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CONTEMPORARY CHALLENGES FACING SOCIAL ENTERPRISES (CASE OF GEORGIA)

***Summary.** Social entrepreneurship implies acting on an entrepreneurial basis that has social mission and doesn't serve only business interests. The paper examines constraints of social enterprises operating in Georgia. The arguments are evidenced with survey conducted by the researched applying qualitative research method.*

***Key words:** Social Enterprises, Social Entrepreneurship, Social Impact, Georgia, Constraints of Social Enterprises.*

Introduction. People mean many different things when referring to 'social enterprise' and it is not easy to agree on a clear definition. However, based on many scientists, the need for a clear definition is crucial. The term social enterprise has gained recent popularity but the concept itself is not a new one. It is important to look at some of the antecedents of the current idea to understand it better. There is a strong strand of belief in the idea that enterprise operating within a free market is socially beneficial. Businesses provide jobs, create wealth that is shared within society and generate revenue for governments. The market, operating within a strong framework of state regulation and rule setting, enables this to happen most efficiently with competition ensuring that the strongest enterprises grow and develop. Adam Smith expressed the idea that an individual pursuing his own self-interest tends to also promote the good of the community as a whole perhaps more than those actions nominally born of higher motives: "By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it." (Wealth of Nations, 1776).

However, there is no common approach and definition of the word "social enterprise"/"social entrepreneurship". It is differently defined in the European countries and in the United States. For example, the term "social entrepreneurship" in the USA is associated with market-oriented organization. "organization or enterprise, which implements social mission via entrepreneurial, income generating strategies". However, Trade and Industrial Department of Great Britain suggests

the following definition “social enterprise is a business, whose primary purpose is social in nature and reinvests its profit in community or in business in order to achieve these social goals. Its driving force is not increased profit for shareholders and owners”.

In 1996, European Research Council (ERC) was established in Europe, which ensures creation of theoretical and practical knowledge base around social entrepreneurship issues. ERC elaborated social and economic criteria, which should be met by social enterprises as per following: An economic activity producing goods and/or selling services; Quality of independence; Certain level of economic risks; A trend towards paid work. Social Criteria: An explicit social purpose: to benefit the community or a specific group of people; Decision-making power is not based on capital ownership; Initiative supported by group of citizens; Participatory in nature; Limited distribution of profits. Defourny and Nyssens (2008a) indicate, that social enterprises are commonly created as associations or cooperatives in the countries, where there is no defined legal form for social enterprises.

The term ‘social enterprise’ is a very recent import to Georgia, gaining recognition only from around last decade. Interest in the concept was fueled by the shift of international donor activities. As Georgia achieved middle income status, donor grant funding to Non-Governmental Organizations (NGOs) also started to reduce, leading many NGOs to look for alternative sources of income, particularly the sale of goods and services, within a social enterprise framework. While the term may be new, the concept is not and it is interesting that as donor interest in the concept increases, a number of existing organizational types have started to consider re-defining themselves using this language. Most of the social enterprises are being established in the form of NGO due to the gap in legislation. Only some of them prefer to be established as Limited Liability Company (LLC). Recently, the coalition of local and international NGOs lobby adoption of legislation on social enterprises, which will enable the entities to be registered respectively. This amendment is currently under discussion at the parliament.

Purpose. In order to assess challenges and opportunities of social enterprises currently operating in Georgia, qualitative survey was designed and carried out. In particular, case study method was selected. A mixture of strategies was used case comparison based on pattern seeking, clustering, and matrices. Although these techniques can be identified individually, they were employed cohesively in an effort to achieve a flawless analysis process.

From 47 identified social enterprises, 20 enterprises were selected with random sampling. This particular paper presents findings from analyzing 20 cases.

A multiple-case study design was selected to strengthen and potentially expand the analytic generalizations of the study (Yin, 1998). Theoretical or literal replication was used in the selection of cases in order to anticipate propositions across cases enhancing the external validity of this study (Yin, 1998). Case studies are holistic (Ragin, 1989) in that each individual case represents an entire study in which convergent evidence is sought regarding the facts and conclusions for the case in relation to the theoretical framework. Guidelines for a reasonable number of cases and a basis for adequacy for the study have been established with reference to the literature. Various target groups were engaged in survey implementation, which enabled the research to collect diversified data. Considering characteristics of social entrepreneurship, in order to gather data on main research object, in-depth interviews with public, private and non-governmental organizations were conducted. These are the organizations, which operate in social entrepreneurship field in Georgia. Due to the fact, that there is no database of social enterprises operating in Georgia, six organizations which operate on social entrepreneurship issues were identified. In order to collect diversified information around research object, key stakeholders from different sectors were interviewed (public, private and civil society sector).

Results. Nowadays there is no unified approach towards social entrepreneurship around the globe and many organizations define the term in their own way. In order to ensure comparability of data across the whole research, all key informants were asked to share their perception on the term “social enterprise”. It is interesting, that social enterprise is an enterprise operating with business principles with primary social objectives. The respondents declared, that

“...From our point of view, business activities which aim to solve any social issue and part of income is dedicated to expanding the operations, development and solving social issues are reckoned social entrepreneurship...”

Noteworthy, that the term “social enterprise” is perceived commonly by public, private and civil society organization. However, there is no unified database, which would accumulate information on all types of social enterprises as it is difficult to identify “social enterprise” and its identification is done subjectively.

“... We have to assess the business whether its social enterprise or not subjectively. If some experts from other country visits Georgia, s/he may say, that it's not a social enterprise...”

The study demonstrated, that operating a social enterprise is even harder, than managing a commercially-driven business. In particular, the following constraints were revealed:

- Access to Finance: Due to the fact, that there is no proper definition of “social enterprise” in the legislation, those, registered as NGOs, cannot access the credit. Based on the regulations of commercial banks operating in Georgia, NGOs are not eligible for loans. However, there was an initiative launched by International NGOs partnering with one commercial bank, which envisages opening loans for social enterprises in that particular financial institution.

- Legal Status and legislation: Nowadays, social enterprises do self-identification, as there is no respective legislature, which would define and identify social enterprises, as a legal form. Majority of social enterprises operating in Georgia are registered as non-commercial non-entrepreneurial legal entities. The rationale behind, is that vast majority of social enterprises are established with financial grants and LLC is not authorized to receive grant money, as per Georgian legislation. Out of 5 social enterprises surveyed during the research, 3 were registered as non-commercial, non-entrepreneurial legal entities and 1 as cooperative and 1-LLC. Noteworthy, that lack of legislation was named as a constraint for social enterprise development by respondents. Gap in legislation leads to confusion in financial reporting and accounting. The entrepreneurs indicated, that they have to consult with many different agencies in order to ensure proper taxation in from of the state.

“...You have to consult with lawyers and financial specialists in order to avoid mistakes. We had couple of cases, when due to the lack of information, we had to read the laws and bylaws and come up with final decision based on our own judgement. When there is no special term “social enterprise” in the legislation, that is what happens...”

However, survey participant social entrepreneurs indicated, that there is no need of adding a separate legislative form in the law, but add a definition of “social enterprise” into existing ones.

- Gap in Knowledge and Skills: Along with lack of legislation, low level of knowledge of business management practices was outlined as a challenge. All participants indicated, that due to the fact, that majority of them had Non-Governmental Organization (NGO) background, they lacked experience/tools of business management. The respondents also stated, that existence of a manual/guidebook for operating social enterprise would have been value addition for their operations.

“.. Nowadays, only social enterprises are established by people with business background. Mostly, they are supported by NGOs who don't have any similar experience...”

“... We were oriented on social direction and financial management was on back-stage. It was a mistake and hindered our development...”

- Lack of guidance and support: Vast majority of studied social enterprises outlined, that they had almost no guidance at the inception stage of the enterprise. There is no unified information or guide, which would direct their efforts and minds.

- Awareness of “social entrepreneurship” phenomena: As evidenced, their clients are not aware of “social entrepreneurship” phenomena and while studying the cases of social enterprises operating in Georgia, respondents highlighted the above-stated, as a constraint for their development. It is suggested to plan awareness raising campaigns among public and also targeting state and private sector representatives in order to promote their engagement in this development pattern.

“... The population does not know anything about social entrepreneurship and the situation is the same in the capital and in rural areas. Only the segment, which has attended training has basic knowledge...”

- Low level of social capital: Social entrepreneurs emphasized low level of “social solidarity” and “social capital” in the nation.

“...Generally, the public has low level of social capital. Therefore, support from the population is very low...”

“... In developed countries, people prefer to buy goods and services from social businesses. It does not happen in our state...”

Moreover, the research demonstrated, social mission of social enterprises operating in Georgia is represented by supporting learning and employment of vulnerable groups of population- youth, elderly, rural youth), decreasing internal migration etc.

While balancing social and financial objectives, social mission has preferences and several cases were named, when entrepreneurs had to be guided by financial goals, to ensure sustainability of the enterprise.

The research demonstrated, that none of the surveyed social enterprises conduct evaluation of their social impact, however do outline its importance and urgency.

The participant enterprises are oriented on meeting the basic needs of target population- thus aiming at first level of Maslow's hierarchy of needs. They attempt to create learning and employment

opportunities for their customers, in order to enable them to meet their first-hand needs.

Conclusions. To summarize, the social enterprises operating in Georgia experience the same type of constraints as enterprises in many other countries. Access to finances, enhanced skills and capacities, legislative support coupled with encouragement from general public are crucial for successful operation of inclusive businesses, thus enabling them to make larger scale social impact.

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