

Social Entrepreneurship in the System of Social Policy: International Experience and Prospects of Russia

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Abstract—The article deals with a relatively new phenomenon for Russia, i.e., social entrepreneurship. Based on an analysis of international experience in the development of social enterprises, their characteristics have been studied, the advantages and risks in support of social enterprise in meeting the social needs have been revealed, and the problems and prospects of development of social entrepreneurship in Russia have been discussed.

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As a rule, issues of social protection of the vulnerable social groups and the provision of socially significant benefits to key sectors of immaterial production, i.e., education and health, are within the competence of the state. The highest flowering monosubjective social policy was achieved in the 1950s–1960s. National models of state welfare have been developed in most developed countries. Developed systems of state support have contributed to mitigate the dependence of a person's socioeconomic situation and the reproduction of his or her labor-power on the market. This process is called the *decommodification* of labor [1]. A high degree of decommodification helps to strengthen the socioeconomic and political position of the general population and the accumulation of wealth in the form of intangible human and social capital. Furthermore, the influence of social practice of socialist states, not only on the content of programs of social democratic political parties, but also on the state social policy of a number of developed European countries, is recognized in the world.

The crisis of the welfare state emerged in the 1970s when the wider range of government social programs available to the public encountered resource constraints. New challenges in the social sphere were associated with globalization. The expansion of cross-country mobility of capital has formed competitive advantages of economies with low taxation and cheap labor. The first reaction of Western economies to toughen competition for attracting capital was attempts to trim the scale of social guarantees, referred to as a race to the bottom. However, the desire to save

money on social services has encountered two major obstacles. First, it has met resistance from civil society and failed to gain traction. Second, in parallel with the worsening of the financial difficulties, there was growing awareness that the satisfaction of social needs is an essential moment of the reproduction process. Under modern conditions, social orientation becomes an economic imperative, without which no sustainable development is possible, and which provides advantages in international competition [2, 3].

The researchers note that the race to the bottom mainly affected developing countries where social security was low anyway. In the most developed European countries, the actual reduction in public social expenditures was very modest and was accompanied by a search for compensatory mechanisms to prevent the reduction of the reached level of social protection of the population [4, 5].

What helps the most developed Western European economies in the face of increasing economic instability not only to maintain, but also to develop the system of social guarantees and increase the production of socially significant goods available for the population? An analysis of studies devoted to the crisis and the directions of the evolution of the state welfare under the influence of globalization and the rise of economic uncertainty allows one to select two main factors; i.e., first, special attention to improving the efficiency of social investments and, second, increasing reliance on business and civil society structures in the implementation of social policy. The state assumes the role of strategist and determines the priorities of socioeco-

conomic development with the active participation of nonprofit organizations and the socialization of businesses. This means moving from monosubjective social policy to the interaction of several equal sectors. One of the outcomes of this cooperation was the development of social entrepreneurship.

DISTINCTIVE FEATURES AND RISKS OF SOCIAL ENTREPRENEURSHIP: WORLD EXPERIENCE

The task of maintaining the existing level of population protection and meeting the social needs requires innovative solutions related to increasing the efficiency of social investment. In these circumstances, the idea of social entrepreneurship is becoming more popular than ever. Experts attribute its rapid spread around the world from the 1970s–1980s (parallel to the crisis of the traditional welfare state) to the fact that the idea of this kind of social innovation successfully blended in with the needs of the modern era [6].

Social enterprise can be generated out of business environment as the development of corporate social responsibility as well as out of civil society as on the basis non-profit organizations. On one hand, they need to feel confident in the market environment to have a competitive margin. This distinguishes them from nonprofit organizations, which are not subjects of market competition and exist mainly on grants and donations, without calculating their cost-effectiveness. On the other hand, as a rule, the activities of these companies is aimed at mitigating the impact of the market environment to consumers of the goods and services they produce, as well as those that belong to vulnerable groups in the population and the weakening of their dependence on the market, i.e., at labor decommodification.

The question of the key features and the boundaries that separate social entrepreneurship from socially responsible business, as well as from traditional nonprofit organizations, continues to be debated. In the variety of interpretations and definitions Anglo-American and European approaches can be distinguished, the difference of which is associated with features of the models of social policy and national traditions.

The origins of the Anglo-American version of social entrepreneurship are rooted in deep-seated values of private initiative, philanthropist, and the independence of civil society from the state. Furthermore, the initiative of social entrepreneurship can come from both the business (mission-driven business approach) and the sector of nonprofit organizations (earned income school of thought) [7]. According to Kim Alter's definition, which in our opinion reflects the Anglo-American tradition the most completely. A social enterprise is any business venture created for a social purpose –mitigating/reducing a social problem

or a market failure—and to generate social value while operating with the financial discipline, innovation and determination of a private sector business [8, p. 12]. The emphasis on the self-sufficiency of social enterprises is in line with the liberal model of social policy, which is characterized by the minimum government obligations and applies only to the poorest part of the population [1].

In the European context, the basis for the development of social entrepreneurship was a cooperative movement. Therefore, perhaps in contrast to American social enterprises, which are oriented toward producing a social product that is available to consumers free of charge or below market prices, the European focus on providing employment for vulnerable groups with reduced competitiveness on the labor market. However, in both European countries and in the United States, there are enterprises that solve both problems simultaneously. Consumers of social-enterprise services over time become their own employees or volunteers. In many cases, this means that they reintegrate into society; the dependents turn into self-sufficient citizens able to not only solve their own problems, but also to help people who find themselves in similar situations.

Another important difference between the Anglo-American and European approaches is that social entrepreneurship in Europe is actively supported by the government. The European Commission study showed that, in 16 of 29 surveyed European economies, the status of social enterprises are enshrined in national legislation. Special comprehensive programs aimed at their development work in 14 countries, and another 7 countries are in the process of developing these programs [9]. The range of government initiatives in this area is quite diverse and, as a rule, include the following:

- (1) financial support, including through social investment in a special fund;
- (2) the provision of advice on business development;
- (3) joint projects and facilitating access to markets;
- (4) infrastructure support, including the provision of facilities and production areas;
- (5) increasing awareness about their activities and promoting the exchange of experiences and cooperation, p. 11 [9].

In 2002, legislative support was also provided to UK social enterprises. However, unlike the continental economies, where the focus of the laws fell on involvement of vulnerable groups in the employment and on limitation of profit distributions by social objectives, British law highlights the requirement of financial stability; at least 50% of the income must be obtained through the sale of goods and services to the population.

In the United States, support for the development of social enterprises is provided primarily by private funds. The largest of these is the Ashoka global organization, created in 1980 by the McKinsey consultant of business management Bill Drayton. In 1981, the Asoka's budget was 50000 USD. Today it exceeds 85 million USD. The wealth of the Fund is provided by investment support from private individuals and nonstate actors. The Fund does not accept any financial infusions from the state. According to a recent report, the number of supported entrepreneurial social initiatives has reached 3000. Key criteria when deciding to support the project are (in descending order of importance) the novelty of the idea, creativity, entrepreneurial skills, ethical values and presence of social impact [10].¹ It must be admitted that the tendency towards concergency between private and state support of social entrepreneurship in the United States exists. Since 2009, the Social Innovation Fund has been running in the United States under the auspices of the state corporation of national and municipal services. However, its target groups are independent supporting funds for social initiatives at the local level, i.e., "market intermediaries", which, moreover, should co-finance state support in the ratio 1 : 1.

Thus, in the American version, social entrepreneurship is at a crossroads of business activities of institutions and nonprofit organizations, and the European version added a third important actor to them, i.e., the state. Therefore, social entrepreneurship in Europe is the most mature form of institutionalized cross-sectoral partnerships in which government, business, and nonprofit organizations are finding ways to cooperate in order to solve the problems that go beyond direct impact that require resources to be pooled.

An overview of the theoretical approaches reveals the following criterion signs of social enterprise. First, the main purpose of its activity is not economic benefit, but rather the *satisfaction of social needs* the solution (mitigation) of a particular social problem. Secondly, *its activity is economically stable*, i.e., most of the revenue is acquired through the sale of goods or services, rather than donor funds. Third, important, in our opinion, a sign of social enterprise is an innovative approach, i.e., a new product (service) or a qualitatively new model for it is proposed.

The first key criterion is directly linked to the task of maintaining in the socio-economic system of a cer-

tain level of labor decommodification, which provides independence from the market and, thus, strengthens the social protection of a target population group. It should be emphasized that this is not identical to producing goods or services, which is traditionally attributed to socially important ones. For example, a commercial clinic, which provides of health services for a fee, although will be part of businesses on the relevant social sector, but cannot be recognized as a social enterprise, because its activities contribute, not to decommodification, but rather labor recommodification. At the same time, a store factory that produces and realizes ordinary consumer goods to low-income categories of population below market prices (due to the complete or partial failure of profits and attraction of volunteers) is a social enterprise, since building relationships with consumers on a mitigated market basis. Social enterprises include those that provide jobs categories of the population and have reduced the competitiveness of the labor market (long-term unemployed, disabled, large families, etc.), as they solve the important social problem of expanding the area of *protected employment*, i.e., the zone of weak market relations on the sale of labor.

The second criterion, economic stability, does not imply unqualified denial from either public funding or grants and subsidies from commercial organizations. Not only in the most developed countries, but also in the emerging market economies of both government and corporations make significant investments in the social entrepreneurship sector. The principal difference from the donor charity assistance to nonprofit organizations that do not apply for the status of social enterprises in this case is the financing of social enterprises based on a mutual benefit and cost comparison of alternative options to address those or other problems on the agenda of social policy.

Clients of social enterprises, most of which belongs to the low-income categories of the population, often do not have the means to show the effective demand for services, which are in dire need. In this situation, quasi-market mechanisms are necessary when the direct intermediary between the consumer and the producer of the social product is the state, which institutes effective demand in the form of a state order placed on a competitive basis.

The experience of social enterprises in many countries shows that they are often the most efficient users of resources provided to solve the problems of vulnerable groups within the framework of state programs. The moral and psychological support, the provision of legal, organizational, and medical information, as well as practical support that social enterprises often provide free of charge, not only make a significant contribution to improving the social protection of these categories of the population, but also help improve the morale at the level of local communities and the country as a whole.

¹ The hierarchy of the criteria of social enterprises looks somewhat different in the European version. In accordance with this, social enterprise must do the following: (1) be engaged in economic activities related to production and (or) the exchange of goods and services; (2) pursue a distinct social purpose; (3) limit the distribution of profits priorities related to the social aim; (4) have organizational autonomy from the state and from *the traditional* nonprofit organizations; (5) have inclusive management, i.e., ensure the involvement of rank-and-file employees in management [9].

Today, many developed countries are characterized by the decentralization of granting social services at the local level. Although the public sector, which possesses financial levers, are often a customer of such services, along with the state-governmental institutions, social actors are nonprofit organizations and social enterprises that provide services in the place of residence of recipients of social assistance, bringing it closer to the consumer.

A third criterion enters into force that emphasizes *innovativeness as the most important characteristic of social enterprises*, which are able to offer a qualitatively new social product or a qualitatively new model of its production. Services enable social enterprises to solve acute social problems of society, not only through the budget, but through funds raised from extra-budgetary sources (charitable individuals, employment of volunteers, etc.).

The advantage of social enterprises is their ability to respond flexibly to the changing needs of socially vulnerable groups, the emergence of new and often unconventional specific areas of vulnerability. Their activity extends to sections of the population, who are often outside the purview of state authorities, as well as the services and the types of assistance that are not provided by the state.

The focus on social entrepreneurship in solving social problems does not rule out risks associated with the choice of this strategy. The main ones can be summarized as follows.

First, the popularization of the idea of social entrepreneurship may contribute to the premature curtailment of state social programs, self-elimination of the state from carrying out a full-fledged social policy. It is no accident that the ideas of social entrepreneurship are very popular among the supporters of the liberalization of the economy and minimization of the regulatory role of the state [11, 12].

Second, social entrepreneurship is easily identified with business in the area of social services, which is a purely commercial project, in the cornerstone of which is placed a profit from continuing operations. Under the support of such business opens the way of commercialization of social sphere, contributes not to expansion, but on the contrary, to clotting of labor decommodification, which undermines the access of the poor to key social benefits of education, health, culture, environmentally friendly products and environment, etc.

In evaluating the discourse and the actual trajectory of the development of social entrepreneurship in a country, it is necessary to establish whether it is a more efficient mechanism to solve a particular social problem compared with the direct intervention of the state or a way of optimizing public spending on social policies.

PROBLEMS AND PROSPECTS OF DEVELOPING SOCIAL ENTREPRENEURSHIP IN THE RUSSIAN FEDERATION

In Russia there is no serious support in the history and in traditions of the third sector for the development of social entrepreneurship as it was with a private charity in the United States or with the cooperatives in Europe. The latter organizations began to spring up in Tsarist Russia, but the experience of the development of capitalism consisted no more than half a century and has not led to rooting of these forms.

The first major initiative to support social entrepreneurship came from business. In 2007, the nonprofit foundation "Our Future" was created by the president of the oil company LUKOIL V. Alekperov. To promote the idea of social entrepreneurship, the fund participates in the boards and committees of the legislature; concludes agreements on information support; buys advertising pages for publication in the media; and, most importantly, holds annual contests of social entrepreneurship contest. On its official website, the following definition is given: *social entrepreneurship* is a pioneering work originally aimed at solving or alleviating of social problems in terms of self-sufficiency and sustainability. Social entrepreneurship is at the crossroads of traditional business and philanthropy. In particular, social entrepreneurship takes the social orientation of activity from charity and an entrepreneurial approach from business [13].

For the Fund organized by representatives of the business community, social entrepreneurship is natural to consider, first of all, as one of the areas of corporate social responsibility, i.e., in a one-sided concept of the American tradition as a specific business project, but not in the European tradition, as an area of the cooperation and joint responsibility of the social partners (nonprofit sector, business, and the state). However, this approach was perceived in public policy as well.

It should be noted that, initially, the state's interest in social entrepreneurship was formed in the context of discussions on the development of non-profit organizations at the annual conferences on social partnership and development of civil society institutions in the Russian Ministry of Economic Development. In 2010, the concept of "socially oriented nonprofit organizations" was introduced to the Federal Law on NPOs. In 2011, the Russian Government has set up an autonomous agency of strategic initiatives, which was entrusted with the development of a Road Map for developing nongovernmental social services in the social sector and identifying promising projects in the field of social entrepreneurship in the Russian regions. At this stage, small and medium-sized businesses and nonprofit organizations were regarded as the promising environment for developing social entrepreneurship.

The turning point was the Conference on Social Business and Social Entrepreneurship carried out with

the support of the Department of social development and innovation, in cooperation with the international creative Grameen Laboratory.²

Ironically, cooperation with the Grameen Laboratory and the active use of the term *social business* by its leader M. Yunus denoted a turning point in the perception of social entrepreneurship in Russia as a business. The term *social business* began to be used as the identity of social entrepreneurship. The English-language version of the semantic load of the terms *entrepreneurship* and *business* is different. In the first case, the implementation of the original ideas, the creativity and innovative approach are accented and, in the second case, the gain and increase in the profit and the innovation has no basic value. The interpretation of the term “*social business*” by M. Yunus is used to emphasize the importance of *refusal* of profits in favor of the production of affordable products for the poor. In Russia, of the rhetoric about social business the exact opposite was understood, i.e., that social business is a profitable occupation; meanwhile, the issues of the profit distribution were never seriously discussed.

A trend in recent years has been the de facto exclusion of the NPOs from the discourse of social entrepreneurship. Since 2012, when the ministry decided to systemically support of social entrepreneurship, responsibility for this support was given to the Department of Small and Medium Enterprises. For nonprofit organizations that provide services in the social sphere, the concept of socially oriented NPOs is applied and the other department is in charge of their support. This division is partly due to a divergence in legal regulation, particularly in the civil code. Commercial and nonprofit organizations come under different systems of not only taxation or reporting, but also of support and forms of regulation.

The approach to social entrepreneurship as just another kind of commercial activity is determined not only by the functional of the Department of Economic Development in charge and its subordinate departments in the regions of the Federation. In accordance with the legislation of the Russian Federation, its application to the NPOs requires resolving the contradiction between profitable and non-profitable activities, as *entrepreneurial* means “profitable” or “for profit.”³

Since 2012, the Ministry of Economic Development annually issues orders on granting subsidies to regional governments for support of the small and medium-sized businesses, which include social entre-

preneurship, in each subsequent year, with the expansion of support conditions. In 2013, the notion of Innovation Centers of the Social Sphere (ICSS) designed to support social entrepreneurship appeared in order. At the end of 2014, the corresponding Resolution of the Russian Government was issued [14]. The order on the regions subsidies to support social entrepreneurship in 2015 as a condition of providing funds to develop the ICSS indicated their commitment to work for the next 10 years.

Note that there are still contradictions in the status of ICSS. Orders of the Ministry of Economic Development in 2013–2015 consistently indicate the support of both social enterprises of small and medium-sized business, and socially oriented NPOs among their tasks. At the same time, in the ICSS reports on the expenditure of funds there are only organizations of SMEs, i.e. financial support for social entrepreneurs from among the NGOs is not provided.⁴

Work with nonprofit organizations began to gradually drain from activities of the “Our Future” fund. The loss of interest in the enterprise potential of NPOs could be due to the emphasis in the state strategy on not socially oriented NPOs, but rather social businesses in the provision of social services⁵; there was wording on the Foundation’s website that limits the focus of competition to support social entrepreneurs in small businesses. In addition, the fund went from issuing grants to winners of the contest to issuing interest-free loans. This reduced the interest in the competition of nonprofit organizations.⁶ Although representatives of NPOs can fill out an online application and even win, the statistics on the supported projects speaks for themselves; of the 114 organizations supported by the fund in 2009–2014, there were only 19 nonprofit organizations in the form of property.

The vector for identifying social entrepreneurship to SMEs in the public discourse is obvious, but the representatives of the state still have no complete coherent idea of what social enterprise should be. The retention of instructions to support NPOs in the

² The organization founded in 2008 by the Nobel Prize winner Mohammad Yunus to spread the idea of social entrepreneurship and consulting support of social enterprises.

³ In accordance with Art. 2 of the Civil Code of the Russian Federation, “... entrepreneurship is an independent activities carried out at their own risk, which is aimed at systematically profiting from the use of property, the sale of goods, and works or services by persons registered as such in accordance with the law.”

⁴ At recent hearings in the Public Chamber of the Russian Federation (May 10, 2015), one of the leaders of a regional ICSS asked a representative of the Ministry of Economic Development to consider the possibility of mandatory reporting in ICSS of the support for nonprofit organizations, as the region has a suitable nonprofit organizations that operate as a social enterprise. The answer was negative with the motivation that the ICSS is intended to support commercial, profitable operations. Apparently, an indication at a NPO in the orders of the Ministry is in the nature rather a declaration than a support mechanism.

⁵ Two years ago, one of the former employees of the fund pointed out that his proposal to expand the cooperation with nonprofit organizations in the region as a new strategy of development was not supported.

⁶ Instead of grants, interest-free loans of 500000–10000000 rubles are offered to the winners. The nominal value has not changed since last year. The maximum repayment term is 5–7 years. The maximum amount is received by very few that have proved successful entrepreneurs [15].

project of the road map for the developing of non-state social services and the transferring substantial supervision over the ICSS to the Agency for Strategic Initiatives indicates the instability of the position. It is very likely that the ambivalent attitude towards NPOs is not due to ideological differences in the establishment, but rather due to the lack of identified social enterprises among SMEs and the lack of enthusiasm among the standard business on the provision of social services.

As for acting social entrepreneurs, our interviews with them showed that they were just doing their job and are very skeptical about the possibility of getting support from the state and cooperating with large business organizations.

Here are a number of specific reports.

—“We are the only museum that is currently engaged in activities with children that is this well based on this material, i.e., folk art, so with no false modesty I can say that we are very successful in this business. The authorities should be interested in a venture like mine. But they do not carry out even what it should be.”

—“I still dream that I will have a person who will deal with the administration when necessary to settle some question, while I deal with horses and children. I am morally killed by the fact that I have to travel, to pester ... I send documents for a grant to, but again failed to gather all documents, certificates.... They sent me the answer that something is formalized incorrectly, and that's all, in short.”

—“Every year, a lot of grants are played, but no one has never won, though we won on the international level. Their site is called “vsesvoi” (all friendlies). Maybe that is why.”

—“For the third time, we applied for a presidential grant. For the third time, we were refused. They gave no reasons and explained nothing.”

These statements indicated that, today, Russian social entrepreneurs need more than just financial support. There is a need for a comprehensive program of measures, including advice on economic and legal issues, infrastructure support, and promotion of their work like the measures that exist in European countries.

It can be argued that the state has moved from debate to support of social entrepreneurship. However, it is a kind of business project of the state aimed at forming the nonstate sector of social services at the expense of commercial organizations. The state uses the discourse of social entrepreneurship as a kind of resource mobilization for businesses to provide social services, mainly on a commercial basis. These non-profit organizations may be partially integrated into business processes by expanding the segment of fee-based services to improve their financial stability.

Today, social entrepreneurs are present in almost all regions of Russia. However, it is difficult for them to defend their own interests and the interests of their clients in the formation of state policy with respect to social entrepreneurship. As long as they are too few, they are scattered and usually not very well aware of the essence of social entrepreneurship and foreign experience of its development. Moreover, their part-

ners and customers were not aware of it either. In order for their activities to contribute to the institutionalization of social entrepreneurship as a joint project of the government, civil society, and business to better meet the needs of the population in social benefits and strengthen its social protection, there is apparently the need to accumulate a critical mass of real experience and wider knowledge.

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