SOCIAL ENTREPRENEURSHIP IN UKRAINE: PROBLEMS AND PROSPECTS

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Social Entrepreneurship in Ukraine: Problems and Prospects

The aim of the article is to identify the current trends in the development of social entrepreneurship in Ukraine as a new form of doing business in the context of socio-economic transformations. By analyzing and generalizing scientific works of many scientists, the evolution of the development of social enterprises is considered, the views of researchers on the definition of the concept of «social entrepreneurship» and its key factors are systematized. The modern tendencies, main barriers and opportunities for the development of social entrepreneurship in Ukraine are revealed. As a result of the research, differentiation of social enterprises according to the level of social and business activity is proposed. The experience of formation and development of social entrepreneurship in European countries is studied. It is substantiated that under the current conditions of transition from the resource-oriented paradigm of economic development to the value-oriented one, the motivational component of human labor changes: money loses the role of a key motivational factor; possibility of creating economic values for others by implementing own plans and initiatives comes to the fore. A prospect for further research in this area is studying regulatory and legal aspects of the emergence of social entrepreneurship in Ukraine as a driver of sustainable economic development of the country.

Keywords: crowdfunding, entrepreneurial activity, social activity, social entrepreneurship.

Fig.: 2. Tbl.: 1. Bibl.: 15.

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Целью статьи является определение современных тенденций развития социального предпринимательства в Украине как новой формы ведения бизнеса в контексте социально-экономических трансформаций. Проанализированы и обобщены научные труды многих ученых, рассмотрены тенденции развития социальных предпринимательств, систематизированы взгляды исследователей на определение понятия «социальное предпринимательство» и его ключевых факторов. Изучена практика становления и развития социального предпринимательства в странах Европы. Обосновано, что в современных условиях перехода от ресурсо-ориентированной парадигмы экономического развития к ценностно-ориентированной происходит изменение мотивационной составляющей человеческого труда: деньги теряют роль ключевого мотивационного фактора, возможности создания экономических значений для окружающих путем реализации своих инициатив приобретают первенство. Перспективы дальнейших исследований в этом направлении связаны с изучением нормативно-правовых аспектов становления социального предпринимательства в Украине в контексте устойчивого экономического развития страны.

Ключевые слова: краудфандинг, предпринимательская активность, социальная активность, социальное предпринимательство.

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Problem statement. Under conditions of market transformation of economy a state’s ability to perform its social functions properly is limited. In this connection, attracting businesses to solve urgent social problems has become more and more relevant. However, does business really do something in order to prevent the current challenges that can destroy the world (global warming, shortage of fresh water, etc.) in order to take care of the environment and people working for it? A common answer to this question is corporate social responsibility that is an effective tool for improving the current situation. For example, «Philip Morris» and «British American Tobacco» are socially responsible companies supporting development of education, environmental improvement and development of the locations in which they are involved. However, they continue to make profit by producing tobacco.

According to professor at Harvard University, one of the authors of the concept of «creating shared value» (CSV), M. Porter, social issues are most important to business today, they should be the key factors that determine the prosperity and wealth of the organization [15].

Nowadays the world focuses on finances, they are measure of success and impact. Undoubtedly, solving social problems requires a lot of money; however, the constant accumulation of money can’t be a real mission of activities of companies nowadays. There is another approach to resolve the situation – volunteering. Some people are willing to donate their own free time just to make this world a little better. They realize that each of them must be involved in solving social problems and begin to act at a local level. However, what is going to happen when these people get the scaling tool and, most importantly, what this tool is? Experience of developed countries (the UK, Canada, the USA, France, Sweden) confirms that this effective tool is the development of social entrepreneurship.

According to A. O. Kornetskyy, Associate Professor at University of Customs and Finance (Dnipro, Ukraine), scholar of Fulbright Faculty Development Program (DePaul University, Chicago), some day only social entrepreneurship will exist in the world. You will be pleased to think of a business that solves a social problem but at the same time allows making money. You are even willing to give up part of your profit if this part will really change anything for the better. You are ready to do social business but something is missing. Now we lack confidence in each other, we expect that we will be deceived or blocked. Confidence comes in communication and the topic of social entrepreneurship goes far beyond classic business. It includes not only business issues but also issues of ethics, morality, psychology, and motivation. Social entrepreneurship is evolution of business into something more. Such entrepreneurs are drivers of changes [14].

Analysis of recent researches and publications. The phenomenon of social entrepreneurship is often associated with achievements of economists and sociologists. Theoretical methodological and applied aspects of development of social enterprises is studied by foreign scientists such as T. Arc-taedius, E. Wilson, G. Dees, P. Drucker, J.-L. Laville, M. Kram-er, D. North, M. Porter, M. Walzer, J. Hausner, R. Szarfenberg, etc.

For example, yet in the early 20th century a world-renowned manager, father of the automotive industry H. Ford in his book «My life and work» noted that the highest use of capital is not to make more money, but to make money do more for the betterment of life. Until we solve social problems in our industry we won’t be doing our basic job. We won’t be able to serve to the utmost [12].

During the panel discussion «Intro 2017: The man of the future» at Lviv Business School of Ukrainian Catholic University, T. Arc-taedius, founder of the Center for Social Entrepreneurship Sweden stressed that social entrepreneurship is more likely to be successful than traditional business. The reason for this is people. It’s good to have an idea, but it’s important to realize it, you should believe in it. Under such circumstances social enterprises have an advantage, because it’s easier to work when you have passion and enthusiasm [2].


Manager of the social investment program «Western NIS Enterprise Fund» V. Nazaruk is convinced that social entrepreneurship becomes a fashionable trend in Ukraine, since it is discussed at various events and attracts many NGOs initiative groups or just active people. Using entrepreneurial approaches to solving social problems allows depending less on the state budget, which is sorely lacking, and ensures quite a sustainable development for vulnerable groups of society. It brings the development of social entrepreneurship in Ukraine to a new level [4].

Founder of the charity shop «Laska» A. Uvarova is sure that social entrepreneurship is a driver of economic development in the future because today people are guided by emotions and social business can give them emotions. According to her observations, people come from the corporate sector to the charity shop «Laska» to find a job because they are looking for emotions, not money, since they have already made enough money. People are willing to work for lower wages, with irregular schedule and as a consequence want to create their own business [2].

At the same time issues of analyzing the current state of social entrepreneurship in Ukraine and its promotion still remain unresolved and require a thorough study.
The aim of the research is analyzing modern trends of development of social entrepreneurship in Ukraine as a new form of business in the context of socio-economic transformation.

Presentation of basic material of the research. The cooperative movement was the impetus for the development and research of social enterprise in the late 1980s in Italy. Thus activities of social cooperatives were regulated at the legislative level and divided into two groups: cooperatives providing services in health care, education, care for the elderly and disabled; cooperatives providing employment services to vulnerable groups of people. Their activities were associated with identifying and solving urgent social problems of a wide range of people, which became a socio-economic and legal innovation in the country.

First successful social entrepreneurs were J. Durand, M. Silbert, J. Dalton, M. Yunus.

For example, J. Durand began working with seven mentally retarded people in 1964. Today it is Minnesota Diversified Industries — a social enterprise that provides jobs for more than 500 invalids. In 2000 the company announced its annual income of USD54 mln which comprises only half a million of funds received from grant makers [1].

In 1963 J. Dalton established Pioneer Fellowship House for alcoholics. Each resident of the house has to pay $25 per week for housing and apartment services, keep up with household chores and attend evening meetings. Nowadays Pioneer Human Services (PHS) has more than 5,000 clients a year, employs 900 staff and has an annual budget of about USD55 mln [11].

It should be noted that in Ukraine the cooperative movement (today it is called social entrepreneurship) started in the west of Ukraine with the company Prosvita in 1868. Representatives of this company, when organizing a network of reading rooms, simultaneously established at them the first simple outlets, shops and savings partnerships [1].

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For the first time the term «social entrepreneurship» can be found in scientific publications by B. Drayton, the founder of the largest international organization Ashoka, in 1972. He defines social entrepreneurship as an innovative approach that allows individuals to solve serious social problems faced by their community. The activity of a social entrepreneur is in recognizing the situation when a part of society is restricted in its development and removing the restrictions [5, p. 35].

The definition of social enterprise by American Professor G. Dees is most common in foreign scientific literature. He identified five factors that determine social entrepreneurship:

- assuming the mission of creating and maintaining social values;
- identifying and using new opportunities for implementation of the chosen mission;
- implementing the processes of continuous innovation, adaptation, and learning;
- decisive actions not limited by available resources;
- high responsibility of an entrepreneur for performance of his/her activity both directly to customers and society [5, p. 36].

According to J. Dees, the purpose of enterprise is creating the best value for its customers while the main goal of social entrepreneurship is finding and implementing opportunities for identifying and satisfying social needs as well as their changing.

In our opinion, social entrepreneurship can be understood as a balance of social objectives and a commercial component. Money isn’t a goal but it’s a tool for achieving social objectives that allows an entrepreneur to remain stable and constant independent of donor inflows.

In theoretical and applied aspect it is necessary to distinguish the term «social entrepreneurship» and «corporate social responsibility» by degree of social and business activity (Fig. 1).
Business that implements the social function only at the level of social responsibility (1C) includes companies whose main mission is a commercial entrepreneurship and that support social projects within sponsorship or other forms of cooperation. Such companies belong to the group of «socially responsible».

For «socially oriented» companies (1B), their business is partially integrated with social activity, and their social mission, along with the commercial purpose, aims to achieve certain social objectives (employment of disabled persons, resolution of social problems by creating enterprises to reduce unemployment, etc.).

The companies that belong to the group of «social entrepreneurship» (1A) are most socially active. These are the companies the primary mission of which is achievement of social effect and profit is a means to perform this mission. Recently these companies are created primarily in the segment of small business. Their mission is the social adaptation of vulnerable groups of people, maintaining and updating of cultural heritage, educational services, etc.

In Ukraine the terms «social entrepreneurship» «social enterprise» and «social economy enterprise» are not approved legally. Thus we can conclude that officially there are no social enterprises and social entrepreneurship in Ukraine. However, there are principles in different regulatory and legal sources that allow creating enterprises that by international standards can be classified as social ones [8]. Most social enterprises of Ukraine provide jobs for target groups with which they are connected by their main activity. The main purpose of their activities is achievement of positive financial and social benefits by investing [5]. The interest in social entrepreneurship appeared in Ukraine in the early 2000s, but entrepreneurs still don’t fully understand its potential for themselves and for solving social problems.

According to manager of the social investment program «Western NIS Enterprise Fund» V. Nazaruk, for the last three years in Ukraine there has been a boom of social entrepreneurship that is caused by the economic and social situation in the country. However, for Ukraine such enterprises still remain a novelty [4].

In European countries this sector exists for a long time and is well developed. For example, there are about 100,000 social enterprises with more than 2.5 mln employees in Germany. For comparison this is three times more than in the sector of automobile production that employs 750,000 workers [10].

In the UK social entrepreneurship appeared in 1844 but, similar to Ukraine, over the past three years it has found a new lease of life. Nowadays the country has about 70,000 of social enterprises. Their contribution to the economy is GBP 24 bln a year, which it is about 9.0 % of GDP [10].

According to project «SELUSI» aimed at exploring more than 600 social enterprises in Europe, the main areas of their activity are social services (16.70 %); employment and learning (14.88 %); environmental protection (14.52 %); education (14.52 %); economic, social development, and community development (14.34 %); culture, art, and recreation (7.08 %); health care (6.90 %); housing (2.72 %); business associations (2.00 %); legislation, advocacy, and policy (1.63 %); and others (4.72 %) [3].

Today in Ukraine there are about 700 enterprises that can be classified as «social entrepreneurship». The most famous among them are the bakery «Gorikhovy dim», the tourist club «Manivtsi», the pizzeria «Pizza Veterano», Livv candle manufactory, the family club «Territory of development», the rehabilitation center «RID-Rekaveri», the charity shop «Box of good things», the Recreation center for children from the Eastern Ukrainian regions and the local community, etc.

During II Ukrainian Forum of Social Entrepreneurs in Kiev, which took place on 16 November 2016, it was established that the largest number of employees at social enterprises is about 100 people, in many of them the number of volunteers exceeding the number of employees [13].

The only source of funding for almost half of social enterprises is commercial activity. There are companies whose activities are funded by grants but their number doesn’t exceed 50.0 %. 1/5 of social enterprises in the country are supported by credit means. The quarter of social enterprises emphasize that the main source of their funding is the own funds of the founder [13].

Some social enterprises are financed by crowdfunding that provides for collective cooperation of people (donors), who voluntarily pool their money as a rule through Internet, in order to support efforts of other people or organizations (recipients).

Today only few companies publish reports on their websites, though a successful business starts with announcing results of its activities. Only 34 social enterprises provided information about their profit in 2015, and 18 ones — in 2014. The largest profit is USD2.8 mln and the lowest is UAH5.5 ths [13].

According to the Catalog of social enterprises, the activity of Ukrainian social enterprises concentrates mainly in the sphere of services – almost 67.0 % of enterprises (education, sports clubs, tourism, tire servicing (as a rule, such activity doesn’t require considerable financial investment in its starting up); then the combination of production of goods and provision of services – 26.0 % follows (light industry and psychological assistance, production of Ukrainian souvenirs, vocational and technical training / activity of driver training schools, social assistance without providing accommodation for the elderly and disabled). Only 7.0 % of enterprises are engaged in production activities (nutrition, printing, agriculture) (Fig. 2) [8].

According to study [8], attractive forms of management for social entrepreneurship in Ukraine are NGO + individual entrepreneur (28.0 %), NGO (26.0 %), individual entrepreneur (15.0 %), limited liability company (13.0 %), enterprise of association of citizens (13.0 %), charitable foundation (2.5 %), and private enterprise (2.5 %).

Founder of the charity shop «Laska» A. Uvarova states that today the most relevant area for development of social
entrepreneurship in Ukraine is environment, in particular recycling. Also community development and assistance to people with disabilities, their attraction to work are popular in Ukraine [2].

The analysis of achievements of Ukrainian scientists on the study subject and interviews with social entrepreneurs provided an opportunity to highlight the barriers to social entrepreneurship in Ukraine (Tbl. 1).

### The main barriers to the development of social entrepreneurship in Ukraine

<table>
<thead>
<tr>
<th>Classification group</th>
<th>Characteristics of barriers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External</strong></td>
<td></td>
</tr>
<tr>
<td>Legislative</td>
<td>• imperfect legislative base in the field of social entrepreneurship;</td>
</tr>
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<td></td>
<td>• limitation of legislatively defined organizational and legal forms of social enterprises;</td>
</tr>
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<td></td>
<td>• complicated process of registration of social enterprises</td>
</tr>
<tr>
<td>Social</td>
<td>• misunderstanding of the nature and role of social enterprises by the public;</td>
</tr>
<tr>
<td></td>
<td>• uncertainty of consequences of privatization of public and social services</td>
</tr>
<tr>
<td>Economic</td>
<td>• lack of financial support from the state;</td>
</tr>
<tr>
<td></td>
<td>• lack of financial support from corporate business;</td>
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<tr>
<td></td>
<td>• lack / small amount of tax incentives for social enterprises;</td>
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<tr>
<td></td>
<td>• system of small businesses crediting</td>
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<tr>
<td>Regulatory</td>
<td>• critical level of bureaucracy;</td>
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<td></td>
<td>• corruption;</td>
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<td></td>
<td>• lack of mechanisms to support the creation and development of social enterprises</td>
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<tr>
<td><strong>Internal</strong></td>
<td></td>
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<tr>
<td>Financial</td>
<td>• lack of funds for startups;</td>
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<td></td>
<td>• slow return on investment;</td>
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<td></td>
<td>• increased financial risks;</td>
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<td></td>
<td>• limited financial resources</td>
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<tr>
<td>Staffing</td>
<td>• lack of entrepreneurial experience;</td>
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<td></td>
<td>• low level of workers’ skills;</td>
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<tr>
<td></td>
<td>• consideration for the requirements / creation of conditions for disabled</td>
</tr>
<tr>
<td>Managerial</td>
<td>• lack of coordination between social enterprises as well as between organizations of the third sector;</td>
</tr>
<tr>
<td></td>
<td>• lack of skills for management of social enterprises</td>
</tr>
</tbody>
</table>

**Source:** developed by the authors based on [7; 10; 11]

In addition, according to director of the municipal NGO «Narodna dopomoha – Lviv» and founder of social bakery «Horikhovyi Dim» (Walnut House) Yu. Lopatynsky, the main problem in the development of social business in Ukraine is the lack of entrepreneurial education for those who create it. If business schools opened doors for startupers of social entrepreneurship it would be a significant step forward [11].

In view of the above mentioned, it should be noted that there are examples of successful cooperation of social enterprises and business schools in Ukraine. For instance, at educational and scientific institute Karazin Business School of V. N. Karazin Kharkiv National University there opened a series of free courses for social startupers on the basics of starting and doing business, and the School employees provide mentorship support for social projects. On 25 May 2017 the «CASERS.org» project – a service ensuring interaction between young professionals and business – won the national competition of e-democracy projects «Egap Challenge Demo-Day on iForum – 2017».

In contrast to the barriers to the development of social entrepreneurship, it seems appropriate to bring 5 great opportunities for its development in Ukraine that are singled
out by experts from the All-Ukrainian Resource Center for the Development of Social Entrepreneurship «Social Initiatives», including [4; 7; 13]:

- lack of government regulation and laws that would restrict social entrepreneurship within specific areas. There is a great opportunity to choose the most suitable organizational and legal form for social enterprise. Therefore, the germ of a social enterprise can evolve from a commercial project of NGO to a public joint-stock company;
- availability of resources that are not involved in traditional business (especially human resources – unprotected and vulnerable members of society: the disabled, HIV-positive people, elderly people, ethnic minorities, etc.);
- interest of big business in outsourcing that contributes to small business development;
- growth of loyalty to products of social enterprises;
- support of social enterprises by foreign funds and organizations (the «Monsanto» fund, the international charity fund «Prosperity of Communities» (Heifer International), the United Nations Development Programme (UNDP), etc.).

Conclusions. Forming a multipolar world order under conditions of globalization and internationalization determines the transformation of the traditional economic concepts – transition from resource-oriented paradigm of economic development to value-oriented, where spiritual wealth and social values, changing attitudes to material wealth, awareness of the role of economic benefits as a means of achieving a high level of social standards acquire a paramount importance. One of the dominant trends of the modern economy is related to humanization process of social and economic life as the way to progress and a prerequisite for human survival. Humanization of economy implies increasing the influence of morals and morality on it, recognition of the intrinsic value of the human person, ensuring individual rights and freedoms.

Under such conditions the motivational component of labor changes: money is losing its role of a key motivational factor, the ability to create economic value for others by implementing own ideas and initiatives is of priority. According to independent polls by the portal «Management.com.ua», 800 employees of the largest Ukrainian companies (National Joint-Stock Company «Naftogaz of Ukraine»), State Enterprise «Energorynok», Public Joint-Stock Company «ArcelorMittal Kryvyi Rih», Limited Liability Company «ATB-Market», Limited Liability Company «TEDIS Ukraine», etc.) only 12.0 % of respondents considered the main motivating factor of their performance a cash reward [6].

According to experts from British edition «The Guardian», the transformation of the structure of factors motivating human activity is caused by the spread of the trend of demonstrative production, which involves worshipping work for the sake of service to society. Under modern conditions the ability to create economic value for others becomes a symbol of class power, and one of the effective tools for implementing such opportunity is social entrepreneurship.

The rapid development of social entrepreneurship in Ukraine, which has been observed for the past three years in connection with the economic and social situation in the country, necessitates updating the existing normative and legal acts, since today there are no government regulations and laws related to social enterprises and choice of new priorities for development of the country, regions, local communities that correspond to the dominant socio-economic trends.

In this regard in further studies it seems appropriate to analyze legal aspects of the formation of social entrepreneurship in Ukraine as a driver of sustainable economic development.

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