

LOCAL SELF-GOVERNMENT AND TERRITORIAL DEVELOPMENT

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TYOLOGY OF SOCIAL ENTERPRISES AND SYSTEMATIZATION OF THEIR CLASSIFICATION FEATURES AS A COMPONENT OF THE FORMATION OF PUBLIC POLICY ON THE DEVELOPMENT OF SOCIAL ENTREPRENEURSHIP

The article examines the approaches to the classification of social enterprises by different classification features, such as: objectives and direction of using profit, priority sources of funding, the degree of integration of social programs and business processes,

the degree of financial capacity, ways to create social enterprises, specifics of entrepreneurial activity organization, organizational and legal form, areas of activity, size, location, etc. A new approach to classification according to the criterion of innovative potential of enterprises is proposed.

Keywords: *innovative potential; classification; social entrepreneurship; social enterprise.*

Introduction. Social entrepreneurship, as economic activity of business entities, that use an entrepreneurial approach and have a mission aimed at solving specific social problems, which are unsolved due to market and state failures, plays an increasingly important role in the development of communities and territories. It has received recognition from politicians, scientists, business and civil society representatives.

The nature of social entrepreneurship is mixed. Due to this fact and the lack of a clear and generally accepted definition (including blurred delineation of social entrepreneurship, charity and social responsibility of business), there are no uniform statistics on the number of social enterprises in the world. Thus, according to the analysis of European Commission reports, the number of social enterprises in the EU can be estimated at almost 2 million, which makes up about 10% of European enterprises providing employment of about 11 million people or 6% of the total number of employed [14]. As for Ukraine, according to experts, there are currently between 700 and 1,000 organizations in the country, which in one way or another can be classified as "social enterprise" [8].

Conceptual blur, lack of statistical and representative sociological data complicate both the research of social entrepreneurship and its support from the state. To structure information about social enterprises (hereinafter SE), scientists try to classify them, develop a typology of social entrepreneurship, and thus outline the limits of this phenomenon.

In scientific literature, the classification of social enterprises is based on different criteria. Authors are fragmentary to distinguish some classification features, but it doesn't

fully characterize the aggregate of such enterprises.

To develop the scientific and methodological bases of public administration of development of social entrepreneurship, it is certainly useful to systematize and generally classify the features by which these enterprises significantly differ.

Analysis of recent researches and publications. The issues of classification of social enterprises were considered in their works by K. Alter, Y. Arai, J. Battilana, Y. Blahov, V. Davans, J. Cardenas, P. Kryvobok, J. Mair, L. Miller, M. Novykov, etc.

The aim of the article is to research existing approaches to the classification of social enterprises and the systematization of their classification features.

Study results.

Classification (from the lat. *classis* – category, class and *facio* – I do, I decompose) is a system of distributing objects, phenomena or concepts into classes, groups, etc. according to common features, properties[7].

Classification is designed to address two main problems: to present in a reliable and convenient for viewing and recognition form the whole sphere of the study and to contain the most complete information about its objects. The natural and artificial classifications are distinguished depending on the essentiality of the feature that is laid down in its basis [20].

In natural classification, we take into account the total properties of classified objects, uniting them into groups on the basis of their's greatest similarity; that is, on the basis of their constant general properties, which define many other similar properties of these objects, and therefore are the source of maximum information about them.

Artificial classification is created for the purpose of registration and convenient recognition of classified objects. The distribution of objects in groups here is based on a certain minimum number of their constant, but not necessarily essential for these objects properties. For that, the most noticeable properties are chosen, which distinguish objects of different groups from each other more clearly and reliably than other properties.

There are two main approaches to the development of classifications - empirical and conceptual. The reason for the dominance of the conceptual approach in the

development of classifications of social enterprises is the weak development of theory in this area and the difficulty of obtaining empirical data. However, in 2012 the work of J. Mair, J. Battilana, J. Cardenas[13] appeared, in which authors developed classification (taxonomies) of social entrepreneurship drawing on empirical data (200 companies). As a result of the analysis, the authors identified 4 types of social entrepreneurship organizations depending on the form of capital: a model based on political, human, economic and social capital.

SE based on political capital are mainly related to human rights issues, legal protection, etc. SE, which put human capital at the centre of their activities in solving social problems are mainly involved in the field of education and medicine. Organizations that use economic capital to achieve social transformations are primarily engaged in solving problems related to employment, poverty alleviation, etc. SE, which focus on the development of social capital, is related to the problems of civic activity and involvement.

Although this classification is a significant study in which an innovative approach to social entrepreneurship was designed, it has a number of limitations. For example, one of the constraints is connected with the fact that classification, derived from one parameter, gives only a fragmentary idea about social entrepreneurship.

Therefore, to obtain a more informative picture of the state of social entrepreneurship in Ukraine and elaborate an effective public policy for its development, we will consider other approaches to the classification of social enterprises and the signs by which it is carried out.

One of the most important characteristics of social enterprises is the scope of their activities. The European Commission identifies four main areas in which social enterprises operate:

- work integration, – so-called integrative social entrepreneurship (work integration social enterprises (WISEs). Their main mission is education and integration through the work of people living in difficult circumstances (people with disabilities, the unemployed and representatives of other vulnerable groups)

- personal social services – health field, well-being and medical care, vocational

training, education, medical services, childcare services, services for elderly people or assistance to low-income people;

- local development of territories located in disadvantaged areas, like social enterprises in remote rural areas, etc .;

- other - including recycling, environmental protection, sport, art, culture and cultural heritage, science, research and innovation, consumer and sport fans rights protection [10].

SE, like any other enterprises, can be divided by industry affiliation. As stated in the Catalog of social enterprises [11], in 2017 the most common areas of activity of social enterprises in Ukraine were social protection, health care, cultivation and sale of agricultural products, manufacture and sale of handmade products, sale of goods in charity shops and on the online platforms. However, the disadvantage of this approach is that often social enterprises are not limited to one industry, but work in several areas. As a result, can be offered the division of SE into narrow-profile and multidisciplinary or combined enterprises.

There are various organizational and legal forms of social enterprises in the world, in particular they are associations, funds, cooperatives and companies. The main organizational and legal forms of social enterprises in European countries are cooperatives (particularly, there are "cooperatives of social solidarity" in Portugal, "social cooperatives of collective ownership" in France, "social cooperatives" in Italy, "cooperatives of social initiatives" in Spain, etc.) or companies (for example, in the UK there are «companies working in the interests of the community», in Belgium - «social purpose companies») [17].

Since there is no legally enshrined definition of the concept of social entrepreneurship in Ukraine, respectively they can acquire different organizational and legal forms of activity of economic entities. Currently in Ukraine the most popular forms of economic management of SE are the following:

- an individual – entrepreneur (hereinafter - IE);
- public organization (hereinafter - PO);

- private enterprise;
- charitable organization (hereinafter - CO);
- limited liability company (hereinafter - LLC);
- agricultural cooperative;
- farming;
- full limited partnership.

An important criterion for the classification of social enterprises can be their social purpose because this is what distinguishes them from ordinary profitable enterprises and business projects. Distribution and use of the profit of social enterprises can be carried out in three main ways:

All profit are reinvested in the expansion of business activity. This approach is inherent to social enterprises created by people from socially vulnerable categories for self-help and employment, as well as to cooperatives aimed at improving the quality of the community living standards.

Part of the profit is reinvested, part of it goes to social goals. This division is typical of social enterprises created by public and charitable organizations. In this case, the part of the profit intended for social purposes is transferred to a public/charitable organization, that contributes not only to the development of the commercial component but also to obtaining a greater social effect.

All profits are used to achieve a social effect. This approach is used by social enterprises, mostly created by a tandem PO – IE (PO - LLC), when PO provides IE (or private enterprise) with certain means of production (premises) for commercial activity, instead, all profits are returned to the public organization. This type includes almost all charitable stores that have different organizational and legal forms and transfer profits to social projects (their own or other organizations).

On the same basis, the expert on social entrepreneurship V. Brakovska identifies the following main types of SE[12]:

1. «Profit generator» - economic activity has no social impact, but profit is allocated for these purposes.

2. «Trade-off» - economic activity has a social impact, and the trade-off is between the profit margin and social impact.

3. «Joint pace» - economic activity has a social impact and brings profit.

An important criteria of the SE classification is the degree of their financial capacity. On this basis, we can distinguish partially self-sustaining, self-sustaining and profitable enterprises. The peculiarities of partially self-sustaining and self-sustaining social enterprises lay in the fact that their business activity is directly aimed at solving certain social problems. The differences between them concern the possibility of partially or fully reimbursing the costs of its functioning. Profitable SE are enterprises that have effectively organized their business activities and are able not only to finance their expansion but also to invest in solving certain social problems.

It should be noted that the criterion of the degree of financial capacity allows justifying the choice of funding source and affects the process of harmonization of its social and business goals.

Then, one more approach to the classification of social enterprises is based on priority sources of funding, which may consist of income from own business activities, grants, loans, sponsorship, charity and other means (budget funds of different levels, investments of founders, etc.).

Social enterprises can also be divided according to the criteria of duration, geographical location - SE created in large cities (regional centres), and other territorial communities (rural, village or small urban). The scope of action of the SE can be considered in two areas:

- by the level of social problems that are solved, and it can be local (within its community), regional, national or international;
- by the scale of commercial activity, SE are divided into large, medium, small and micro.

For the most part, social enterprises in Ukraine are micro-enterprises in large cities, established in the last three years, in which up to five people are officially employed.

A social enterprise can be created on the initiative of the beneficiaries themselves (for example, people with disabilities or their public association), the municipality or at the initiative of business representatives (these can be individual managers or already formed and successful commercial structures).

According to Y. Arai, the following basic ways of creating social enterprises are the most common in the world [2]:

- due to using an entrepreneurial approach and business tools in its activities by a non-governmental organization (hereinafter NGO) the foundation of SE or gradual transformation of the NGO itself is taking place (this is also possible in connection with the reduction of supply of socially important services by the state);

- when the entrepreneur chooses a new type of activity, the main purpose of which is to solve a social problem (so-called social start-up), due to the growth of entrepreneurial interest in social innovations;

- creation of enterprises with an expressed social mission by citizens who had small amounts of resources;

- through the development of cross-sectoral cooperation by commercial organizations in the framework of corporate social responsibility programs and the formation of a philosophy of corporate citizenship;

- by restructuring the public sector and transferring some of the functions of producing goods and services to social enterprises with initial support through procurement agreements and financial injections.

One of the most cited works on the classification of social entrepreneurship is the work of American researcher K. Alter [1]. The author views social entrepreneurship in the context of hybrid organizations. K. Alter defines hybrid organizations as organizations of mixed type, which have the characteristics of commercial and non-commercial organizations. They strive to create social and economic values, their methods are determined by the mission and the market, and the profit is reinvested in the mission, or operating expenses and/or withheld for business expansion and development (it may be partially redistributed among stakeholders). The author divides hybrid organizations

depending on motivation, responsibility and the principle of profit redistribution. While developing this classification, K. Alter emphasizes that, despite the existence in the traditional sense of for-profit and not-for-profit organizations, in reality it is difficult to separate the creation of economic and social value, and social entrepreneurship is somewhere in the continuum of organizations that provide so-called "blended value".

Then author identifies three types of social enterprises depending on the degree of integration of the social program into business:

- embedded social enterprises - business activity is created for the purpose of realization of the social program;
- integrated social enterprises - business activities partially cover social programs, usually sharing costs, accumulating resources, etc.;
- external social enterprises - business activities are not related to the social programs and mission of the organization, but only support them financially.

Traditional classification techniques are limited to grouping objects by one feature. However, the complexity of social phenomena requires their multifactorial explanation. Cluster analysis methods which allow to classify objects simultaneously according to a number of characteristics have become increasingly popular in scientific research in recent years.

An example of a multidimensional classification is the typology of operational models of social entrepreneurship based on types of social enterprises, proposed by K. Alter, and the criterion that defines the scheme of interaction of the social enterprise with its target audience and with the market of its activity [18]. Combinations of different schemes of such interaction allowed V. Davans, K. Alter and L. Miller to single out such types (by their definition - models) of social enterprises.

Entrepreneur support model. Such companies provide financial services to individuals and legal entities to start their own businesses and then sell their products or services on the open market. Such a model of organization of economic development, small and medium business development programs, consulting firms providing professional services, suppliers of technology and products are used.

Market intermediary model. Such enterprises provide their services in order to ensure their clients with access to markets. Namely, it is about product improvement, assistance in production or sales, lending, and so on. Traditional types of business enterprises that use this model: marketing organizations, consumer organizations, those that sell agricultural products.

Employment model. According to this model, companies provide employment and vocational training to people who cannot compete in the traditional labour market (people with disabilities, the homeless, socially vulnerable youth, former convicts). This model is widely used by public organizations of various directions. Traditional enterprises that use the employment model: landscaping companies, coffee shops, courier companies, etc.

Service subsidization model. Organizations sell goods and provide services, and use the earned income to fund social programs. Such a model is most often used by public associations. Very often such enterprises are the result of a combination of tangible assets (buildings, land or equipment) or intangible assets (know-how, brand).

Market linkage model. Such companies promote trade relations between their customers and the foreign market. The social enterprise plays the role of a broker, acting as a liaison, and receives payment for that. In this case, the social enterprise does not sell or market the products of its customers, but only connects customers with the markets. This model is often used to commercialize social services or to benefit from intangible assets such as trade relations, and the income of social enterprises is spent on financing services to clients who are unable to pay for them. Among the enterprises that use this model are enterprises for market research, export-import operations and brokerage services.

Later, 2 more models were added to them, more typical for Ukraine. [3].

Fee-for-service model. On a commercial basis, companies provide services that meet and ensure the achievement of the mission and at the same time make a social business program that provides its customers with services available to them.

Organizational support model. The social enterprise sells its products and services on the foreign market. In some cases, the target audience - the customer - is also a

consumer. Entrepreneurial activity is separated from social programs, but the organization uses the additional income to finance the costs of its parent public organization.

Another comprehensive criteria for the classification SE, proposed by American scientists J. Dees and J. Emerson. Depending on the purpose of the SE and the direction of using profits, scientists distinguish [5; 9]:

- *charitable* - SE of philanthropic direction, the purpose of which is to create social value, the source of funding of which is sponsorship and charitable contributions, grants that are used directly for the implementation of the social program;
- *commercial* - enterprises that manufacture goods (provide services) of social nature, but aim to create economic value, and profits from their activities are distributed between shareholders and owners;
- *hybrid* - enterprises aiming at creating both the social and economic value, and their profit is used for implementation of the social mission and/or business development, and hence for increasing social and economic outcomes in future.

A similar but extended by the number of criteria approach to the classification of social enterprises was proposed by Russian scientists Y. Blahov and Y. Arai. The integrated use of mission criteria, income availability and innovation component allowed them to classify social enterprises as [4]:

- traditional not-for-profit organizations with social goals;
- not-for-profit socially oriented business firms - non-commercial organizations for social purposes that use innovation in their activities;
- hybrid organizations - organizations with a social mission for which income is a subordinate goal;
- commercial socio-organizational companies — a commercial organization in which the social mission coexists with the economic one.

S. Zakhra, E. Hedailovich, D. Neubaum i J. Shulman developed a classification of social entrepreneurs depending on the set of characteristics they possess. The authors obtained 3 types[21]:

- 1) *Social masters* focus on identifying and addressing local social needs.

2) *Social designers* use opportunities to overcome the imperfections of a market economy and the failures of the 'market'. They try to meet such people needs which for various reasons can not be satisfied either by the market or government agencies.

3) *Social engineers* identify systemic problems in existing social structures and try to overcome them by carrying out a kind of "revolutionary changes."

According to the results of the analysis of research 'International Comparative Social Enterprise Models' J. Defourny and Nyssens offered a universal typology of models of social enterprises, developed on the basis of three criteria: social mission, type of economic model and governance structure[6]. According to this typology, social enterprises are divided into:

1) Entrepreneurial non-profit organizations that develop business and generate income to achieve their social mission.

2) Social cooperatives, which implement forms of democratic governance, in contrast to traditional cooperatives, combine the desire to ensure the interests of their members and the community as a whole (or a separate target group).

3) Companies that develop business activities to achieve the main social goal and mission.

4) A social enterprise of the government sector, characterized by the state's efforts to reduce its expenditures by delegating authority to solve certain issues to SE (for example, as part of community development policy in poor areas of the city, it is possible to set up enterprises in the community for local development).

According to one of the approaches to understanding social entrepreneurship, it is determined by the presence of an innovative approach for solving the most pressing social problems, that is, the innovative component as a way to obtain a social result [14].

Innovation in this case is understood as a constant desire to provide innovative services within the increasingly effective business models. Creating social value means achieving objective positive social transformations in a certain part of society, consequently, improving the quality of life of a group of individuals who have a common problem or range of problems that a social entrepreneur undertakes to solve in the

framework of his or her activities [19].

Therefore, we consider it appropriate to propose a classification of social enterprises according to the level of innovation potential. In keeping with this criteria, on the grounds of study of a number of social enterprises in Ukraine, the following SE can be identified:

- innovators-leaders who produce a product or service that was not previously on the market;

- innovators-modernizers are SE that create new added value for those products and services that have already exist;

- innovators-followers, that reproduce innovations initiated by other social enterprises.

Conclusion of the study and perspectives of further development. It should be noted that all the above classifications have a right to exist, as they reflect different approaches to defining the characteristics of social enterprises.

As a result, we note that the complex typology of social enterprises makes a certain step in the development of the science of public administration by identifying the most important aspects of social enterprises - goals, approach to profit distribution, etc. - and creates additional grounds for improving public policy for the development of social entrepreneurship.

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