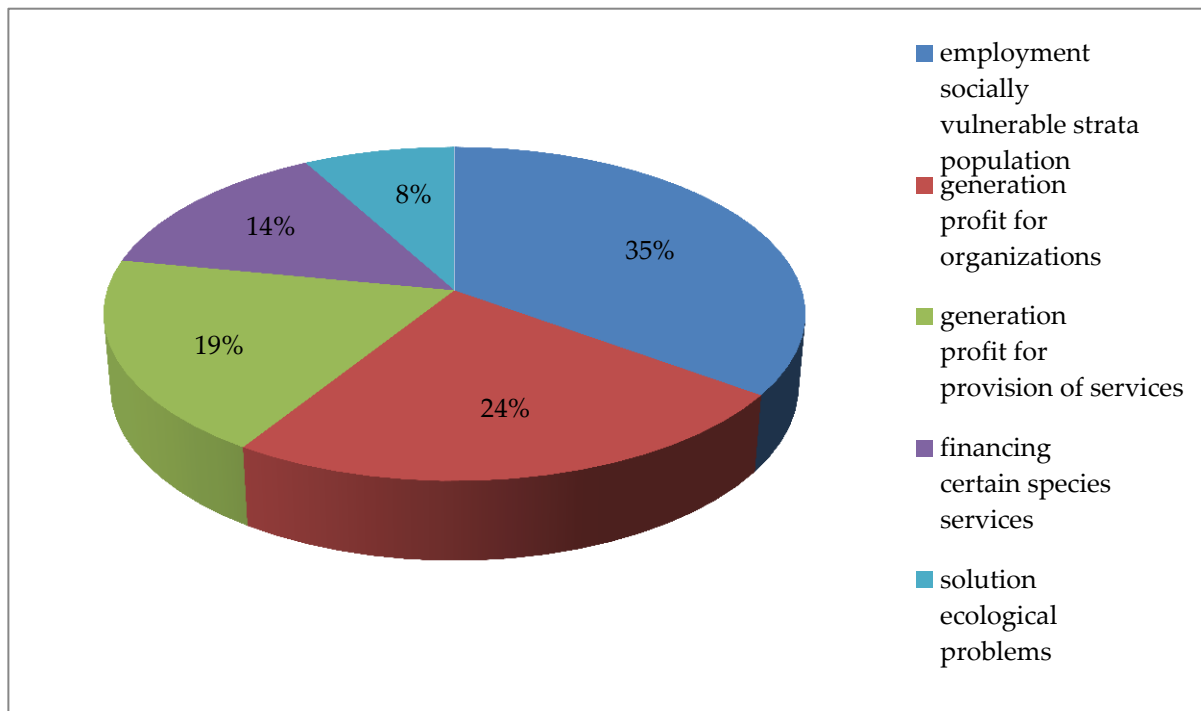


Fig. 2. The main activities of social enterprises

Source: Compiled by the authors based on (Lunkina & Ivanko, 2019)

The sources of financing social enterprises are income from own entrepreneurial activity, grants, borrowed loans, sponsorship contributions, etc. The analysis of sources of financing indicates that about 75% of the volume of financing of social enterprises' activities is own funds, and 15% is grants and sponsorship contributions. This trend indicates a tendency towards the European system of social entrepreneurship and it is quite effective. Although there is an opinion that providing funds on an irrevocable basis inhibits the motivational component, as well as the desire of social enterprises to increase profits and expand their activities. Credit resources make up only 10% of all sources of financing. Due to the high-interest rates on loans, business entities are reluctant to include them in their business turnover. At the same time, providing loans at a low-interest rate, in our opinion, will stimulate the company to work better and more efficiently. Other sources of financing include charitable contributions, non-material support of partners, investments of founders, etc.

Today, social entrepreneurship is actively developing both in the world and in Ukraine. The leader of the European region in the development of social entrepreneurship is Great Britain (about 70 thousand), which provides work for almost a million people. Their combined contribution to the economy is more than £24 billion. According to the results of 2019, 68% of

social enterprises support people from vulnerable groups, 44% employ people from vulnerable groups, and 28% work in the most depressed areas of the country.

In 2019, there were 29,535 social enterprises in Poland, which employed 428,700 people. And in Serbia, according to 2015 data, 4,273 employees worked in social enterprises (0.25% of the total number of employees in the country).

According to the materials of the report of the European Commission “Social enterprises and their ecosystems in Europe”, the contribution of social business amounted to Italy - 37.3 billion euros; the Netherlands - 3.5 billion euros; Portugal - 3.3 billion euros; Hungary - 2.3 billion euros; Ireland - 1.4 billion euros; Estonia - 52.4 million euros (<https://cutt.ly/dNtYL1w>)

Russia’s invasion of Ukraine and the economic and social crisis created a significant prerequisite for the development of social entrepreneurship. Considering the period 2008-2019 (Fig. 3), we can see a sharp increase in the number of social enterprises since 2012. Since there is no accurate data for 2022 yet, taking into account the dynamics and observations, we can talk about the growth of enterprises with social responsibility in 2 times.

Social entrepreneurship can include the activities of a certain set of organizations in all three sectors of the national economy: state, business, and the third sector. For example, this is an activity (Baranova, 2021):

- business sector entities that adhere to the concept of corporate social responsibility;
- non-profit organizations of the third sector, which, in order to find additional sources of funding for their social activities, initiate and implement entrepreneurial commercial projects;
- state organizations that commercialize their activities in the provision of social services (for example, state universities, and state medical institutions).

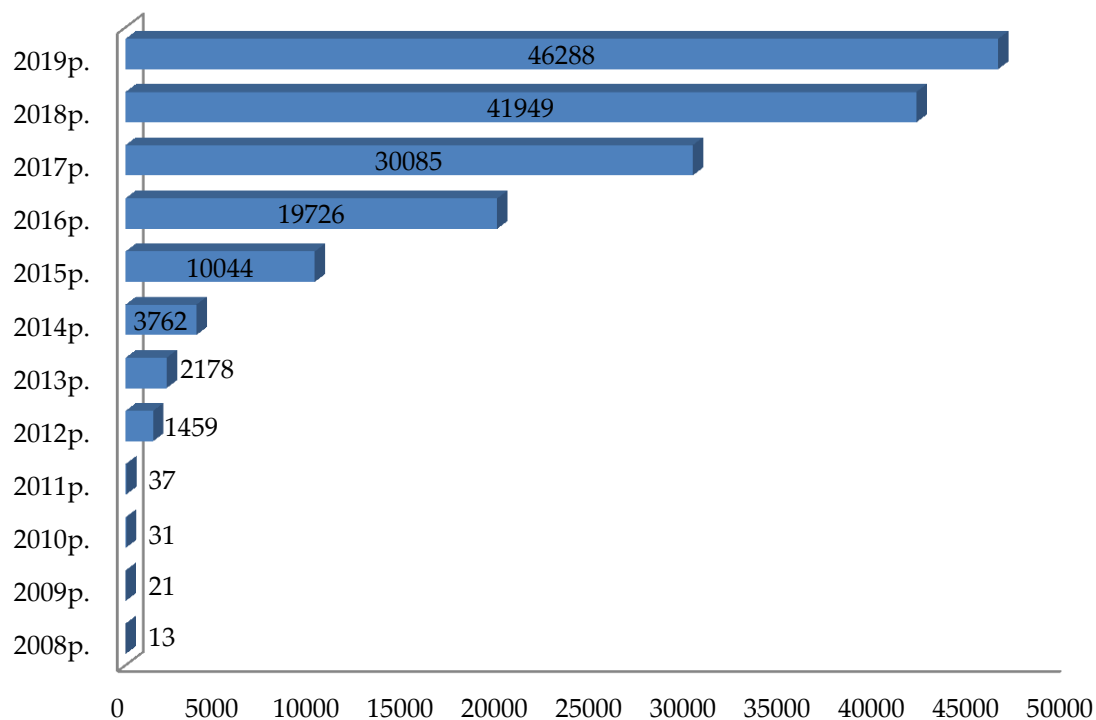


Fig. 3. Number of social enterprises in Ukraine during the period 2008-2019

Source: Compiled by the authors based on (Lunkina & Ivanenko 2019)

Table 3 presents the distinctive features of social entrepreneurship from traditional and charitable activities.

Table 3. The main differences between social entrepreneurship and a charity organization and traditional business

Criteria	Social enterprise	Charitable Organization	Traditional business
Purpose of activity	Solving social problems	Providing support and assistance to vulnerable groups	Profit making
Sources of funding	Funds of JV participants, profit from own activities, grants, microfinancing	Grants from international funds and organizations, donations	Does not depend on external sources of funding
Distribution and use of profit	The profit is reinvested or financed in certain social projects	Does not make a profit	Profit is distributed among shareholders

Source: Compiled by the authors based on (<https://cutt.ly/xNtYMIH>)

The organizational and legal forms of social enterprises are chosen based on the optimal business model and taxation systems. Therefore, most social enterprises work in the form of private enterprises (Fig. 4), which greatly facilitates business administration, reporting, and taxation. It should be noted that almost 82% of social entrepreneurs work in close cooperation (under direct contracts, memoranda of cooperation) or in one way or another are connected in their economic activity with non-profit public organizations engaged in the implementation of social projects. Thus, it can be concluded that more than 56% of social enterprises in Ukraine were created by civil society institutions, work as part of them, closely interact, or are somehow connected with them. This situation creates a mutually beneficial symbiosis of public organizations and social enterprises. The first institutions are able to significantly improve their own economic stability and sustainability, become less dependent on donors and grants, and obtain additional independent sources of financing for their own project-based social activities. And the others receive some tax benefits, a wide client (project beneficiaries) and partner base, permanent marketing in the target communities of the projects, qualified specialists, and more.

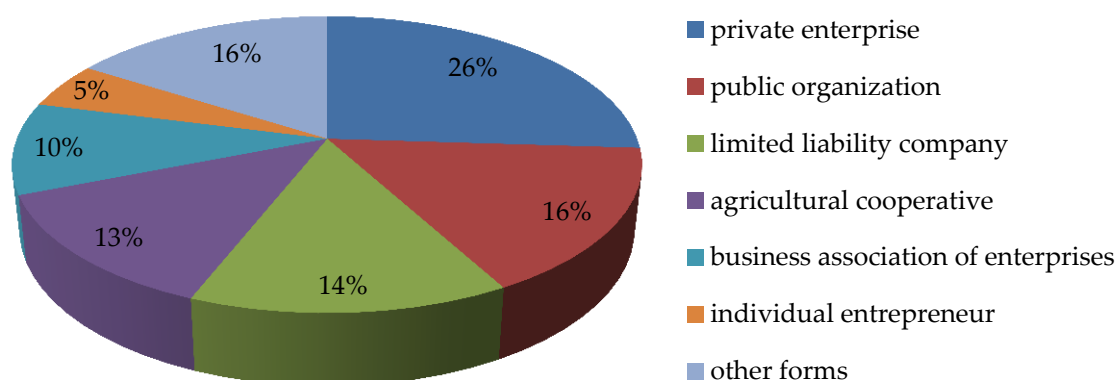


Fig. 4 Organizational and legal forms of social enterprises

Source: Compiled by the authors based on (<https://cutt.ly/xNtYMIH>)

Social business in Ukraine is a rather young type of activity with rapid development dynamics. The high and leap-like pace of development of social entrepreneurship in Ukraine is caused by society's response to crisis phenomena in the social, economic, and political spheres. Under such conditions, the state shows limited capabilities against the background of an unlimited number of unresolved problems in the social sphere. One of the innovative tools for solving these issues can be the activities of social enterprises. Moreover, there is a social demand and a high level of expectations for this type of activity in society – only in May 2020, social entrepreneurship, social enterprises, and social business in Ukraine were mentioned 82 times in the Ukrainian information field. The rapid development of social business brings quite powerful results and makes a significant contribution to both the country's economy and the social sphere. The main areas of activity of this sector are social and economic integration into the public life of socially vulnerable sections of the population, overcoming unemployment and impoverishment, and implementation of social measures. Activities in these spheres of social business demonstrate positive dynamics of both economic and social indicators. But the lack of legal definition and differentiation of social entrepreneurship leads to the fact that social business works in the statistical, legal, and organizational "shadow".

Economic and social achievements of social business have to be calculated using the methods of forecasts, assumptions, and extrapolations. Because of this, the social and economic contribution of social business is practically unknown neither to the state nor to society. In the public consciousness and the perception of the authorities, an impression is formed about the Ukrainian social business as an amateur, fragmented, meager, and very unstable activity. Meanwhile, social enterprises are rapidly developing. And this process proceeds in two streams: through the self-organization of economic activities of united representatives of socially vulnerable strata of the population, and through the initiation of permitted entrepreneurial activity based on non-governmental, non-commercial public organizations. The last way is the most widespread and popular. It is a non-profit public organization that provides the greatest support to the social business by engaging in social projects for free, providing training, informing, and consulting on all issues of running a business, creating business incubators, hackathons, administering micro-grants for start-ups, etc.

5. CONCLUSION

Despite the lack of normative definition and regulation of social entrepreneurship, a social business in Ukraine is developing. For several years in a row, there has been a discussion about the feasibility of introducing and the content of a specialized law that would regulate the activities of social enterprises. In our opinion:

- the first step is to introduce a single definition of the concept and understanding of the content of social entrepreneurship into the regulatory field of Ukraine:
- the second stage should indicate possible mechanisms of state support for social business;
- the third stage is to introduce the mechanism of state stimulation of the development of social entrepreneurship through the introduction of tax benefits.

Thousands of enterprises show that they transfer a percentage of their income (or profit) to support the army, humanitarian projects, or other social initiatives. They are engaged in social entrepreneurship, combining business and helping society. This trend should not disappear, but become the norm even after the war. For this to happen, we need to start using the names of phenomena that have already become established in the world economic discourse. This will make it possible to more effectively explain the essence to all parties of the process, attract resources faster and sell better. So, business with a social purpose is social entrepreneurship, and people who engage in it are called social entrepreneurs.

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Томашевська Антоніна, Григоруk Ірина. Підприємництво з соціальною відповідальністю, як інноваційний інструмент вирішення суспільних потреб. *Журнал Прикарпатського університету імені Василя Стефаника*, 9 (3) (2022), 18-27.

У статті визначено історичну ретроспективу виникнення соціального підприємництва. Наведено та охарактеризовано підходи щодо визначення поняття «соціальне підприємництво», а саме: широкий, комбінований, проблемноорієнтований. Згідно з дослідженням The Possibilists, сьогодні бізнесмени із 138 країн світу не вмотивовані створювати бізнес заради власних потреб та бажань, їх мотивує мета покращити життя інших на глобальному та регіональному рівнях. Це величезна зміна парадигми причини існування підприємств, яку світ проживає прямо зараз. Цю зміну здатні пришвидшити кризові фактори, які, на жаль, трапляються в суспільстві.

У статті також проаналізовано вплив війни в Україні на розвиток соціального підприємництва. Часто в нашій державі, соціальне підприємництво існує, як волонтерська або благодійна організація, які мають обмежений ресурс, інколи вони створюються в поєднанні з бізнесовими підходами і дають більш сталий ефект. Проаналізовано узаконення терміну „соціальне підприємництво“, проте в Україні щодо нього існують хибні твердження, що потребують уточнень.

Представлено авторське визначення сутності категорії «соціальне підприємництво». Перелічено основні види діяльності соціальних підприємств та наведено приклади. Розкрито основні відмінності соціального підприємництва від благодійної організації та традиційного бізнесу. Наведено ключові характеристики організацій, які займаються соціальним підприємництвом. Визначено сучасні тенденції розвитку зарубіжного соціального підприємництва. Проаналізовано динаміку кількості соціальних підприємств в Україні та представлено основні організаційно-правові форми функціонування соціальних підприємств в Україні. Наведено сучасні проблеми та перешкоди у соціальному підприємстві, визначено напрями, які сприяють розвитку соціального підприємництва.

Ключові слова: соціальне підприємництво, бізнес з соціальною відповідальністю, організаційно-правові форми, соціальна місія, інноваційне підприємництво.