

ECONOMIC FOUNDATIONS OF SOCIAL ENTREPRENEURSHIP DEVELOPMENT: NATIONAL CONTEXT AND FOREIGN EXPERIENCE

ЕКОНОМІЧНІ ПІДВАЛИНИ РОЗВИТКУ СОЦІАЛЬНОГО ПІДПРИЄМНИЦТВА: ВІТЧИЗНЯНИЙ КОНТЕКСТ ТА ЗАКОРДОННИЙ ДОСВІД

The article focuses on the study of social entrepreneurship in the economic dimension. The aim of the study is to analyze the economic foundations of social entrepreneurship in the European Union and to formulate recommendations for unlocking the potential of social entrepreneurship as a vector of economic development in Ukraine. The article examines the European model of social impact investing. The economic foundations for the development of social enterprises in the European Union are determined, on the basis of which recommendations for the development of the economic subsystem of social entrepreneurship in Ukraine are formulated.

Key words: social entrepreneurship, social impact investment, social investment, social economy.

Фокусом наукової праці є дослідження соціального підприємництва в економічному вимірі. Діяльність соціального підприємства як суб'єкту соціальної економіки спрямована на досягнення соціального впливу. Соціальні підприємці виводять на ринок товари та послуги, просувають соціальні інновації, використовуючи свій прибуток частково або повністю для досягнення соціальних цілей. Соціальні підприємства, з одного боку, займаються економічною діяльністю, яка приносить прибуток, а з іншого боку – соціальні підприємства мають обмеження щодо розподілу прибутку, і ця особливість створює виклики в залученні економічної підтримки через очікування інвесторів щодо частки прибутку та контролю над управлінням. Європейська Комісія розглядає соціальне підприємництво як інструмент для пошуку нових рішень соціальних проблем, зокрема боротьби з бідністю, безробіттям та досягнення соціальної згуртованості. У статті розглядається європейська модель соціального імпаکت-інвестування. У країнах-членах Європейського Союзу концепція соціального імпакт-інвестування є сприятливою у контексті використання фінансових інструментів для розвитку соціальних підприємств. Інвестиції соціального впливу є актуальними для соціальних підприємств, оскільки передбачають надання фінансових ресурсів організаціям, які вирішують соціальні проблеми, очікуваними результатами діяльності яких є вимірюваний соціальний та економічний вплив. Визначені економічні підвалини для розвитку соціальних підприємств в країнах Європейського Союзу, на підставі яких сформульовано рекомендації для розвитку економічної підсистеми соціального підприємництва в Україні.

Ключові слова: соціальне підприємництво, соціальні інвестиції впливу, соціальне інвестування, соціальна економіка.

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Problem statement. Social entrepreneurship as a type of business activity that contributes to the development of the country's economy and solving social problems is increasingly becoming the subject of attention of Ukrainian scientists, NGOs and public authorities. The relevance of the development of social entrepreneurship in Ukraine is increasing under martial law, as it can act as a tool to mitigate socio-economic problems in communities. Social entrepreneurs as agents of social change in society contribute to the socio-economic development of the country through the use of innovative approaches to solving social problems.

Social entrepreneurship as a socio-economic phenomenon emerged, among other things, as a reaction of the public to existing social challenges (growth of unemployment, deepening poverty, social exclusion, insufficient effectiveness of existing social mechanisms to involve certain social groups in active socio-economic activities, the emergence of centers of social tension, etc.) Modern conditions create new challenges for the socio-economic well-being of Ukraine. One of the opportunities to confront such challenges is the development of social entrepreneurship at the state and local levels.

Analysis of recent research and publications. Recent scientific works of foreign scientists are devoted to the study of factors for stimulating social entrepreneurship as a tool for implementing the principles of sustainable development (Mendez-Picazo, M. T., Galindo-Martin, M. A., Castano-Martinez, M. S.) [12]; studying social entrepreneurship as a factor that should be taken into account when changing the goals of economic growth for sustainable development (Johnson, M. P., Schaltegger, S., Horisch J., Lorbach D.) [10; 17]. In the works of foreign scholars, social entrepreneurship is considered as an activity aimed at creating socio-economic structures, institutions and organizations that provide social benefits (Tisma S., Malekovic S., Jelincic D. A., Skrtic M. M., Keser I.) [20]; social entrepreneurship is associated with social innovation to meet new social needs, in the context of economic organization, social enterprise is considered within the social economy (Doh S.) [5]; social entrepreneurship covers a wide range of tasks in the field of social policy and meets social needs at the community level (Waligora A., Revko A.) [16; 21]. In the works of European researchers one can find the growing perception of social enterprises in the European

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Union as forms of organized economic activity, the need for special legislation and support from the state and society for the development of social entrepreneurship (Borzaga, C., Galera, G., Franchini, B., Chiomento, S., Nogales, R., Carini, C. Terziev V., Bencheva N., Stoeva T., Georgiev M.) [2; 19].

In domestic studies (Breus, S., Solokha, D., Bieliakova, O., Derii, Z., Dielini, M.) [3], based on international experience, the need to implement the social mission of enterprises is emphasized. The theoretical conceptualization of social entrepreneurship was carried out by N. Nahorna [13]. Social entrepreneurship in the economic dimension was considered by Bila, I., Shevchenko, O. [1], Kot L. [11].

Despite the considerable interest of scholars in social entrepreneurship, the concept of social entrepreneurship is much debated in scientific and economic circles. The concept of social entrepreneurship and its dimensions are interpreted differently by scientists. In order to unlock the potential of social entrepreneurship as a vector of economic development, it is necessary to conduct appropriate research.

Objectives of the article. The aim of the research is to study the economic foundations of social entrepreneurship in the European Union and to formulate recommendations for unlocking the potential of social entrepreneurship as a vector of economic development in Ukraine.

The main material of the research. In European Union (EU) policies, the importance of social enterprises in addressing social challenges and promoting sustainable economic growth has long been recognised at both national and local levels. However, since social enterprises are more dependent on public investment, they are particularly affected by economic crises. At the same time, research shows that social enterprises are more adapted to resilience in a crisis than conventional enterprises. As a response to the crisis, new business models are emerging that are aimed at achieving economic efficiency and solving social challenges, social innovations are emerging, which accordingly creates new opportunities for the development of social entrepreneurship [8].

The economic dimension of social entrepreneurship is characterized by the peculiarities related to the fact that social enterprises generally have more difficulties in obtaining financing than classical market entities. The economic aspect that contributes to the added value of social enterprises reflects their access to finance: when designing and implementing economic instruments aimed at supporting social enterprises, it is necessary to take into account the limitations on profit distribution, the increased need for risk management related to the implementation of the social mission, as well as the specifics of governance.

In the European Union (EU) member states, the concept of social impact investing is favourable

in the context of using financial instruments for the development of social enterprises. Social impact investments are very relevant for social enterprises, as they involve the provision of financial resources to organizations that solve social problems, the expected results of which are measurable social and economic impact [15].

Consider social impact investing in the European dimension (Fig. 1). The needs for social impact investments correspond to the social needs specified in strategic documents and social programs at the EU level. By supporting social enterprises, the government can meet the needs of vulnerable target groups (disabled, unemployed, refugees, etc.). Social impact investors can be state or public institutions, banks, foundations or philanthropists. Financial resources for the development of social enterprises can be provided through the European Social Fund (ESF), other EU programmes or through national and regional programmes. Providers of financial resources for social enterprises can be commercial banks, venture capital funds, charitable organizations, crowdfunding platforms or other organizations. For social impact investing it is important to have a supportive environment, which includes social institutions and regulatory frameworks aimed at increasing the visibility of social enterprises and recognition of their products and services.

To develop the social economy and social entrepreneurship in the EU, providers of financial resources had to overcome a number of factors [9, p. 5]:

- *Insufficient understanding of the concept of social entrepreneurship.* The term "social" is often associated with charitable organizations rather than entrepreneurship, and the lack of policy and legislative frameworks does not help to understand the concept of social enterprises;

- *Lack of a viable business model and management structure.* The absence of a viable business model can limit the sustainability and growth prospects of social enterprises due to a lack of commercial orientation, strategic organizational structure or management team;

- *Complexity of social impact assessment.* The absence of a clear mechanism for social impact assessment may weaken the interests of investors.

- *Lack of experience with financial instruments.* Relying only on state support limits the possibilities for the development of social enterprises;

- *Reduced public spending and difficult economic conditions.* Cuts in public spending limit resources for social services, constraining the expansion and ability of social enterprises to compete.

According to the European Social Enterprise Monitor (ESEM), social enterprises in the EU are more likely to operate in a hybrid form (Fig. 2). This

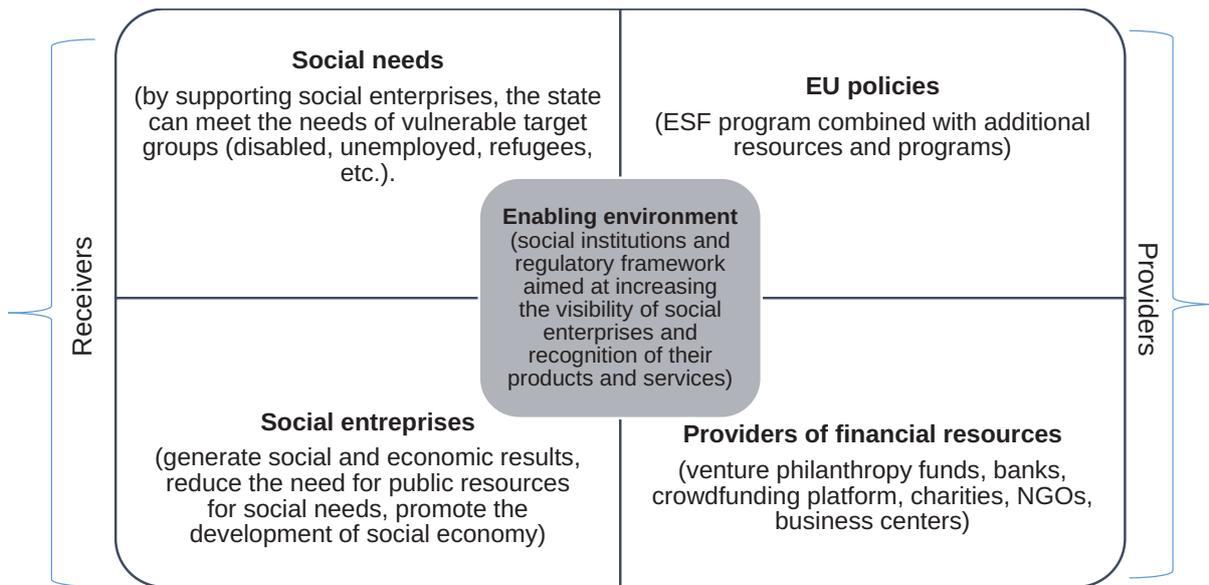


Fig. 1. Model of investing in social impact: the European dimension

Source: developed on the basis of [8]

means that they receive income from the sale of products and services (trade income) and through grants or subsidies (non-trade income). According to the study, on average 57% of ESEM social enterprises use hybrid sources of income; 24% generate their income exclusively through trading activities, 19% – only through non-trading activities. The largest income from trade is generated by social enterprises in Estonia: 71% of Estonian social enterprises generate income from trading activities, 29% – from non-trading activities. The largest income from non-trading activities is generated by social enterprises in Portugal: 55% of income comes from non-trading activities, 45% – from trading activities [6].

The relative weight of individual revenue sources for social enterprises varies considerably across ESEM countries. The differences in the choice of revenue sources and priority market activities of ESEM social enterprises reflect the diversity of the sector in the EU. This differentiation highlights the need for diversified financing instruments that take into account the heterogeneity of the social enterprise sector at the national level. According to the ESEM study, the main sources of income of social enterprises are the following activities:

- 1) grants (public sector or local support) (for 39% of social enterprises participating in the ESEM survey);
- 2) volunteering of private individuals (for 37%);
- 3) trade with consumers (35%);
- 4) trade with profit-oriented companies (34%);
- 5) trade with the public sector (33%).

A study by the European Social Enterprise Network (EN) shows that on average 34% of the

total annual budget of EN member social enterprises comes from EU funds. Of course, this indicator does not describe the overall financial situation of each EN member, which differ in size, management structure and areas of activity. Most EN members benefit from grants from Erasmus+, EaSI/ESF+, COSME and Interreg Europe. Almost all EN member social enterprises (96%) are looking to expand their scale and opportunities for social impact through new services and products, more employees and growth. At the same time, social entrepreneurs identified challenges that limit the development of the social enterprise sector: insufficient awareness of social entrepreneurship among social finance providers; poor awareness of social entrepreneurship among the general public; lack of long-term capital; difficulties in entering the international market [14].

The above experience allows to highlight a number of economic foundations for the development of social entrepreneurship in the EU:

- Awareness of the importance of social mission by providers of financial resources and understanding that financial return requires more time and higher level of risk;
- Turning the negative effects of the crisis into new market opportunities and encouraging new social enterprises in sectors where social services were previously provided by the state;
- Expert support in business development, business planning skills for social entrepreneurs-beginners;
- Creating networks that connect investors, mentors and sponsors with social entrepreneurs;
- A clear mechanism for monitoring social impact and evaluating its results;

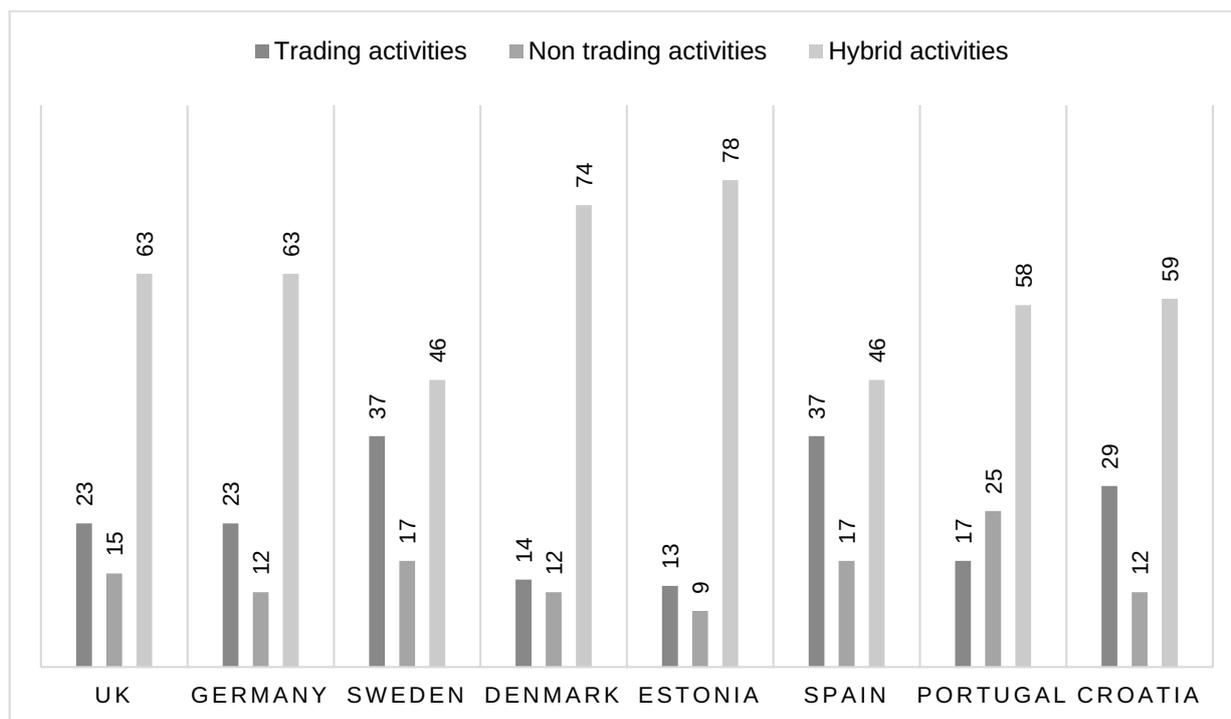


Fig. 2. Distribution of income sources of social enterprises

Source: based on [6]

– Developed financial resources adapted to the needs and expectations of social enterprises.

The most active development of social entrepreneurship in Ukraine falls on 2014–2016, which is associated with the reaction of society to the events of the war in the East of Ukraine and the deterioration of the socio-economic situation in the country. Today, as a result of the full-scale invasion of the territory of Ukraine, the relevance of social entrepreneurship is further increased due to the ability to simultaneously solve social and economic problems.

The chosen field of activity and social purpose of a social enterprise often influence the decision on the form of profit distribution. The most common options for profit distribution by social enterprises in Ukraine are the following [7]:

– All profits are reinvested in the expansion of business activities. This option is used by social enterprises created by people from socially vulnerable categories for self-help and improving the quality of life of the community;

– Part of the profit is reinvested and part is directed to social projects. This mechanism is typical for social enterprises established by public or charitable organizations, and support for social initiatives contributes to the development of the economic component and achievement of a greater social effect;

– All profits are directed to social purposes. This mechanism is used by social enterprises initiated jointly by public and private organizations. Almost

all social shops in Ukraine operate according to this type, which can have different organizational and legal forms, and they direct their profits to social projects.

A challenge for Ukrainian social enterprises remains access to financial resources necessary for their establishment and development. Ukrainian social entrepreneurs have limited opportunities to access credit, investment and funds from private companies. This is due to the distrust of social entrepreneurs in obtaining loans, low awareness of working with investment instruments, underdeveloped potential for finding contacts for cooperation in the business environment, high expectations for grant support. Social entrepreneurs are not integrated into the wider ecosystem due to the lack of established links with Ukrainian and foreign businesses. At the same time, there are examples in Ukraine that loans and investments are becoming an effective mechanism for ensuring the growth of social enterprises.

International donor funds are directed to the development of social entrepreneurship in Ukraine. However, often the amount of grant may not be a sufficient investment to establish an effective business model. In addition, grant funds usually have certain restrictions in their use and do not meet the real needs of social entrepreneurs for business development.

Conclusions. European experience shows that the development of the social investment market is

a necessary factor in the development of the social economy. The social investment sector in Ukraine is developing spontaneously. Social investment and lending require entrepreneurs to meet certain criteria, and therefore not all social entrepreneurs can count on this type of financing. Grants are the main source of funding for social enterprises, especially at the stage of their creation. Donor resources are very important to support enterprises at the stage of start-up, search for innovative ideas of social entrepreneurship, temporary operational response to social challenges.

Based on the practices of social enterprises in the EU, the introduction of hybrid financing, that is, a combination of grant sources and investment within the framework of one project, can be effective for the development of the social investment ecosystem in Ukraine.

Social entrepreneurship expands economic turnover and contributes to the growth of overall economic efficiency. By addressing social problems in innovative ways, using a combination of social and economic resources, social entrepreneurship contributes to meeting the demand for social goods.

Solutions created by social entrepreneurs to support socially vulnerable groups are transformed in the long term into benefits for the whole society. Social entrepreneurship is based on the priority of creating public good over commercial profit and actively uses social and economic innovations in its activities, which contributes to meeting social needs.

Further comprehensive and systematic study of the economic and social aspects of social entrepreneurship as a way to create social benefits will identify internal patterns of development, directions and prospects, determine the conditions and factors for the effective development of social entrepreneurship in Ukraine.

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