Social Entrepreneurship as an Instrument of Development of Small and Medium Entrepreneurship in Ukraine

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Abstract

The article describes the features of social entrepreneur development as a way of government regulation of labor market. Different ways of definition “social enterprise” are analyzed. During the research, the models of improvement and development about regulation of this activity in other countries were analyzed. Analyzing the modern models of social entrepreneurship in other countries demonstrates how it is popular and deals with the problems of unemployment and social safety. In the current situation in Ukraine this model of entrepreneurship is not so popular. For the changing situation we described and proposed the mechanism of development of social entrepreneurship. For the more active development of this entrepreneurship model we have proposed: to create, pass and apply the law about social entrepreneurship, which can measure the criteria for this type of activities and the law mechanism to support social entrepreneurship; to spread information about this type of activity through the informational channels; to develop and establish programs about professional education for people, who would like to work at the social entrepreneurship area. The characteristics of social entrepreneurship were compared, charitable organizations and traditional business. Features and criteria, which characterize the social entrepreneurship are described. Experience of developing social entrepreneurship in other countries and the benefits of involving labor force in Ukraine are compared. The methods used for research are comparing and analyzing. The main goal of social entrepreneurship is producing goods and services for solving social problems and searching the ways of improving the economic situation in Ukraine.

Keywords: labour market, government regulation, social entrepreneurship, mechanism of development of social entrepreneurship.

Introduction

Today the market creates new rules for functioning economy and big challenges for the economy in Ukraine. Unstable economic situation is caused by many factors, and the most influenced are: differentiation of incomes of citizens and slowing down of business activity. This way of economic development leads to significant social problems, which, in its turn, become the burden for Ukrainian economy.

One of the most expedient ways of transition to economic growth is development of small and medium entrepreneurs, because only small and medium entrepreneurs make the basis of economic growth in the most developed countries. However, today the indicators of small and medium entrepreneur development in Ukraine are not positive and don’t show the positive dynamics. By the index of global competitiveness, Ukraine ranks the 79th position among 140 countries. Such indexes as the security, availability of venture capital and the quality of electricity...
supply got worse. The indicator of global competitiveness points out that the environment of creating and effective competing of business entities is not developed in Ukraine.

**Material and methods**

By the indicator of the ease of running business, Ukraine ranks the 80th position among 190 countries in the World Bank Rating.

Note that by the indicator of ease of opening a business, Ukraine ranks the 20th position. Simultaneously, the specialists determine that the main problems that small and medium entrepreneurs meet are the following: corruption on different levels in various forms; excessive regulation of entrepreneurial activity and absence of affective deregulation; inefficiency of judicial protection; complex administration of taxes.

Proceeding from the mentioned above the goal of this article is to research the conditions of functioning of small and medium business in Ukraine and the influence of social entrepreneurship on the development of small and medium entrepreneurs. In addition to this, the influence of social entrepreneurship on solving the main economic and social problems and economic development in general are studied. Simultaneously, the main prerequisites for creating the proper system of developing small and medium entrepreneurship and transforming these enterprises into social enterprises are considered (Fakhrutdinov, 2009: 7-15).

By the end of 2019 1.2 million small and medium business entities have been registered in Ukraine. To compare with Poland, where there are 8.6 million. Furthermore, after accepting the new Tax Code, that came into force in 2017, the number of small enterprises reduced by 240 thousand. The sales volume for 1 person, employed in small business, is 37. However, in the EU this number is 163. The situation proves that small and middle enterprises have low volume and production efficiency. The number of average sales volumes for a small or middle enterprise in Ukraine is 124. For comparing, this number in the EU more than 655 (Fakhrutdinov, 2009:7-15).

There are a lot of problems in developing small and medium enterprises. But the consequences of small and medium business development may be defined as the following:
- creating of new working places;
- filling the budgets;
- increasing level of economic competitiveness;
- the variety of quality goods and services;
- the space for innovations;
- economic development in general.

The group of experts from USAID determined the general necessity of improving macroeconomic situation to provide sanation and restruc-tion of banking sector, which is not performing its functions now. According to the evaluation of the European Bank of Reconstruction and Development, Ukraine needs more than 100 billion Euros for developing small and medium enterprises and equalizing the social sphere.

The main obstacles of creating and developing small and medium enterprises are factors described.

The most negative impacts on creating and developing small and medium enterprises in Ukraine have the following reasons: the war and unstable political situation - 19%; the limited access of funds – 18%; taxes and administration in the legislation changing – 18%; the lack of demand on the background of high level of competition – 16%; insufficiency of experienced specialists and modern capacity – 7%. A large group of “other factors” makes 23% and consists of such factors as “corruption, which is created by difficult and burdensome regulation”, “problems with power supply”, “currency regulation and inflation”, “inefficiency of public services”.

Social sphere is not of less importance at the current state of development of Ukraine. Many tasks that influence the economic development and have positive impact on individuals as a
basis of the productive forces of society are assigned to the social sphere. They include:
- achieving a decent level of material well-being and living conditions of the population;
- providing maximal productivity of employment, increasing quality and competitiveness of labor force;
- providing rights and social guarantees of families;
- supporting the most social vulnerable groups of population;
- increasing the birth rate and decreasing the mortality rate of population, increasing of life expectancy (Battisti, 2019: 135-158).

Social sphere could be divided into 2 constituents: social – house holding and social – cultural. Social – house holding constituent includes house holding services, transport system and communication, health care and social welfare.

It becomes obvious that the only means to stabilize the economic situation and overcome the problems of social sphere is creating the favorable environment for existence of small and medium businesses when each solves some specific problems. Businesses can bring not only profit and develop new life resources and the economy of Ukraine. But also solve the main social problems with benefit for themselves. According to the researches of Harvard University, $1 involved into the shareholding aimed at getting income will bring $14,48 in 20 years. For comparing, investment into the companies aimed at solving the main social problems will bring $28,32, which is twice more.

The research shows, that the social enterprises are not only useful, but can bring more profit. Namely, the one hand they solve the main social problems, which the government fails to manage. On the other hand, these enterprises show higher results of growth, liquidity, yield.

For the last two decades, entrepreneurship has been considered as an instrument of fighting poverty and unemployment. That is why the social entrepreneurship comes to the fore in the economically developed countries.

Success or fail of the modernization of the economy is determined not only by effect of innovative process, availability of the investments needed and some other facts, but also by adequate response of social environment, availability and readiness for social and cultural transformation of psychology of both general population and elite. The priorities are worth being given to the projects, which could provide a breakthrough forward in the relevant sphere on the criterion of ability to compete in both internal and external markets. The necessary prerequisite is streamlining cooperation of business and scientific institutions. The institutions of development which use innovative mechanisms of interaction of society, power and business through the networking, clustered and corporate models and partnership between government and private property, alliances of business cooperation with government on all the levels must be formed.

According to the international methodological standards, the Centre of International Industrial Cooperation “Leadership of Oslo” (Fakhrutdinov, 2009:7-15) determines four types of innovations: product type, process type, marketing and organization types. All these innovations could present novelty for the organization for the market or for the whole society.

The feature of using such a large concept of innovation is that it covers any type of activity in the process of technological changing: from determining problems to the generation of new ideas and decisions, implementation of these new decisions and sharing these new technologies. And, of course, this wide definition is actually needed to develop a proper policy, because appropriate structural elements for all these types of activity are needed. The government stimulates mastering money by venture business, scientific achievements of small innovation companies’ development of biotechnologies, transfer of technologies into many branches of economy, encourages participation of universities in interdepartmental programs. The inventions of the genetic engineering not only start the
development of a lot of new technologies and productions but also create deep changes in the way of production (Killian, O`Regan, 2019: 1-18).

It is a set of innovations which creates the main preconditions for the development of economy. In this context, the experience of foreign countries is significant and practically important, especially the USA, as it determines general regularity of transformation, and, in its turn, allow to clarify the place and stage of evolution of every country on the way to the civilized development.

Among a lot of approaches of social entrepreneurship, the most precise is the approach of D. Bornstein, in accordance to which the social entrepreneurship is an enterprise directed on innovative, essential and positive changing in the society on the basis of self – sufficiency softening and solving social problems (Jilinskaya-Pandey, 2019: 265-287).

Social entrepreneurship allows to support population and to protect people from social insulation and mostly gets development in such areas as: education, environmental protection, the fight against poverty and for human rights. And a social entrepreneur could be presented as an innovator, who uses innovative ideas and resources for solving social problems and this activity drives to stable positive social changes in the future (Alarifi, 2019: 307-327). As a result, we can confidently say that directing small and medium business into social sphere can provide economic growth and the exit of Ukraine from the crisis. Surely, social entrepreneurship could solve a problem of unemployment at the rural territories.

In Ukraine, the social entrepreneurship has just started being. In 2010, the Centre of Support Social Entrepreneurship was organized on the basis of Association of analytical public organization “Social economic strategies and partnerships”. Now in Ukraine there are more than 700 social enterprises, according to the statistical data from public organization “Social entrepreneurship in Ukraine”. However, the official USAID information declares that there are only 48 social enterprises in Ukraine. This gap occurs because of incorrect understanding of Professor Tan Sandal’s theory. He divides social enterprises into three types: enterprises created for solving the main social problems (the true social enterprises), enterprises supporting and funding social projects and enterprises indirectly involved in dealing social problems. According to the data of Yan Urban Sandal’s institution the following criteria can help to define an enterprise as a “social enterprise”: social influence; innovativeness, self–sufficiency and financial stability, ability to be reproduced in other geographical and social conditions (Hockerts, 2018: 234-256).

As the social enterprising grows rapidly demonstrating high profit, more and more companies and organizations assisting the development of social entrepreneurs and business schools convince and give reasons for changing the economy into social enterprising in the future. One of the biggest research made by Oxford business school determines that every individual of the society creates some needs and, according to David Bornstein, organizing a wide net of social enterprises will create frameworks for peaceful problems solving (Jilinskaya-Pandey, 2019: 265-287).

The process of development of national economy needed increasing of effectively using of human resource, where the main detector is labor force. The modern Ukrainian labor force is characterized by outcome of falling real salary, increasing level of hidden unemployment, lower demand for labor force, increasing in size of globally vulnerable group of people. The effective mechanism of regulation labor market must include a lot of subsystems, various by their influence and not limited by only sphere of labor relations. In this way, functionality and development of social entrepreneurship is so actual as one of the instruments of social problems solutions. The development of social entrepreneurship in Ukraine has become possible by strengthening role of economy active participants of national market and sustainability of globally vulnerable categories of people and managing socially significant items. But spreading of social enterprises in Ukraine is blocked by absence of legislation,
what could regulate activities of social enterprises and uncertainly of key questions and criteria of identifications such enterprises.

The 60 – 70th years of XX century is the starting of social entrepreneurship development. Today this type of entrepreneurship in the whole word is more popular and could be realized in various forms. All top countries in the world use actively this form of entrepreneurship at social – economy life sphere and use it as an instrument of government regulation of labor force. It’s actual for Ukraine too. For more effectively using and realization social entrepreneurship, what is started in Ukraine we must analyze experience of other countries with more development sector of social entrepreneurship.

For the first, we have notice, that social entrepreneurial is a new type of entrepreneurial activities, what include new type of enterprise and social direction. Social entrepreneurial are not charity founds or organizations and not enterprises in the classical model. It’s related with activity, what is related with development of social important goods and services. But so fast development of social entrepreneurship in some countries created not only development of social problems, but in creating of loyalty provided and tax system, what are so different in their realization: Great Britain, Poland, USA, Brazil, India.

The analyzed analytical resources and loyalty acts of foreign countries demonstrated variety of ways and development of social entrepreneurship. There is some difference in the meaning of loyalty acts, what describes theory and methodology ways for understanding partnership between partnership associations and government by formulated and development of social entrepreneurship.

There are few models of social entrepreneur development:

1. English model. Specific of models: The reason of social entrepreneur development was establishment the program of development in 2002. Social enterprises in Great Britain are developing dynamically, but don’t have the local loyalty model. The income of social enterprises is not taxable if the income, what is used for realization social goals of enterprise or if the commercial activities provides in the process of social goal realization (Akter, 2020: 282-299):

   How it could be used in Ukraine: It’s so important for Ukraine to use English model partly, because there is a problem of non – highly efficiently management of social enterprise development by the absentness the unique loyalty model, where status of social entrepreneurship could be provided by separate companies, where defined benefits and state guarantees are provided.

2. Germany model. In German the social entrepreneurship is interested only in constraints of their own responsibility and the existence of favorable tax system. German social entrepreneurial describe their activity as “activity, directed to common welfare”, but government support doesn’t have system character (Mair, Marty, 2006: 36-44).

   How it could be used in Ukraine: Appropriate to use the experience of legislative regulation of the status of social enterprise, what must be “to serve the common good and interest”, where the benefit from activity have cover the wide circle of community.

3. American model. The founders of social enterprises don’t the dividends and income use for payment salaries in fullness or expand the social activity of organization. That is enterprises could get more tax privileges only in the case of getting status of nonprofit organization. Government support manifests inteself in granting grants from budget, financing of some programs, information support (Plan Tan, 2019: 241-256).

   Could be use the experience of implementation of certification activities of social enterprises, what confirms the fact of implementation social- useful un commercial activity, and application practices of granting grants of budget, credits and financing of some programs.

4. Polish model. The founders of social cooperation’s are free from registration fees and could get one – time financial help for
starting implementation entrepreneurial activities in size, what are not more than 4 average salary for every founding member of social cooperation. Also granting tax weakening. Could be use practices of creating social cooperation’s, when the basic sign in fact, that not less 50% of enterprise’s members must be in category of people, who are in a difficult life situation.

5. Brazilian model. Social enterprises functions in form of associations or founds. The procedure of registration of social enterprises is so difficult and need a lot of procedure, where results must be accord of requirements set to this type of activity with getting privileges in the future. In addition, these organizations must be published regularly about state of their settlement accounts.

How to use it in Ukraine: the necessary of creating structure of the same to the National advice on social assistance, what have register and certificate the social enterprises and to oblige such enterprises provide accounting of all income and expenses.

6. Indian model. Social enterprises are functionate in form of charitable foundations or nonprofit organizations. They have spent 80% of income for charity and 20% for development operation activity in company. If the activity fincanced by the grand’s the enterprise and must use 100% of income for charity. In the legislation is approved that for the social enterprises should be considered for charity goal.

For Ukraine should be used Indian experience is aspect of legislation regulation of percent correlation of using income and approval of social enterprises – can be free from taxes.

The analyze of national models of social entrepreneurship development and specifics of legal regulation to make conclusions, what have be provided in Ukraine for effectively development in social enterprises: taking into account such an indicator as social benefit (Great Britain); to organize "social counselors", experts (Great Britain, Canada); legal regulation of legal obligations of government for building partnership relationship with noncommercial sector (Austria, Belgium, Great Britain, Spain) creation of councils of social enterprises (Canada); delegation of powers of state administrations (Ireland); the establishment of procedures for the implementation of certain projects and responsibility for corruption activities (USA, Slovenia); decentralization of social system (Italy) (Plan Tan, 2019: 241-256).

Results and discussion

The main goal of social entrepreneurship – not getting the profit, but production of product or service, what is assigned for dealing social problem.

There are few principles of social entrepreneurship:

- Social partnership and transparency of government and business relationship;
- Voluntarily and unconditionally, initiativeness from the part of the subject of management;
- Systemicity of state policy, dividing the politician, economic and managements functions.
- Rationality and effectiveness of institutional support;

Social entrepreneurship includes components:

- solving a social problem, what is active in social for a long time through the limited access some target group for financial and political resources;
- developing and providing the mechanism of innovation managing problem, what violates stable and non-fair balance.
- creating of new and stable balance, what frees up resources for noticed target audience and suggests better future not only for these people, but for society in general.

The criteria of social enterprises:

- social and ecology activity, what is oriented for dealing concretically social problems, stable positive social results;
- profitable activities, self – sufficiency and financial stable, what contributes to independence from outside financial;
- reinvestment of income to business for dealing social problems;
- innovation activity what is oriented for application new approaches for managing social problems;
- scalability and duplication, what suggests growth of social entrepreneur activity.

In social entrepreneurial activity are positive effects:
- assistance in overcoming social isolation – employment people with disabilities and unemployment;
- provide development of new directions of reformation government new types of social services, what are not in usual business due to low profitability non popularity, and absentness of property proficiency training;
- promotion of decline load to local budget in managing social problems which are actual in modern conditions.

Results of development Social Entrepreneurship in Ukraine.

Having reviewed the experience of some countries, we can analyze the state and prospects of development of social entrepreneurship in Ukraine. Firstly, today there is no thorough research of the contest of a social entrepreneurship and its legal regulations. Such categories as ‘a socially responsible business’, ‘a social business’ and ‘a social enterprise’ are used as synonyms. Secondly, there are no regulations on a social entrepreneurship in Ukrainian. The bill “On Social Entrepreneurship” was brought in to the Comity on Economic Policy of the Verkhovna Rada of Ukraine in 2013 but it did not come into force. Thirdly, the problem of legal support of activity of enterprises created by public societies to work as social entrepreneurs is not highlighted. On the one hand, there is the permission for such an activity in the Law of Ukraine “On Public Associations” and in the Economic and Tax Codes of Ukraine. On the other hand, the methodology of legal support of such an activity is not formed.

Having analyzed the development of social entrepreneurship in Ukraine, it is possible to define a social entrepreneurship as an activity aimed on solving social problems. Also, it can be considered that it is formed on volunteer movement and represent the combination of volunteer movement and classical entrepreneurship. The income of a social entrepreneurship is aimed on its development, public affairs or solving urgent social problems. The activity of a social entrepreneurship is also spread on such branches as education, environmental protection, fighting poverty, protection of human rights etc.

Recognizing the important role of such phenomena in society as charity or corporate social responsibility, we also note the specific features of social entrepreneurship, its differences from other phenomena, as well as what unites them. Social entrepreneurship is at the intersection of traditional entrepreneurship and charity. Social entrepreneurship takes from charity the social orientation of activity, and from business - the entrepreneurial approach.

Thus, social entrepreneurship is a symbiosis of charitable and business approaches to solving social problems. Unlike charitable organizations, which are non-profit, social business brings profit, which is then directed to solving social problems.

Unlike traditional business, which works for profit, social entrepreneurship performs social functions and works where the state cannot work (due to lack of funding) and business does not want to (due to low profitability). The advantage of social entrepreneurship is that this approach allows to solve existing social problems without state intervention.

In Ukraine, the following approaches to understanding the sense of social entrepreneurship are possible: social entrepreneurship as a way of social support for certain groups of the population; social entrepreneurship as a mechanism for promoting economic development, supporting entrepreneurship; social entrepreneurship as alternative to the state mechanism of solving social problems; social entrepreneurship as socially oriented business.
Table 1. – Differences between social enterprise, charitable organization and traditional business

<table>
<thead>
<tr>
<th>Social enterprise</th>
<th>Charitable organization</th>
<th>Traditional business</th>
</tr>
</thead>
<tbody>
<tr>
<td>- socially oriented structure</td>
<td>- socially oriented structure;</td>
<td>- commercial structure;</td>
</tr>
<tr>
<td>- does not depend on external sources of funding</td>
<td>- depends on external sources of funding, donors;</td>
<td>- does not depend on external sources of funding;</td>
</tr>
<tr>
<td>- only start-up capital is required</td>
<td>- receives grants and donations aimed at solving social problems;</td>
<td>- only start-up capital is required;</td>
</tr>
<tr>
<td>- receives income from its own activities, the purpose of which is to mitigate or solve specific social problems</td>
<td>- no profit</td>
<td>- receives income from its own activities, the purpose of which is to maximize profits;</td>
</tr>
<tr>
<td>- profits are reinvested</td>
<td></td>
<td>- profits are distributed among shareholders</td>
</tr>
</tbody>
</table>

The goal of Social Entrepreneurship is not getting profit. It’s about producing goods or services for managing the Social Problem

Principles:
- Social partnership and transparency of relations between the state and business;
- Voluntary and non-coercive, initiative on the part of the business entity;
- Systematic public policy, separation of political, economic and economic functions;
- Rationality and efficiency of institutional support.

Components:
- Solving a social problem that has existed in society for a long time due to the limited access of a certain target group to financial and political resources;
- Development and implementation of a mechanism for innovative solution to a problem that violates a stable but unfair balance;
- Creating a new, sustainable balance that frees up resources for this target group and provides a better future not only for these people but also for society as a whole.

Criteria:
- Social or ecological orientation of activity on the decision of concrete social problems, steady positive social results;
- Profitable activity, self-sufficiency and financial stability, which promotes independence from external financing;
- Reinvestment of income in business to solve social problems;
- Innovative activities aimed at applying new approaches to solving social problems;
- Scale and replication, which involves increasing the scale of the social enterprise.

Pict. 1. – The goal of Social Entrepreneurship
As for the prospects of the development of social entrepreneurship, most experts confirm that social entrepreneurship has great opportunities in Ukraine. It is worth to mention some of them: absence of a special law that makes it possible to find the optimal organizational forms for enterprises; availability of resources the traditional business is not interested in (refugees, national minorities, special social categories); support of social entrepreneurship by international funds. Under such conditions, it is advisable to propose a mechanism for the development of social entrepreneurship which reveals goals, principles, criteria, components and positive effects of development of social entrepreneurship.

The main goal of social entrepreneurship should be accepted as producing a product or a service aimed at solving a social problem, not making the profit. The basic principles of the activities of any social enterprise can be considered as the following: the principle of social partnership and transparency of relations between the state and business; the principle of voluntariness and taking the initiative by the entity; the principle of system state policy, separation of political and economic functions; the principle of rationality and effectiveness of institutional security.

It is established that the positive aspects of the development of entrepreneurship are:
- assistance in overcoming social isolation, employment of people with disabilities and unemployed people;
- providing development of new directions of forming state social services;
- involvement of target groups in the production of goods and services (solving problems of socialization, adaptation, employment etc.);
- assistance of participation of citizens in social initiatives on a voluntary basis, association of citizens around social problems;
- formation and development of new types of social services which are out of focus of ordinary business due to their low profitability, unpopularity, lack of proper professional training;
- providing people of preferential group with quality services and goods on favourable terms (that is satisfying their requirements and improving quality of their life);
- ensuring more effective use of existing resources in solving social problems;
- assistance in reducing the burden on local budgets in solving social problems which is relevant in the modern world;

Focusing attention on the fact that to intensify development of social entrepreneurship in Ukraine it is necessary to do the following:
• to develop and implement the law “On Social Entrepreneurship” which could define clear criteria of social entrepreneurship and create legal mechanisms for social entrepreneurs’ support;
• to spread comprehensive information about social entrepreneurship, especially among unemployed people;
• to elaborate programs on professional training of the population on the basics of social entrepreneurship;
• to create special credit programs for involving financial means in order to start social entrepreneurship.

Conclusions

Emphasizing the urgency of the problem of formation and development of social entrepreneurship in Ukraine as the direction of state regulation of the labor market, it is possible to make the following generalizing conclusion. Ukraine is on the initial stage so that social entrepreneurship is starting to develop, different methods and approaches are being studied, forms and directions are being researched. Social entrepreneurship is becoming a real mechanism of solving social problems in Ukraine, when a social enterprise...
covers different socially unprotected sections of the population. For rapid development of a socially useful entrepreneurial activity, it is necessary to create the legal support and norms of its regulations. The main role in this process should be played by the State which, through incentive mechanisms, should determine the development strategy for entrepreneurship and its interaction with society. It is useful for Ukraine to implement the experience of European countries which includes: state support and assistance in enlarging activities; introduction certification of the activity of social enterprises which confirms the recognition of conducting socially useful, nonprofit activity; also, applying the practice of providing grants from the budget, credits and financing individual programs; providing significant tax benefits if the profits are used to realize the social goals of the enterprise or if commercial activity is carried out in the process of realization of social purpose.

Social enterprising is a new and innovative system of creating business which is so different from the enterprises described in the capitalistic theory. The main idea of social enterprising is the solution of citizens’ problems. Moreover, the enterprise itself has to use the minimum stocks for getting profit only in order to carry out its work, which means reaching the break-even point.

Social enterprising in Ukraine is a phenomenon for individual enterprises (unlike the economically developed countries). Financing of social enterprises are not conducted on the proper level. As social enterprising is a very risky investment, the financing is carried out only by private capital investment. At the same time, the USA and a lot of the EU countries free up these enterprises from taxation.

To sum up, the development of social enterprises in Ukraine is complicated because of the following factors: low level of economic development, military invasion in the East, lack of legal support.

The key way for successful concept of social enterprising in Ukraine could be the National strategy of creating social enterprises that could coordinate efforts of all parties, entrepreneurs, public organizations, and donor structures interested in the subject.

Researching of necessary conditions and special features of effective implementation of this Strategy could be the subject of further scientific research.

References


