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## Article

# Social entrepreneurship and corporate social responsibility in the context of a moral economy: Dilemma for developing countries (case of Georgia)

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# Social Entrepreneurship and Corporate Social Responsibility in the Context of a Moral Economy: Dilemma for Developing Countries (Case of Georgia)

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## Abstract

This research discusses the role of social entrepreneurship as an important feature of the moral economy, i.e., a socially responsible business practice. Developing countries, e.g., Georgia, a post-Soviet country, differ from those in the West in this aspect. The author aims to identify peculiarities of social entrepreneurship and corporate social responsibility of Georgian businesses. Desk research provides conceptual analysis of the existing quantitative and qualitative studies, based on prominent scientists' works in economics and entrepreneurship. A "moral economy" understands business activities as "social services." Social responsibility is a business's moral framework, suggesting a company's obligation to generate social benefit. Social entrepreneurship combines the best practices from the nonprofit and for-profit activities to tackle social needs poorly addressed by businesses and governments. Social entrepreneurship is a relatively new phenomenon in post-Soviet countries, where nongovernmental organizations help in solving many social problems, but their efforts are typically insufficient. Entrepreneurs must find a balance between a company's success, employees' needs, and environmental and social stability. These three priorities form the foundations of corporate social responsibility. Economic history provides many examples of moral standards driving the stability of a socio-economic system and profitability of companies with macroeconomic and microeconomic positive impacts. Companies operating in Georgia spend their funds on social projects and charity; moreover, such socially oriented activities are sometimes chaotic. Companies need to implement social responsibility projects as part of their business plans. Strengthening corporate social responsibility could thus support development of social entrepreneurship.

**Keywords:** entrepreneurship, social entrepreneurship, corporate social responsibility, post-Soviet Georgia, developing country

## Introduction

This often reported research discusses the role of social entrepreneurship as an important feature of a moral economy. In the doctrine of moral economy, one can understand the business activity as "social service." Social responsibility of

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business organizations plays an important role in the stable and progressive development of the company itself. Recognition of social responsibility, which is a moral framework for business organizations, suggests that a company has an obligation to act for the benefit of society in order to support sustainable development of the whole economy. Social entrepreneurship combines the best practices from nonprofit and for-profit activities to tackle social needs not properly addressed by businesses and governments. Social entrepreneurship belongs to the best development strategies. Promotion of social innovation and social entrepreneurship is among the top policy priorities. To achieve this goal, society should invest in education of future social entrepreneurs.

### Social Entrepreneurship and CSR in Georgia as a Developing Post-Soviet Country

The social entrepreneurship created a dynamic rapidly growing market in European Union countries. Social entrepreneurship is a relatively new phenomenon in post-Soviet countries where for decades only the government provided social services. After the collapse of the Soviet Union, the lack of governmental support led to the emergence of the third sector, i.e., nongovernmental organizations, in these countries, which help to solve many social problems; however, due to the limited organizational capacity and low organizational maturity, their efforts have proven insufficient (Balarjishvili & Natsvlishvili, 2017).

Georgia suffered from the disintegration of the Soviet Union's economy and stagnated before 2005. During this period, Georgia went through a radical institutional reconstruction. The reforms after the Rose Revolution in 2003 contributed to Georgia's social, political, and economic development. Corruption was reduced to average European levels; quality of public services also was improved. These reforms made Georgia one of the leaders among developing nations (Jandieri, 2014).

Imperfections of civil society are visible in social, political, and economic characteristics:

- Submissive role of society in triad "state–business–civil society";
- Negligible amount of relational goods supply caused by concentration of civil society organizations in the capital city;
- Their closed, elite-corporate character;
- Low level of investment in social capital by citizens;
- Society dominated by participants and not by servants;
- Nonexistence of middle class, which represents a lifestyle rather than a social group;
- Free-rider problem;

- Elite character of institutional transformation and passive role of society, which caused transformation of institutions into club goods (Balarjishvili, 2017).

On the one hand, the recent situation of civil society development in Georgia is not satisfactory, and it is visible in economic indicators with social and political implications. Government considers civil society as a competitor, and the agreed-upon division of work between the government and civil society does not exist. On the other hand, entrepreneurs in Georgia should find balance between efficiency and equity, between making a rational choice in business activities and serving social interests. Entrepreneurs should be committed to finding a balance among a company's success, employees' needs, and environmental and social stability (Haupt, 2015).

These three priorities form the foundations of corporate social responsibility (CSR) (ISO 26000 by ISO, 2010). CSR faces a challenge in addressing the conflict between economic (short-term and limited to owners' profit) values and ethical values. CSR is a certain corporate policy that has to meet two basic requirements: efficient business performance that brings financial returns and moral principles such as honesty, fairness, and responsibility. Researchers highlight the fact that economic history and empirical facts offer many examples that support the empirical evidence that moral standards drive the stability of a socio-economic system and profitability of a company (Haupt, 2015, p. 189–190). Moral standards have positive macro- and micro-economic impacts. As several studies show, companies operating in Georgia spend significant funds on social projects and charity, although such socially oriented activities should not be chaotic. Companies should develop a system of social responsibility projects as part of their business plans. Some researchers (Chiladze, 2015) also suggest the use of a social responsibility index in order to describe the quality of social responsibility.

There are some discussions in regard to how CSR should be defined. Dahlsrud (2008) developed five dimensions of CSR through a content analysis of existing CSR definitions. The results of his research show that the existing definitions are, to a large degree, congruent. A conclusion was reached that the confusion is not so much about CSR definition, as about how CSR is socially constructed in a specific context (Dahlsrud, 2008).

A strong link exists between the most important phenomena of social and economic developments. Among these phenomena is the growing awareness of the need to develop a proper understanding of social responsibility as a major issue in regard to overcoming the economic crisis. Many social and international actors highlight this need (Mulej &

Dyck, 2014). From the above-mentioned discussion, it can be concluded that strengthening CSR could create the first steps toward development of social entrepreneurship.

### **A Company's Corporate Social Responsibility in the Georgian Context**

In general, entrepreneurs might be inspired to be committed to find “a balance between the company's success, the workers' needs, and the environmental and social stability, i.e., a triangle of priorities, which we would call today “corporate social responsibility.” In other words, CSR faces the challenge of overcoming the frequent conflict between business performance and moral principles. CSR is neither a social romanticism nor a nostalgic feeling but a strict corporate policy that has to meet these two basic issues: “business performance” and “moral principles” (Haupt, 2015).

The economic and business history provides empirical evidence (Haupt, 2015) of moral standards, thus driving the stability of a socio-economic system and the profitability of a company at the same time, having a positive impact on successful results at the macroeconomic as well as at microeconomic levels. Many investigations on ethics-based economic performance have taken place. Max Weber's theory (1905) has a great impact even nowadays. Recent studies also emphasize the economic impact of the Christian faith on societies such as:

- savings from health-related issues (less illness-based absenteeism at work);
- fiscal benefits (less shadow economy and less tax frauds); and
- the development of education and literacy, e.g., the commitment of Christian missions to implement alphabetization (Haupt, 2015).

Various Georgian scientists conducted different studies in regard to the CSR of Georgian business units. Georgian researchers (Chokheli & Narmania, 2015) aimed to evaluate the role of corporate social responsibility in companies operating in Georgia and to formulate activities for growth. In the framework of a qualitative study conducted in 2015, large business companies creating the economic background in Georgia were selected for the study purposes. In 2014, from a total of 118,108 business companies, 40,070 were large- or medium-size. From this number, only 70 large business companies with the highest annual profits were selected for the study, and only 38 of them responded and provided information (Chokheli, 2015).

According to the above-mentioned study, 89% of the responding companies consider themselves as having

corporate social responsibility, while 8% do not, and 2% are not sure. Regarding the types of social responsibility activities conducted by the companies, the results are as follows:

- Protection of the rights of people and company's employees: 98% of respondents;
- Environmental protection: 56% of respondents;
- Caring about the societal/community needs: 89% of respondents;
- Consumers' rights protection and production responsibility: 87% of respondents;
- Relations with the suppliers and consumers: 67% of respondents;
- Corruption prevention: 80% of respondents;
- Transparency and reporting: 4%;
- All: 4%.

In terms of how much CSR was a part of the company's strategy, only 25% of the companies include CSR in their development strategy, and, accordingly, 75% of the companies have spontaneous CSR actions. The factors supporting CSR development in Georgia are classified as follows:

- Increasing social responsibility awareness: 75%;
- Introduction of the international standards of social reporting: 67%;
- Introduction of social indices: 35%;
- Stimulation: 95%;
- Including certain allowances by the government in respect of taxes, licenses, export, etc.: 97%;
- 95% of the companies think in terms of various methods, such as awards, societal awareness, and advertisement (Chokheli, 2015).

The fact that corporate social responsibility has a positive impact on business competitiveness is well known. CSR of Georgian companies does not reach the level of that in the developed world. A study conducted by Next Consulting, a consultancy research centre, reveals that corporate social responsibility is the highest in European companies, and respectively, three-quarters of companies with CSR are European and one-fourth of companies with CSR are American (Chokheli & Narmania, 2015).

European Commission defines CSR as a “concept where the companies voluntarily consider social and environmental issues in their business operations and in their relations with stakeholders” (Corporate Social Responsibility in Georgia, 2013). Generally, in developing countries, including Georgia, social responsibility is still associated (in some companies) with charity. This fact has been confirmed (Chokheli & Narmania, 2015) by Georgian researchers using the survey method in the pharmaceutical sector. Results show that the majority of customers prefer the products of a company with the CSR. This, in turn, improves the image of a company and increases customer loyalty. In competition, reputation

is a company's most valuable asset (Chokheli, Narmania 2015).

In developed Western countries, various schemes of relief and incentives for companies with CSR are used for increasing the level of CSR, e.g., introducing social partnership practice, tax reliefs, priority in government procurement, etc. Many countries practice introduction of certain criteria for assessment of a company's social responsibility. In some Western countries (e.g., The Netherlands, United Kingdom), ethical and social indices have been introduced, which reflect social responsibility in terms of responsibility toward employees, protection of human rights, ensuring transparency, reporting on sustainable development, etc. The introduction of such indices will boost the interest of Georgian companies in raising their social responsibility (Chokheli & Narmania, 2015).

Companies in Georgia spend certain funds on social projects, but such socially oriented activities are chaotic. They are neither systemized nor related to the company's priorities and strategies. Companies lack a system of social responsibility projects, as part of their business plan. Some researchers also suggest the use of a social responsibility index in order to describe the quality of social responsibility. This index can be calculated as correlation of enterprise net profit and the volume of spending on social activities (Chiladze, 2015).

### **Corporate Social Responsibility and Entrepreneurial Attitudes in Georgia**

Activities of CSR take place in societies where the individuals have certain entrepreneurial attitudes. According to the data from the "Global Entrepreneurship Monitor - 2014 Georgia Report," Georgians consider successful entrepreneurs to have a high status in society (75.9% of adult population), and 66% of adults think that entrepreneurship is a good career choice. Only 7.2% of Georgians are planning to open or are already running a new venture. Motivation to engage in entrepreneurial activities shows up almost equally between necessity-driven (48.6%) and opportunity-driven (50.6%) entrepreneurship.

Compared with efficiency-driven European Union (EU) and non-EU economies, early-stage entrepreneurship activities in Georgia are mainly necessity-driven rather than opportunity-driven. The motivational index, i.e., a ratio between improvement-driven opportunity and necessity-driven entrepreneurs, indicates the entrepreneurial capacity within a country. A high motivational index indicates a high share of improvement-driven entrepreneurs, which ensures more long-term

and ambitious expectations from the creation of a venture. The lowest motivation index is visible in non-EU countries, including Georgia. Moreover, Georgia has one of the lowest motivational indexes (0.6) among efficiency-driven European countries. Average score for European Union countries is 2.1 and average score for non-European Union countries is 1.4. The motivation index in the benchmark country (i.e., Estonia) is 2.7 (Lezhava, Brekashvili, & Melua, 2014).

Over the last years, based on successful reforms in Georgia, negative moods toward entrepreneurship are weak. Due to high unemployment, the desire of becoming self-employed is strong. As surveys show, positive attitudes of the respondents in Tbilisi toward entrepreneurship indicate their self-confidence, feelings of social and political stability, and expectations of success of market-oriented economic reforms. Subject of special interest is data about the current entrepreneurial activity of the surveyed people: 81.8% of respondents did not run their own businesses; 10.0% were self-employed; 6.1% were running small- or medium-size enterprises; and 1.4% were running large business. There are no data derived from 0.6% of respondents. It is noteworthy to say that, in the European Union, only 12% of respondents were engaged in entrepreneurial activity. In Japan, the same index was 15%, in the USA 21%, and 27% in China (Natsvlshvili, 2012).

Entrepreneurship is considered as a certain form of employability. Entrepreneurship is also a driving force of economic growth and a way to address poverty in developing countries. Despite the fact that most policymakers and academics agree that entrepreneurship is a catalyst for economic growth, the reality in post-soviet countries (and not only those) shows that not all groups in their societies have equal access to employability and entrepreneurial opportunities. Analysis of results, derived from several researches, shows that, in Georgia, the negative attitude toward entrepreneurship is weak. On the basis of high unemployment, the desire to be self-employed is quite high. Entrepreneurship is seen as a special form of employability. In Georgia, traditionally the share of self-employment among employed people is prevalent. Early-stage entrepreneurship activities in Georgia are mainly necessity-driven rather than opportunity-driven (Natsvlshvili, 2016). Not all groups in society have equal access to employability and entrepreneurial opportunities. The majority in Georgia formally shares the idea of gender equality. A certain percentage of the population is in favour of traditional distribution of the gender roles. The gender hierarchy is still a top issue in Georgian families, in political as well as in business space. Women's entrepreneurship is affected by existing stereotypes, as entrepreneurship is largely a product of the environment (Natsvlshvili, 2017). Thus, it can be concluded that the above-mentioned situation might be a basis of social entrepreneurship.



## Social Entrepreneurship in Global Environment

According to Nicholls (2006), there has been an unprecedented wave of growth in social entrepreneurship globally over the last decades. There have also been several drivers behind the growth of social entrepreneurship. From the supply side, the world witnessed an increase in global per capita wealth, improved social mobility, extended productive lifetime, increase of number of democratic governments, increased power of multinational corporations, better education levels, improved communications. The demand-side drivers of growth of social entrepreneurship include rising crises in environment and health, rising economic inequality, government inefficiencies in public service delivery, retreat of government in the face of free market ideology, a more developed role of nongovernmental organizations (NGO), and resource competition (Nicholls, 2006).

According to Seelos and Mair (2005), social entrepreneurship stimulates ideas for more socially acceptable and sustainable business strategies and organizational forms. It contributes to sustainable development (SD) goals; further, social entrepreneurship may also encourage established corporations to take on greater social responsibility.

According to the scientific literature (Kuratko, 2014), social entrepreneurship (SE) is a form of entrepreneurship that exhibits characteristics of nonprofit, governments, and business, combining private-sector focus on innovation, risk-taking, and large-scale transformation with social problem-solving. The social entrepreneurship process begins with a perceived social opportunity translated into an enterprise concept; resources then become available to execute the enterprises' goals.

Definitions of SE have taken many forms; the one that resonates with many scholars and practitioners comes from researchers Mair and Marti who "view SE as a process of creating value by combining resources in new ways" (Kuratko, 2014). These resource combinations are intended primarily to explore and exploit opportunities to create social value by stimulating social change or meeting social needs. When viewed as a process, SE involves the offering of services and products, but it can also refer to the creation of new organizations. SE can occur equally well in a new organization or in an established organization, where it may be labeled "social intrapreneurship." As with intrapreneurship in the business sector, SE can refer to either new venture creation or entrepreneurial process innovation (Kuratko, 2014).

Important conclusions can result from the research conducted by the global entrepreneurship monitors (GEM) on social entrepreneurship activity. The research included interviews with 167,793 adults in 58 economies in 2015. The average

prevalence rate of *broad* (BRD) social entrepreneurial activity (SEA) among nascent entrepreneurs in the start-up (SU) phase (SEA-SU-BRD); that is, individuals who are currently trying to start social entrepreneurial activity across all 58 GEM economies is 3.2% but ranges from 0.3% (South Korea) to 10.1% (Peru).

By comparison, the rate of start-up commercial entrepreneurship averages 7.6% in the world and ranges from 13.7% in Vietnam to a high level of 22.2% in Peru. The average prevalence rate of individuals, who are currently leading a broad operating (OP) social entrepreneurial activity (SEA-OP-BRD) across all 58 GEM economies is 3.7% but ranges from 0.4% in Iran to 14.0% in Senegal (Bosma, Schott, Terjesen, & Kew, 2016).

One of the emerging themes in social entrepreneurship is measuring social impact. About half of social entrepreneurs report placing substantial effort into measuring the social and environmental impact of their social venturing activities. Of the world's social entrepreneurs, an estimated 55% are male and 45% are female. Most of the world's social entrepreneurs use personal funds, and the average rate of one's own investment ranges widely across the world. Social entrepreneurs who start in Southern and Eastern Asia, and in the Middle East and North Africa commit the highest levels (estimated over 60%), while the share of one's own investment is the lowest in sub-Saharan Africa (roughly 30%). More than a third of the world's social entrepreneurial ventures rely on government funding, while family and banks are also important sources of funding for social entrepreneurs. Generally, the social entrepreneurs tend to be quite optimistic in terms of growth aspirations (Bosma, Schott, Terjesen, & Kew, 2016).

Social enterprise is an enterprise that has a social mission and functions based on the principles of business. It employs business approaches to address problems in society. Unlike an ordinary, profit-oriented enterprise, the social enterprise has a dual goal: economic and social. The social one is more important. The economic goal serves as a mean for accomplishing a further important goal, i.e., the social goal. Thus, profit of a social enterprise is not measured only by financial success. More important is its role in the process of solving the problem for which it was created. The difference between the social enterprise and business relies on voting right, which does not depend on capital ownership. In the social enterprise, each member has an equal voting right despite the difference between their shares in capital (The Centre for Strategic Research and Development of Georgia, 2010a).

The scale of social enterprises can vary from village market to big construction companies. Social entrepreneurs are those who take certain risks associated with entrepreneurial activities in favor of society. They aim to solve the most

difficult social problems via innovative approaches. Their characteristics include leadership skills and the ability to coordinate like-minded people around a single purpose. In this process, they use business approaches to obtain income and direct it toward social goals. On the one hand, they have a vision of a socially oriented person and, on the other hand, possess knowledge and skills of business operations. There is ethics, innovations, and courage in their ideas. Social entrepreneurs establish ethical standards in business and set new challenges by innovative business approaches for solving the problems that civil society faces (The Centre for Strategic Research and Development of Georgia, 2010a).

Social enterprise can exist in any allowed organizational–legal form. Nevertheless, it is worth mentioning that some countries have certain legal forms: community interest companies in the United Kingdom and social cooperatives in Poland and Italy (The Centre for Strategic Research and Development of Georgia, 2010a).

Interest of civil society organizations in entrepreneurial activities is contingent on several factors (The Centre for Strategic Research and Development of Georgia, 2010a):

- difficulties in finding necessary funds in the increasingly fierce competition;
- support to organizations in accomplishing their mission and long-term goals;
- earned revenue makes programs more flexible and serves as a source of investment in new programs without limits;
- it helps organizations stay mission-oriented and avoid continuous changes in directions according to donors' demands.

Social enterprise has several functions (The Centre for Strategic Research and Development of Georgia, 2010a). First, it contributes to a country's economic development. Its role is also important in employment growth, especially when a social enterprise employs the so-called fragile groups, who have serious difficulties in finding jobs under different conditions. As mentioned above, its role is also important in the sustainability of a civil society organization. Social enterprise holds the role of medium among three main sectors (government, civil society, and private sectors) and across all three sectors partially. From the civil sector, it borrows aspects of caring for society and community. From the private sector, it takes business approaches and performs functions that are obligations of the government but are not performed due to some reasons.

The concept of “social entrepreneurship” was established in the 1970s by civil society organizations. As mentioned above, a social enterprise can exist in several forms, and

different practices show up in different countries (The Centre for Strategic Research and Development of Georgia, 2010a) (as follows).

Department of Trade and Industry (United Kingdom): “A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners.”

NESST (Nonprofit Entrepreneurial and Self-financing Team): “Social entrepreneurship – entrepreneurial and self-financing methods, that are used by noncommercial organizations for generating financial returns that are used to further their social purpose.”

Social Enterprise Alliance (USA): “A social enterprise is an organization or initiative that marries the social mission of a nonprofit or government program with the market-driven approach of a business.”

In many countries, there is no definition of social enterprise. In such cases, attribution of organizations to social enterprise occurs on a base of criteria coming from the concept. As mentioned, social enterprise is private, independent, and entrepreneurial organization that uses business approaches to solve social and environmental problems effectively. It can belong to and enjoy management by a group of citizens with minimum financial interest on the part of capital investors.

In the recent years, social entrepreneurship has attracted growing interest in many countries, as it combines the strive toward social mission and business-type activities. Today, social entrepreneurship runs differently in different countries; thus, it has different definitions. All these definitions have one common attribute: This is a business approach to social goals. In countries around the world, social entrepreneurship has been developing in different ways. Different practices and experiences are accumulated. The concept “social entrepreneurship” is associated with economic activities made by civil society organizations that aim to get financial returns. Profit they obtain serves for accomplishing positive social changes associated with their mission and goals. Despite the fact that nonprofit organizations in the USA and Europe have conducted such activities for a long time, the concept of social entrepreneurship takes its origins from the 1970s. Its particular dynamic development started in the 1990s (The Centre for Strategic Research and Development of Georgia, 2013).

The third sector in Europe includes various types of organizations such as cooperatives, associations, funds, etc. This group of organizations often has the label “social economy.”

For the social enterprise development, the first impulse in Europe came from Italy's cooperative movement. In 1991, the Italian parliament adopted the law that introduced the new special form "social cooperative." From this point on, social entrepreneurship has been developing in Europe at a fast pace. In many countries, it receives important support from government agencies. In the USA, noncommercial organizations have been undertaking such activities from the end of the nineteenth century. The year 1993 is considered as a point of change in social entrepreneurship when Harvard Business School started "social entrepreneurship initiative" (The Centre for Strategic Research and Development of Georgia, 2013).

In the United States, two approaches to the development of social entrepreneurship are prevalent (The Centre for Strategic Research and Development of Georgia, 2013):

- 1.) Social enterprise acting on the market principles. According to this approach, social enterprises should be primarily focused on implementing strategies that can bring revenues. According to the Social Enterprise Alliance of USA, a social enterprise is "organization or enterprise that achieves social mission with entrepreneurial, income generating strategies." Muhammad Yunus (2006 Nobel Prize laureate) provides a wider approach to the issue. He describes social entrepreneurship as a "business approach driven by mission," which is managed based on the "without profit and dividends" principle and aims to achieve a social goal (The Centre for Strategic Research and Development of Georgia, 2013). The main purpose of companies working with such models is to provide goods and services to very poor groups. This is a new market segment in developing countries. The aim of such social business is to cover its costs. Its owner, e.g., an investment company, does not take profit; further, in the case of its existence, it is totally reinvested in production. Yunus calls such enterprise the "social business."
- 2.) Followers of social innovation school pay special attention to the social entrepreneur. Social entrepreneurs are "change agents," who take an innovative approach to social problem-solving: using new products, services, market segments, organization, and other innovative initiatives.

Many funds support development of social innovations. Some of them defined the social entrepreneurship and social entrepreneur; thus, "Social entrepreneurs are those who possess innovative approaches towards solving the most painful social problems. They are ambitious and obstinate persons, trying actively to find solution for social issues and provide new ideas for wide scale changes" (Ashoka, [www.ashoka.org](http://www.ashoka.org)). Social enterprise is an organization that achieves large-scale, systemic, and sustainable social changes through

better use of new inventions, different approaches, existing technologies and strategies, or new combinations. Social entrepreneurs are leaders, change drivers, ardent, innovative, risky persons with high standards, and those who believe in people ([www.schwabfound.org](http://www.schwabfound.org)). "Social enterprise is a business aim, which has social characteristics and which reinvests in community and business in order to achieve social goals. It is not motivated by the increase in profit for shareholders and owners" (United Kingdom, Department of Trade and Industry) (The Centre for Strategic Research and Development of Georgia, 2013).

The concept of social entrepreneurship first appeared in Europe in the 1990s; it was widely popularized in many European countries. In some of these countries, law defined the legal form of social enterprise. In France, Portugal, Spain, and Greece, social enterprises have the form of cooperatives. In other countries, for example, Belgium, United Kingdom, and Italy have more open models of social enterprises that reach beyond traditions of cooperatives. Particularly prevalent are those social enterprises whose purpose is integration by employment (Work Integration Social Enterprise [WISE]), and the main function of these enterprises is a working integration of such groups of population, who are especially uncompetitive in the labor market. In 1996, the European Research Network (EMES) was formed. It aims to grow theoretical and practical knowledge about social enterprise. EMES defines social enterprise as an "Organization that is initiated by the group of citizens, having a clear purpose of benefiting community and in which financial interests of capital investors are limited. For these organizations their independence and economic risks associated with socio-economic activities have especially big importance" (The Centre for Strategic Research and Development of Georgia, 2013).

EMES draws certain criteria that social enterprises must satisfy. These criteria include three groups: economic, social, and co-participation in management. It is not necessary for social enterprise to satisfy all nine criteria. These are characteristics of an "ideal social enterprise" and serves as an instrument for their self-assessment.

- The economic criteria include 1) continuous manufacturing/supply of goods and services; 2) a certain degree of economic risk; 3) attitude to paid job.
- The social criteria are 4) clear goal that is focused on the wealth of society; 5) initiative comes from certain group of citizens or civil society organization; 6) limited distribution of profit.
- Criteria of the management in social enterprise are 7) high degree of independence; 8) decision-making is not based on capital ownership; 9) community that promotes high involvement of interested parties (The Centre for Strategic Research and Development of Georgia, 2013).



## Peculiarities of Social Entrepreneurship and Social Enterprises in Georgia

In countries where social entrepreneurship is developed, it significantly contributes to social and economic development. Social enterprise creates possibilities to solve existing problems with the new approaches. For individuals, a social enterprise can become a new mechanism in the process of social inclusion, which will help them to get free from the condition of dependence and gives an actual chance of getting independence. For the organizations, social enterprise is an effective mechanism for generating the necessary financial resources that help them to overcome dependence on other institutions and consider only members and founders' opinions while operating in the sector. For the community, a social enterprise presents an independent development strategy that uses only one's own resources and brings true self-regulation and common wealth. For the government, social enterprises present the actual way to get free from the "social care trap." The spectrum of social goals of social enterprises is as diverse as working areas of civil society organizations. These organizations achieve social changes in the environment through various means and play diverse roles in society (The Centre for Strategic Research and Development of Georgia, 2013).

Social enterprises can be

- employers or contributors to the employment of fragile, marginal, or low-income persons (such types of enterprises can be seen in Georgia, too);
- service providers for marginal population;
- sellers of the products/services produced by groups in unfavorable conditions (good examples of such organizations are fair trade organizations);
- businesses oriented on social goals (environmental, cultural, educational, etc.).

From the 1990s, certain civil society organizations in Georgia have conducted revenue-generating activities to diversify their funding sources, but the number of new economic activities significantly increased from 2005 on. For the majority of organisations, the main reason for starting economic activity is to achieve financial stability. Incentives for the majority of civil society organizations are often visible in the program; thus, achieving goals effectively becomes priority because often the particular program goals aren't included in donors' priorities, and it is difficult to obtain funding from this source. Usually, successful business organizations act based on market demands, i.e., they focus on consumer satisfaction. For civil society organizations, it is important to use approaches that are analogous to business. Expectation and demand regarding them are increasing continuously in order to obtain better results (The Centre for Strategic Research and Development of Georgia, 2013).

Social entrepreneurship gives possibilities to solve problems in different ways and with higher effectiveness; in the increasing competition for funds, social enterprises create resources for sustainable development; economic income creates sense of stability for organization; in the case of suspension of financing, it provides organizations with the possibility to cover expenses. Often, according to the donors' demands, it is necessary to gain co-financing in order to obtain necessary financial resources from them. Income from economic activities provides an organization with this possibility; it supports organisations in accomplishing their missions and setting and achieving long-term goals; the generated income makes programs more flexible and presents a source for investing in the new programs without the limits. It provides an organization with the possibility to finance its own initiatives that are not included in donors' priorities; it also helps organizations in staying more mission-oriented and does not change directions continuously according to donor demands. Often, these activities largely contribute to organizational performance (The Centre for Strategic Research and Development of Georgia, 2013).

Goals of a social enterprise reflect the expected results that can occur in a certain period of time, due to the successful performance of the enterprise. Social enterprise must have clearly defined social and business goals that contribute to accomplishing the enterprise's mission. Social missions are related to accomplishing the mission of an enterprise (create social benefit) and are differentiated according to the field and mission of organizations. Examples of social goals include creation of economic opportunities for the poor, employment of disabled persons, protecting the environment, education, etc. Business goals are oriented toward financial stability of an enterprise and are different for each one of them. In business companies, the financial goals are associated with their profits. Financial goals of a social enterprise can be different, based on financial needs and business model. Social enterprise is explained by a business's social goals. Social enterprises always have to maintain a balance between social and financial (business) goals. They might have different strategies for this (The Centre for Strategic Research and Development of Georgia, 2013).

Practice of integration of commercial and social goals has existed in organizations for many years. Examples of this are:

- charitable and civil society organizations, using commercial and financial indicators for measuring social consequences;
- growing number of business companies, which care about development of social responsibility in their organizations.

This issue finds increasing support in government policy. In many countries' process of public procurement, preference

belongs to the social benefit that will result from certain activities and is one of the criteria in the procurement process. Integration of social and economic results can be a big challenge for social enterprises. These challenges can be factors that make the manufacturing process more expensive than in ordinary business companies, e.g., existing practice of procurement in fair trade and in selecting employees, e.g., companies employing marginal groups, where the main criteria during selection is social status. These companies have to plan

- additional (more than in usual business companies) training and support programs;
- price that is set by social enterprises on the product, e.g., more expensive than market price or relatively low price to make product and/or service affordable;
- location of business is an important factor in decision-making that can stimulate business profitability;
- principles for using profit (The Centre for Strategic Research and Development of Georgia, 2013).

Georgia's legislation does not define the concept of social entrepreneurship; hence, there are no special norms for Georgia's social enterprises. Starting a business and related procedures are liberal endeavors in Georgia in that there is little time for the registration of a "firm." According to Georgia's legislation, there is no need to register a new firm each time one desires to start a new type of business. Instead, the already-registered firm may conduct a new type of business operation. Entrepreneurial activities, including social entrepreneurship, can take different legal forms. Legal status of civil society organizations in Georgia is a nonentrepreneurial (noncommercial) legal entity (NNLE). Despite the fact that NNLE exists for the purpose of non-commercial activities, Georgia's legislation allows it to conduct entrepreneurial activities of supportive characteristics. On the level of normative acts in Georgia, there are two main concepts: entrepreneurial activities, which the law of Georgia on entrepreneurs has defined; economic activities, which the tax code has defined and presents the basis of tax calculation. Entrepreneurial activity shall be a legitimate and repeated activity carried out independently and in an organized manner to gain profit (The Centre for Strategic Research and Development of Georgia, 2013).

According to the Georgia civil code, a nonentrepreneurial (i.e., noncommercial) legal entity has the right to be involved in supportive entrepreneurial activities; profit obtained from them must serve in accomplishing the goals of their non-entrepreneurial (noncommercial) legal entity. Profit distribution among founders, members, contributors, managers, and other representatives of NNLE is impossible. NNLE has the right to conduct commercial activities, but they must not be its main activities. This concept is quite obscure and is not specified in the legislation. Civil society organizations

as nonentrepreneurial legal entities interested in social entrepreneurship have the right to conduct supportive activities on the base of their organization. They can also establish an enterprise in the form of a legal entity to conduct supportive economic activities. Civil society organizations in Georgia conduct economic activities mainly within their organizations (76%); 24% of them established a separate enterprise. Most of the organizations (72.7%) that established a separate enterprise have chosen to take the form of a limited liability company (LLC). Except for an LLC, one can also find general partnerships and cooperatives, while registering separate enterprise (The Centre for Strategic Research and Development of Georgia, 2010b).

## Conclusion

Social responsibility of a business organization plays an important role in the stable and progressive development of a company itself. Recognition of social responsibility, which is a moral framework for business organizations, suggests that a company has an obligation to act for the benefit of society in order to support sustainable development of the whole economy. Entrepreneurs in Georgia should find balance between efficiency and equity, between making a rational choice in business activities and serving social interests. Entrepreneurs should be committed to finding a balance among a company's success, employees' needs, and environmental and social stability. These three priorities form the foundations of corporate social responsibility.

The practice of integration of commercial and social goals has existed in organizations for many years. Examples of this are

- charitable and civil society organization, using commercial and financial indicators for measuring social consequences;
- growing number of business companies, who care about development of social responsibility in their organizations.

This issue finds increasing support in government policy. In many countries' processes of public procurement, preference belongs to the social benefit that will result from certain activities and is one of the criteria in the procurement process.

Corporate social responsibility has a positive impact on business competitiveness. The CSR of Georgian companies does not reach the level of the developed world. Generally, in developing countries, including Georgia, social responsibility is still associated with charity. Companies in Georgia spend certain funds on social projects, but such socially oriented activities are chaotic. They do not constitute a system and have

no link to the company's priorities and strategies. Companies typically lack a system of implementing social responsibility projects as part of their business plan.

From the 1990s, certain civil society organizations in Georgia have conducted revenue-generating activities to diversify their funding sources, but the number of new economic activities significantly increased from 2005. For the majority of organizations, the main reason for starting an economic activity is to achieve financial stability, while the incentives for the majority of civil society organizations are visible in their programs; thus, achieving the goals effectively becomes priority because often the particular program goals are not included in donors' priorities, and it is difficult to obtain funding from this source.

Georgia's legislation does not define the concept of social entrepreneurship; hence, there are no special norms for Georgia's social enterprises. Starting a business and accompanied procedures are liberal endeavors in Georgia; that is, they are visible in little time for the registration of a

"firm." Entrepreneurial activities, including social entrepreneurship, can take place in various legal forms. Georgia's legislation does not define the concept "social entrepreneurship"; hence, in the process of discussing legal issues, the concept of entrepreneurship must be used. Legal status of civil society organizations in Georgia is nonentrepreneurial (noncommercial) legal entity (NNLE). Despite the fact that NNLE exists for the purpose of noncommercial activities, Georgia's legislation allows it to conduct entrepreneurial activities of supportive characteristics.

Nongovernmental organizations in developing countries help to solve many social problems, but, due to the limited organizational capacity and low organizational maturity, their efforts are not always sufficient. On the one hand, the recent situation of civil society development in Georgia is not satisfactory, which is reflected in economic indicators via social and political implications. The government considers the civil society as a competitor, and the agreed division of labor between the government and civil society does not exist.

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# Socialno podjetništvo in družbena odgovornost podjetij v kontekstu moralne ekonomije – dilema držav v razvoju (primer Gruzije)

## Izvleček

V raziskavi, o kateri poročamo, razpravljamo o vlogi socialnega podjetništva kot pomembni značilnosti moralne ekonomije, kot družbenoodgovorni poslovni praksi. Države v razvoju, kot je postsovjetska Gruzija, se v tem razlikujejo od zahodnih držav. Namen prispevka je opredeliti posebnosti socialnega podjetništva in družbene odgovornosti podjetij v gruzijskih podjetjih. Teoretična raziskava vključuje konceptualno analizo obstoječih kvantitativnih in kvalitativnih študij, ki temeljijo na delih uglednih znanstvenikov na področju ekonomije in podjetništva. Moralna ekonomija obravnava poslovne dejavnosti kot družbene storitve. Družbena odgovornost je v podjetjih moralni okvir, ki kaže na obveznost podjetja, da ustvari družbeno korist. Socialno podjetništvo združuje dobre prakse neprofitnih in profitnih dejavnosti za spopadanje z družbenimi potrebami, ki jih vlade in podjetja slabo zadovoljujejo. Socialno podjetništvo je relativno nov fenomen v postsovjetskih državah, kjer nevladne organizacije pomagajo pri reševanju mnogih socialnih problemov, vendar njihova prizadevanja ne zadostujejo. Podjetja morajo najti ravnotežje med prioriteta, ki tvorijo temelje družbene odgovornosti podjetij: poslovnim uspehom, potrebami zaposlenih in okoljsko ter socialno stabilnostjo. V zgodovini ekonomske misli najdemo številne primere, da moralni standardi pospešujejo doseganje stabilnosti družbenoekonomskega sistema na eni, kot tudi dobičkonosnosti podjetij na drugi strani, z makroekonomskimi in mikroekonomskimi pozitivnimi vplivi. Podjetja, ki delujejo v Gruziji, namenjajo sredstva za socialne projekte in dobrotelost, vendar so tovrstne dejavnosti kaotične. Družbenoodgovorne projekte je treba vključiti v poslovne načrte podjetij. Krepitev družbene odgovornosti podjetij lahko pripomore k razvoju socialnega podjetništva.

**Ključne besede:** podjetništvo, socialno podjetništvo, družbena odgovornost podjetij, postsovjetska Gruzija, države v razvoju