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# **SOCIAL ENTREPRENEURSHIP IN RUSSIA: KEY PLAYERS AND DEVELOPMENT POTENTIALITY**

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## **SOCIAL ENTREPRENEURSHIP IN RUSSIA: KEY PLAYERS AND DEVELOPMENT POTENTIALITY<sup>2</sup>**

This article presents an overview of different approaches to the definition of social entrepreneurship and contains the findings of a survey on the process of its development in Russia. Whereas this type of business is institutionalized in the economy of the U.S. and certain European nations, where special laws are developed for it and significant tax benefits are afforded in certain cases, it is in its initial state in Russian society.

Its development in the Russian economy will largely depend on the actions taken by the key players in the emerging organizational field and not solely on socio-economic and historical conditions. A series of expert interviews at the first study stage resulted in identification of the key players, in particular, ‘Our Future’ – the foundation for regional social programs that served as the monopolistic source of financial support for social entrepreneurship during the study.

To find out what social entrepreneurship model is taking shape in Russia, 186 applications completed by different organizations seeking social entrepreneurship financing support were reviewed. The applications were made during a three year period of the Foundation’s business. The review suggested that the Foundation mostly backs up those social programs capable of becoming independent from external financial sources.

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## Introduction

Social entrepreneurship is a relatively new subject within entrepreneurship theory. Its active discussion, largely in the Western academic community, commenced in or about the 1980's, when the need for conceptualization of a new format of economic activity and a new way to combine and theoretically summarize the resources matured. Nowadays, this topic is the focus of many well-known, educational institutions (the Harvard Business School, the Columbia, California, and Yale Universities, etc.) [Defourny 2009: 73]. Such interest can be explained by a number of reasons: firstly, an active search for new social agents who will be able to perform the social obligations of the state stemmed from the crisis of the prosperity state concept in Europe; and secondly, the concepts of social responsibility of business and the "third sector" in general began to evolve actively at that time, triggering interest in social entrepreneurship [Ibid: 77].

Different approaches to defining social entrepreneurship were elaborated in the last three decades in Europe and the USA. In contrast, the definition of social entrepreneurship has not taken its final shape in Russia. It will largely depend on how the organizational field participants will interact. In this report, we will adhere to the following definition of the organizational field: "The organizations that jointly comprise the identifiable sphere of institutional life are the key suppliers, consumers of resources and products, regulators and other organizations producing similar products or services" [DiMaggio, Powell 2010: 37].

This step was the goal of our study. We engaged in description of the resulting organizational field of social entrepreneurship in Russia, that is to say, we decided to answer the two questions: *which players are involved in the shaping of the institutional and content-related formalization of the new concept? How do the active players of this field create the understanding of a certain organizational format?* Searching for an answer to the first question was through a series of expert interviews. At the second stage, quantitative data on the key player's activities in support of the bids to the social entrepreneurship tender were analyzed.

As we study the organizational field as a dynamic system with actors with different influence strength, the overall system state depends on the interaction of the actors participating in the field, and a new institutional approach, in particular, the report by P. DiMaggio and W. Powell on organizational isomorphism [DiMaggio, Powell 2010], was taken as theoretical basis.

The paper includes two main conceptual blocks. The first one presents the definitions of social entrepreneurship as elaborated in Western academic community and reviews their differences

and similarities, whereas the second one contains findings of the survey on the organizational field of social entrepreneurship that emerges in Russia, which comprised two stages: identification of the group of active participants through the use of quality methods, and the study of a key player's operations based on quantitative data analysis.

Before we review the description of the resulting organizational field, it is necessary to determine the adjacent fields. Social entrepreneurship contains elements of both non-profit and for-profit activities, so we will look at the two extremes of the continuum where it is situated, in terms of using revenues from activities – charity or conventional business.

### **Charity**

In the very general form, charity is the provision of gratuitous aid. According to D. Burlingham's definition, it is the "activity, through which private resources are voluntarily distributed by their holders to assist those in need (in a broad sense of the word), to address social problems, to improve public life" [Burlingham 2005] (quoted from: [Berdnikova, Vanchikova, 2006: 15]).

The paper entitled 'Charity Potential and Evolution Ways in Russia' regards as charity the "private donations for charitable and other universally beneficial goals in the form of money or in the form of property transfer as well as volunteer services understood as altruistic individual or collective activities for the benefit of other people in general. Charity includes, in particular, free provision of professional services, transfer of knowledge and skills" [Mersiyanova, Jacobson, 2010: 7].

There is so-called corporate charity, understood as the use of the company's resources to help those in need address some particular social problems in the territory of presence, which is not the company's core line of business [Frame 2005: 18]. It is noteworthy that the investment area is usually unrelated to the Company's core line of business.

The world is going through the boom of corporate and, in particular, private charity [Mersiyanova, Jacobson, 2010: 190]. Existence of well-developed charity in society contributes to its social integration and emergence of the mutual support tools. Charity development is just one aspect in the establishment of a civil society.

However, charity may have its adverse consequences: it may often become a reason for the appearance of whole population layers who are accustomed to be dependants, who are unable and

unwilling to help themselves [Apresian, 1997: 59–60].

Private charity in Russia can be judged by data on the civic engagement index: Russia ranks No. 102th among 130 countries that participated in the Gallup survey. In Russia, just 5% of the population make donations, 26% are willing to spend their time as volunteers, and 36% would help a stranger [Gallup 2011].

### **Conventional business**

In his *Theory of Economic Development*, Joseph Schumpeter, a classical theorist of entrepreneurship, proposed his view of the entrepreneur as an innovator that introduced new combinations of capital goods [Schumpeter, 1982: 152]. New combinations of capital goods are described in the following five cases [Schumpeter 1982: 159]:

— manufacturing of new benefit unknown to consumers or creation of a new quality in some particular benefit;

— implementation of a new manufacturing method that is virtually unknown in this branch of industry, which is not necessarily based on a scientific discovery and that can consist in a new method of commercial use of the appropriate product;

— development of a new market, i.e. a market in which the branch of industry of this country has not been represented so far, whether or not this market existed before;

— obtaining a new source of raw materials or semi-manufactures, whether or not this source existed before or was ignored or regarded as unavailable or was still to be created;

— holding the appropriate reorganization, for instance, ensuring the monopolistic position (by creating trust) or sapping another enterprise's monopoly.

Schumpeter also notes that the “function of an inventor and a technical specialist in general does not coincide with that of the businessman. The latter is not a spiritual creator of new combinations, while the inventor is neither a businessman nor an executive of some sort.” [Schumpeter 1982: 185].

In the opinion of another well-known theorist in entrepreneurship, Peter Drucker, an entrepreneur will not necessarily act as an innovator or a source of direct changes, but rather as a person who targets these changes actively. “An entrepreneur always looks for a change, responds to them and uses them as an opportunity” [Drucker 1995: 28]. The general definition of

entrepreneurship as an economic function was given by Prof. Vadim Radaev: “Entrepreneurship is implementing organizational innovation to derive income. An organizational innovation may be implemented by several methods: creation of a brand new enterprise, split-off or merger of the existing enterprises, re-registration of the existing rights to an enterprise or drastic change in the managerial system or the organizational setup of an enterprise or a business [Radaev, 2005: 204].

There are two opposite points of view as to the fundamental business goal in society – profit maximization and social value creation. A proponent of the former is Milton Friedman who wrote in his particularly manifest article on business social responsibility: “Deriving profit is the only and fundamental business goal” [Friedman 1970].

The proponent of the second point of view is C. Davis who stated that long-term success of each business depends on its ability to meet special human needs in upholding a sense of dignity and freedom [Davis 1973].

In the middle of the continuum are those who say that it is impossible to separate the created economic value from the social one because they are intertwined with each other [Schramm 2010]. According to Emerson’s mixed-value concept, created benefit contains the three components – economic, social and environmental values [Emerson 2003: 38]

The Global Entrepreneurship Monitoring (GEM) Russia research group is engaged in measurement of business activities in Russia. According to the data from their national report, overall business activity (the percentage of the population aged from 18 to 64, who are early or established entrepreneurs) in Russia came to 3% in 2013 [Verkhovskaya, Dorokhina, Sergeeva 2014]. It is one of the lowest in the group of efficiency-focused, economically-focused countries, where the average from the sampling of 28 countries is 8.4%.

We can conclude that the initial “fields” for social entrepreneurship are not in themselves very large nor well-developed in Russia, which may testify to the small potential segment for social entrepreneurship in the existing niche.

### **Different approaches to the definition of ‘social entrepreneurship’**

Describing the content of the “social entrepreneurship” notion is among the main topics in the investigation discourse on this topic. Despite protracted discussion, investigators have not reached consensus on the definition of social entrepreneurship so far. The term itself gains popularity quickly; however, the growing activity in use leads to the “dilution” of the content.

There are several reasons why this happens. Firstly, the term comes into vocabulary quickly and gathers new meanings; secondly, social enterprises are often established at the interface of non-profit and for-profit business principles, which makes it difficult to use standard approaches to its analysis and, consequently, fuels much dissent. Moreover, the understanding of the term largely depends on specific historical conditions giving rise to it, so national features and differences are inevitable here.

Peter and Tina Dacin, together with Margaret Matear, introduced a rather interesting comparison of four entrepreneurship types – traditional, institutional, cultural and social (see Table 1) [Dacin, Dacin, Matear, 2010: 44].

**Tab. 1. Types of entrepreneurship**

	<b>Definition</b>	<b>Profit allocation</b>	<b>Prevailing organizational format</b>	<b>Principal goal</b>	<b>Product</b>	<b>Main problem</b>	<b>Examples</b>
<b>T</b> <b>r</b> <b>a</b> <b>d</b> <b>i</b> <b>o</b> <b>n</b> <b>a</b> <b>l</b>	An agent that implements ideas to create an efficient innovation [Schumpeter 1982]	Shareholder	For-profit	Economic	Development and/or sales of consumer goods and services	Growth and survival	Tourist, IT companies
<b>I</b> <b>s</b> <b>t</b> <b>u</b> <b>t</b> <b>i</b> <b>n</b> <b>a</b> <b>l</b>	Agent that can mobilize resources to influence or change institutional rules to support or destroy the existing institutions rules to support or destroy the existing institution, or create new ones [DiMaggio, Powell 2010]	Shareholder and/or stakeholder	For-profit	Institutional change and development	Legitimacy (or) achievement	Resistance to changes	Edison, Kodak, Apple

<b>C u lt u r a l</b>	Individual who finds and implements the opportunities to create social, cultural, or economic value [DiMaggio 1982; Wilson, Stokes 2004]	Shareholder and/or stakeholder	Non-profit or for-profit	Cultural dissemination or education	Establishment of new rules and values	Commercialization or authenticity	Museums, folk festivals
<b>S o c i a l</b>	Actor who solves social problems using business tools	Shareholder or stakeholder	Non-profit or for-profit	Social change or wellbeing	Promotion of ideology and social change (or) social change	Economic stability or mission	Aravid Eye clinic, Greystone Bakery

Many investigators note there is no consensus about the definition, which enables one to reckon rather a broad range of different business formats among social entrepreneurship. However, even now we can speak about the two established approaches — Anglo-American and European. Each of them has its own history of emergence and development, their similarity and differences are described below.

### **American approach to definition**

American researchers shaped rather a broad idea of social entrepreneurship. Social enterprises include a number of companies and lines of business created for solving social problems, however, they are financially stable and earn the money required for the performance of their social mission on their own [Kerlin 2006: 248]. American social enterprises are registered as non-profit ones, but due to their nature, their business is aimed, first of all, at deriving profit (that is on-distributed to meet social needs) [Sakoyan, 2012].

Such understanding of social entrepreneurship has reason behind it and can be historically explained: in the 1980's, the formerly very generous public financing of charitable organizations was slashed in the U.S.A. . To make up for this money outflow and to be able to continue with their own objectives, the companies were forced to be engaged in for-profit operations [Kerlin 2006: 251].

Gregory Dees classifies different business formats to social entrepreneurship: innovative non-profit enterprises, socially focused businesses as well as hybrid organizations that combine for-profit and non-for-profit activities [Dees 1998: 4]. In Dees' opinion, social entrepreneurship is a



type of entrepreneurship, the key difference of which consists in the social mission being the overriding priority of the created business.

According to Dees definition given in the spirit of J. Shumpeter and P. Drucker traditions, social entrepreneurship must create social values through the action of five factors [Dees 1998:4] quoted from: [Batalina, Moskovskaya, Taradina, 2007: 7–8]):

- undertaking the mission to create and maintain the social value (benefit);
- identifying and using new opportunities to implement the selected mission;
- implementing continuous innovations, adaptation and training;
- decisiveness of actions not limited by disposable resources;
- the entrepreneur’s high responsibility for its performance, both to immediate customers and to society in general.

According to Dees, the better an enterprise meets this definition, the closer its model is to social entrepreneurship.

Another of the most illustrious U.S. researchers into social entrepreneurship is Kim Alter who offered the following definition: “Social entrepreneurship is any venture enterprise created with the social goal of mitigating and/or reducing a social problem or eliminating the market failures, operating on the basis of financial discipline, innovations and the procedures of doing business adopted in the private sector” [Alter 2007: 7].

Alter also proposed her own typology of hybrid organizations representing the continuum from conventional non-governmental organizations (NGOs) to the conventional profit-centered business (see Tab. 2) [Batalina, Moskovskaya, Taradina, 2007: 16]. Thus, Alter classifies NGOs with profitable operations, social enterprises, activities of socially responsible businesses, as well as the companies implementing social programs, all as social entrepreneurship.

**Tab. 2. Types of hybrid organizations**

Conventional NGOs	NGOs with profitable operations	Social Enterprises	Social Responsible Business	Companies practicing social responsibility	Conventional for-profit entities
	<ul style="list-style-type: none"> <li>● Mission-defined motivation</li> <li>● Responsibility to stakeholders</li> <li>● Reinvestment of income into social programs or operating costs</li> </ul>			<ul style="list-style-type: none"> <li>● Motivation to derive profit</li> <li>● Responsibility to shareholders</li> <li>● Profit is reallocated among shareholders</li> </ul>	

Social enterprises differ from NGOs with profitable operations in that profitable operations are long-term and constantly reproduced for the former, and for the latter they are episodic and unstable [Alter 2007: 17].

**European approach to definition**

In his review devoted to this approach, Defourny notes that the European understanding of this phenomenon is rather narrower than the traditional United States understanding, although also variable. [Defourny 2009: 74]. It is noteworthy that the British approach is rather inclined to follow the U.S. understanding of the above term, so when we describe this approach later, we will be speaking about all European countries except the U.K. No doubt, every country has its national features, however, we tried to highlight the most common features and characteristics. Unlike U.S. social enterprises, their European peers *exist in the format of associations and cooperatives and act, first and foremost, as carriers of social mission*, i.e. describe their goal as a business aimed at meeting public needs [Sakoyan, 2012].

Again, this approach is explainable historically: in the 1990’s, public services were unable to meet the needs of the population – primarily the need for employment and housing. In response, specialized organizations designed to solve such problems began to appear. The status of social enterprises was first legislated in Italy in 1991 when their parliament adopted the law on “social cooperatives”. To obtain this status, an enterprise should meet the following criteria [Moskovskaya 2011: 102]:

- not less than 30% of its employees from socially disadvantaged population categories, including long-term unemployed and low-income groups;

— functioning of the “socially useful” industry (welfare, healthcare, education and professional training, environment protection, development of historical legacy, research and academic science, cultural services, social tourism, support to social enterprises etc.). Similar processes took place in France, Belgium, Portugal, Spain, Poland and, later, Greece, even though the term of social entrepreneurship was not used in most cases [Moskovskaya 2011: 102].

In 1996, the EMES research network intended to study European social enterprises emerged in Europe. The operations of this research network resulted in the definition that reflects the European understanding of this phenomenon rather comprehensively: “Social enterprise is a business regarding fulfillment of social objectives as its main goal, reinvesting its profit for this purpose and for the local community, rather than allocating it among business owners and its shareholders“ [Defourny 2009: 77].

Four criteria for the definition of a social enterprise were proposed by participants in EMES research network [Defourny, Nyssens 2010: 42–43]:

- constant manufacturing of goods and services;
- high autonomy;
- high economic risk;
- minimum share of paid work.

Five indicators were selected for social description of these criteria:

- a clear social goal that is useful for the community;
- initiative coming from a group of individuals;
- decision-making authority not based on ownership;
- social involvement of the groups influenced by the enterprise’s business;
- limited profit allocation.

Thus, we can conclude that the definition of “social entrepreneurship” and its evolution largely depend on the historical context, legislative activities of the state and the actions of the key players – the private business and non-profit entities. *In Europe (except the U.K.) the notion of social enterprises includes cooperatives or associations intended for employment or social work. In*

*the United States, social entrepreneurship largely means any non-profit business.* It is also noteworthy that in this case we mostly speak about the notions elaborated in the academic community based on empirical research. Besides these notions, there are a whole number of others, in particular, those shaped by numerous factors of the notions of society, businessmen or NGO representatives, as well as social entrepreneurship support foundations that design this understanding and elaborate the criteria for definition.

## **Methodology and description of the study empirical base**

As noted above, the organizational field of social entrepreneurship is just incipient in Russia. Elaboration of a common notion and definition takes long-term development and interaction among the players in this field, and it is too early to speak about legitimization of the “social entrepreneurship” term. For the initial steps in studying the process of elaboration of the common understanding of the term, it is necessary to study the organizational field structure, i.e. find the players involved in it and study their operations.

The participants’ interaction dynamics in each organizational field, or *structuration as a process*, according to the above authors, consists of several stages: enhancing the interaction between field organizations; emergence of clearly designated inter-organizational dominance structures and cooperation patterns (*coalition*); an increase in the information burden on field organizations; development of mutual awareness of the participating organizations that they are involved in joint activities with [DiMaggio 1982] (quote from: [DiMaggio, Powell 2010: 37]).

A minor limitation will be the fact that this approach is largely used for established fields, and we deal with a field that is just taking shape in our study. Our study takes into account the following prerequisite: the first structuration stage is taking place in Russian social entrepreneurship when the interaction between field organizations is enhanced.

In turn, having taken shape, fields contribute to reproduction of the privileged position of the domineering group and also determine the position of those who try to change the *status quo*. The established order limits the actors’ actions and their selection options; however, it does not mean that the established unofficial hierarchy and positions do not change: in stable fields, an action is the game with established rules where actors have certain resources at their disposal [Fligstin 2001: 31].

DiMaggio and Powell singled out the three tools of institutional isomorphic changes triggered by different causes [DiMaggio, Powell 2010: 39–45]:

— *forced* (resulting from both formal and informal pressure on some organizations by others the former depend on, as well as from cultural expectations in the society where these organizations operate);

— *regulatory* (mostly arising out of professionalization);

— *imitatory* (arising out of uncertainty, if there is no clear-cut understanding of organizational technologies, the goals are ambiguous or the environment engenders symbolic uncertainty, organizations are able to model themselves in the image and likeness of other organizations).

To analyze these three types of isomorphism, there is a need for longitude data on the interaction between players inside the organizational field, which were not available to the study author. Nonetheless, provisions of the introduced article laid the groundwork for the study model.

As noted above, to determine the active players in the organizational field of social entrepreneurship, a series of expert interviews was conducted at the first study stage. The experts were selected based on the “snowball” principle (mutual references), and the starting point was the social business conference held at the Ministry for Economic Development. The expert group comprised representatives of non-profit organizations, representatives of the academic community, as well as the business community. Eight expert interviews were sampled.

**Tab. 3. List of experts participating in the first study stage**

#	Gender	City	Contact method	Position
1	Male	Moscow	Snowball	Representative, Ch.S.Mott non-profit foundation in Russia
2	Male	Moscow	Snowball	Representative, Russian Micro-Finance Center
3	Male	Moscow	Conference	Representative, Oxfam
4	Male	Moscow	Conference.	Representative, Directorate for Project and Program Implementation in Our Future Foundation
5	Male	Moscow	Snowball	Representative, Circon Research 0
6	Male	Moscow	Conference	Representative, Russian Micro-

				Finance Center
7	Female	Moscow	Conference	Researcher, National Research University – Higher School of Economics
8	Female	Moscow	Conference	Tutor, Financial Academy of the Russian Government

At the second study stage, the operations of the key – at the time of the study – field player, Our Future Foundation of Regional Social Programs, were reviewed. This player was recognized as key, based on the findings of the expert poll and the initial acquaintance with the field players. The core line of business for the Foundation is an annual contest of social entrepreneurship projects where the preferred applicant gets an interest-free loan for their development plus advisory support from the Foundation. We made an assumption that the Foundation, when selecting a winner based on the established criteria, creates a special social entrepreneurship model in a certain way. A bid submitted by participants was selected as the analysis unit. 186 bids filed in the three contest years were reviewed.

## Results

### **Emerging Field of Social Entrepreneurship in Russia: Key Players and characteristics of the projects**

As a result of a series of expert interviews, five main players of the social entrepreneurship organizational field were identified. Below is a summary of their business inside the field.

#### *Ministry for Economic Development of the Russian Federation*

In May 2011, the Ministry issued Order NO. 227, where, for the first time in Russian law, “social entrepreneurship” is mentioned. The order gives a broad definition of social entrepreneurship, largely developed for support of small and medium businesses related to the solving of social problems. The Ministry takes an active part in the discussion on the institutional definition of this entrepreneurship type. The annual Russian forum on social business has been held for five consecutive years with the Ministry’s support (2010–2014), and the Ministry’s representatives are its active participants. In 2014, the bill with the term ‘social entrepreneurship’ was introduced to the State Duma, but there is no final decision as yet.

#### *Our Future Foundation of Regional Social Programs*

The Foundation was established in 2007 at the initiative of Vagit Yu. Alekperov (LUKOIL OJSC President) in order to develop social entrepreneurship in Russia and is funded by the founder's money.

Identification and support to social entrepreneurs is largely carried out by the Social Entrepreneur, an all-Russian project tender, and includes the review of business plans intended at solving topical social problems. Up to RUB 10 million interest-free loans with maximum maturity of up to seven years are allocated to preferred bidders. In the eight years of operation (2008/2015), the Our Future foundation supported 133 social entrepreneurship projects to the sum of RUB 335,800,000 [Business Report ... 2014: 33].

The Foundation comprises consulting and outsourcing centers that are currently implementing two programs – Small Business Infrastructure Development and Personnel Potential Development.

As part of these programs, the Foundation's employees provide advisory services on financial and legal issues and also provide micro-office lease services. Besides the Moscow-based Head Office, these centers have regional rep offices in Astrakhan, Arkhangelsk, Volgograd, Perm, Kaliningrad, and Nizhny Novgorod.

The Foundation focuses on information support for business: for instance, 60 different public events (conferences, workshops, exhibitions, etc.) were held in 2014 alone [Business Report ... 2014: 81].

#### *Center for Social Entrepreneurship and Social Innovations*

In December 2011, the Center for Social Entrepreneurship and Social Innovations was established at the Higher School of Economics. The objectives of the Center include: scientific research and consulting in social entrepreneurship, social innovations and social economy, study and summarization of Russian and global experience and the best practices of social entrepreneurship as well as in the allied areas<sup>6</sup>. One of the key achievements of the Center so far has been to summarize the social entrepreneurship experience, hence the *Social Entrepreneurship in Russia and Worldwide: Practice and Studies* was published [Moskovskaya 2011]. The Center also launched a project to study the best global practices (the study of winning cases of the Ashoka global foundation on its support of social entrepreneurs).

#### *Russian Micro-Financial Center (RMFC)*

The Center was established in 2002 with the principal goal of improving economic alternatives for low-income and socially disadvantaged Russians. "The mission of RMFC is to promote the build-up of a comprehensive and generally accessible financial system in the Russian

Federation, through development of micro-financing, to encourage the development of private entrepreneurship<sup>7</sup>.

The idea of micro-financing as a tool of social entrepreneurship was first voiced by Muhammad Yunus, Nobel Prize winner, regarded as the leader of the social entrepreneurship movement and the author of the social business idea worldwide. “*Micro-financing is a social business tool that, being a financial instrument in the essence, solves not only economic but also social objectives*” (extract from the interview with a representative of the Russian Micro-Financial Center). The micro-financing tool implemented by RMFC differs from the market scenario when a micro-credit is provided at very high interest (usury).

Nowadays two social objectives are focussed on – enhancing the availability of financial services to small businesses in small population centers where bank infrastructure does not exist; and development of startups, the would-be entrepreneurial teams - the least protected small businesses in social terms.

The Russian Micro-Finance Center cooperates with governmental entities, and it was through them that the above annual social business forum was initiated. The Center is able to participate in drafting the legal bill on social entrepreneurship; however, members of the Center are in no hurry because they should first elaborate a clear understanding of what social entrepreneurship is, in order to avoid the abuses of tax concessions by those who have nothing to do with it.

Thus, at the time of the survey, the Our Future Foundation of Regional Social Programs (hereinafter the “Foundation”) was virtually the only source of financial support to social entrepreneurship projects, and we proposed that this particular organization, by providing interest-free loans on a tender basis, shapes the model of entrepreneurship that can be called ‘social’ in a certain way. The second stage of our survey was identification of the features of this model.

Based on the available empirical data — the bids submitted to the social entrepreneurship tender — we can speak about the social entrepreneurship potential in standard organizations, NGOs and small business, rather than about social entrepreneurship in its pure form, i.e. to estimate if they can act unconventionally and, if so, to what extent: if NGOs are capable of independent for-profit operations for self-sustenance, and the business, to bear social responsibility and to achieve a social goal.

To identify the model of social entrepreneurship that is taking shape and its main criteria, I reviewed all bids submitted to the social entrepreneurship tender during the 3 year period, 2008/2010. After 2010, the Foundation resolved to abandon the practice of external expert assessment of the bids, so 2011 and further years was not included in the analysis because of this



restriction of the data.

The Foundation puts forward a number of initial requirements to a project for participation in the tender:

— implementation in the Russian Federation and promotion of positive social changes in the society;

— focus on settlement and/or mitigation of existing social problems, on achievement of long-term, stable, positive social changes, improvement of the life quality of the regional population in general and/or representatives of socially disadvantaged categories and/or population groups and people who need special support to develop their abilities and for self-actualization;

— a certain degree of innovation in the approach to resolving social problems or the innovative component evidenced with a patent;

— potential for replication to other Russian regions;

— focus on creation of financially stable business models capable of independent operation when the Foundation stops funding.

The analysis included all of the bids filed in three years of the tender. The database included the following characteristics of each bid:

1. General characteristics:

— registration number of the bid;

— tender year.

2. Corporate bidder's features:

— year of establishment of the organization (enterprise);

— year of registration of the organization (enterprise);

— number of employees;

— including disabled;

— legal form of incorporation;

- region of presence;
- type of population center (federal city, regional center, city, rural community, village (aul), other).

3. Characteristics of CEO of the organization (enterprise):

- age;
- gender;
- entrepreneurial experience;
- experience;
- specific experience (experience of work in this organization or in this enterprise);
- education.

4. Project characteristics:

- total project cost;
- project period (in months);
- project readiness degree.

5. Structure of corporate financing sources:

- share of profit from own operations (as % of total amount received in the year preceding the tender);
- share of budget funding;
- share of grants;
- share of donations;
- share of borrowings.

Depreciation allowances were included in the profit (in this case, we used the notion of “profit” according to the international financial statements: so-called “gross” profit, before taxes and depreciation allowances). The founders’ equity was excluded from the analysis, because the most recent observations on them are available for 2010 only.

In addition to the general presumption, some more hypotheses were proposed.

*H1. With the lack of a generally acceptable definition of “social entrepreneurship”, the composition of the bidders will be non-homogeneous.*

With the Foundation’s criteria for participation in the tender being fairly broad, and there being no generally acceptable understanding of what social entrepreneurship is in society, various economic agents (mostly from the earlier named organizational fields that are adjacent to social entrepreneurship) will submit bids.

*H2. In the period under study (2008-2010), the number of organizations depending on the budget financing sources will drop among the bidders.*

This proposal was put forward in connection with the financial independence and self-sufficiency criterion. We proceed from the assumption that it is difficult for such organizations to carry out independent business operations.

*H3. Small (up to 100 employees) and medium (up to 250 employees) enterprises will prevail among the bidders (by the criterion of headcount).*

This hypothesis was laid down based on the experts’ assumption that social entrepreneurship is a field mostly for small and medium businesses.

The cluster analysis by the *k*-averages method, Student’s *t*-criterion for independent samplings, as well as the description statistics, were used in the quantitative data analysis.

*Verification of the hypothesis of bidders’ non-homogeneity (G1)*

In general, the organizations participating in the tender have been in business for 8 years (as of 2010); they are normally registered three years after their market entry.

Enterprises from 21 Russian regions took part in the tender over the three years. 35 legal forms of incorporation were represented, including the most frequent: limited liability companies (50); individual businessman (42); non-profit partnership (14 enterprises) and regional public organization (14).

As the composition of the organizations is very heterogeneous, a cluster analysis using the *k*-averages method was carried out for classification of the enterprises. 131 out of 186 bids contained information on corporate financing sources only, which excluded the rest of bids from the cluster

analysis.

The two quantitative features available to us - the number of years in existence and the structure of funding sources – were taken as a basis for analysis. As a result, we obtained four clusters (conventional names designating the prevailing enterprise groups in the cluster were given to each of them). Table 2 shows the averages in the cluster by indicators.

Clusters can be described as follows:

— *enterprises depending on budget sources*, with a relatively long history of market existence, as

compared with others (average value in the cluster is 15 years), but with little equity to be invested into the project (average: 26% of the entire project value). The “budget” characteristic does not mean that the enterprise included in this cluster is classified as a budget organization of a public form of ownership; it means that the enterprise relies on financial support of governmental subsidies, grants or is funded from regional comprehensive programs. It is possible to separate the enterprises of the All-Russian Society of the Disabled (ARSD) and the All-Russian Society of the Blind (ARSB), representing rather a closely knit structure of regional enterprises (maintained from Soviet times). Among the bidders, enterprises of these societies are much more involved in certain governmental support tools;

— *non-profit enterprises*, which have operated on the market for a long time (average cluster value is 10 years), rely on a combination of financing sources (grants, donations, budget money) in their business, and carry out their own gainful operations, which is, however, insufficient, for independent project financing (average value for the cluster is 29% of the entire project cost);

— *business with own capital*, the bulk of which is represented by income from their own operations; they are rather independent (they are willing to cover 39% of the project cost) and stable in the market (average value in the cluster is eight years in existence);

— *business with borrowed capital*, the bulk of assets are represented by borrowings; a minimum of profit; the proposed project is the future business, and participation in the tender is explained by search for additional funds (five years in existence).

**Tab. 4. Types of enterprises – potential participants in the organizational field, N = 131**

	Dependent on budget resources	Non-profit	Business own capital	Business with with borrowed capital
Average number of years in existence	14.9	10	8.2	5.2
<i>Own investments</i> share of funds in total project cost (as %)	7.2	8.6	90.1	8
<i>Budget investments</i> share of funds in total project cost (as %)	79.4	1.9	1.5	0
<i>Grants</i> share of funds in total project cost (as %)	3.8	60.8	4.7.	2.8
<i>Donations</i> share of funds in total project cost (as %)	7.5	28.7	2.6	0
<i>Borrowings</i> share of funds in total project cost (as %)	2.1	0	1.1	89.2
Total cases in cluster	15	33	68	15

There are mostly for-profit enterprises generating own income among the preferred bidders.

*Verification of the participants' change hypothesis (G2)*

To verify Hypothesis 2 about change in participants, we applied Student's *t*-criterion for independent samplings. Bids filed in 2009/2010 participated in the analysis because the 2008 tender was a pilot and organizations were specially invited to participate in it. In 2009/2010, the tender began in earnest, so we can speak about two random independent samples.

When verifying the statistics hypothesis 2 about the equality of averages, the inequality of averages was found in financial sources – budget funds and donations. In 2010, corporate bidders made much less use of them. The average difference by the sample is 10 percentage points in the share of budget sources in the total amount received by an organization in the pre-tender period as

well as 8 percentage points in the share of donations.

It can be accounted for by several reasons: firstly, by the relatively greater share of individual businessmen in the tender; secondly, by the introduction of the requirement of participants to an obligatory investment of 20% equity into the submitted project. As a result, the number of charitable organizations and public movements that mostly use the above sources decreased.

#### *Verification of the hypothesis of the type of enterprises – bidders (G3)*

The overwhelming majority of bidders (97%) are small and medium businesses that employ less than 250 employees. The average age of executives at the enterprises under review is 41, with an average specific work experience of 5.5 years (average longevity of service is 16.5 years). 65% of bidders have entrepreneurial experience. Males prevail among executives, with 60%. 70% of executives have higher education.

The average project cost in social entrepreneurship is RUB 6 million; the average proposed implementation period is 2.5 years. The projects are most often associated with addressing the population in the areas of employment (51 project), education (34 projects) and healthcare (23 projects).

Therefore, the Foundation shapes the social entrepreneurship model as the model of a *specific line of business aimed at resolving some social problem, however, financially stable and independent on external sources.*

## **Conclusion**

This paper is devoted to the first stage of the development of social entrepreneurship in Russia. As the definition and understanding of this term largely depend both on historical conditions and on the key players' actions, it is critical to monitor this process in Russia where a certain approach to conceptualization of this phenomenon and a search for its practical examples are just taking shape.

Nowadays, shaping the definition of and criteria for social entrepreneurship was found to largely result from the operations of a single organization – namely, Our Future Foundation of Regional Social Programs, which sets the top-priority objective – to develop social entrepreneurship in Russia.

Fulfilling this objective, the Foundation conducts the tender of projects in social entrepreneurship, thus shaping the potential organizational field. It is represented by four types of organizations we conventionally designated as: depending on budget sources, non-profit organizations, entrepreneurs with their own capital, and businessmen with borrowed capital. Naturally, being a potential field participant is not the 'be all and end all' for these organizations. We only analyzed the organizations that named themselves in such a way (by filing a bid for the Foundation's tender). We also described the features of corporate executives participating in the tender and the projects submitted by them to the tender. The projects are generally intended for the mid-term and require significant financial investments.

The heterogeneity of the organizations participating in the tender testifies as to the lack of cognitive legitimization of the current social entrepreneurship format. However, slight changes occur over time, and as a result of the Foundation's and its partners' campaign of raising awareness, fewer and fewer budget organizations and organizations largely depending on external financing sources participate in the tender.

The Foundation was found to be shaping the model of social entrepreneurship into that of a *financially stable line of business intended to solve social problems*. This model gravitates towards the U.S. approach to the definition of social entrepreneurship, rather than towards the European one. However, the Russian model has its own distinctive features. We can say that the Russian definition is narrower, more specialized.

The ability to replicate the project and its innovative component is the special criteria put forward by the Foundation to preferred bidders: on the one hand, the project must contain an original idea and, on the other, lend itself to reproduction in other regions.

We should invoke a reservation that the model being shaped is far from the only possible interpretation of the term, and its definition is merely pending discussion. Further implementation, dissemination and development of this model, and its replication by other organizational field participants will depend on their further interaction, so there is a need for further study and longitude data on the trend of this interaction.

In general, we cannot unambiguously say in what way some particular socio-economic conditions facilitate social entrepreneurship development. Global experience suggests that, on the one hand, existence of a developed civil society is a prerequisite for the establishment of such enterprises, and, on the other, the multitude of unresolved social problems in less developed nations

also encourages people towards social entrepreneurship.

To develop social entrepreneurship, it is critical to achieve its socio-political and cognitive legitimization. Concerning political legitimization, certain changes are taking place in Russia at the moment. As with Europe in the 1990's, our state is now looking for agents capable of undertaking a part of social responsibility that it cannot perform to the fullest extent anymore, for several reasons, in particular, due to demographic structural changes; therefore the establishment of such enterprises will be promoted.

It is still early to speak about achievement of cognitive legitimization. So far, the information on social entrepreneurship is obviously insufficient. Elaboration of a common understanding of such a term in the academic community and among the general public takes some time. However, the trends for the appearance of new organization in this field testifies to the ever growing interest in social entrepreneurship.

Clearly, as our results are devoted to only the first stage of its development, there is therefore a need for further research. This topic is virtually unexplored in Russia, which gives broad cognitive opportunities with subsequent practical application. As such, we deem it appropriate to continue the study, in particular, the study of global experiences of successful examples of social entrepreneurship, as well as further and more detailed investigation of its business model in Russia.

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