

SOCIAL ENTREPRENEURSHIP IN DEVELOPING COUNTRIES: CASE OF GEORGIA

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Abstract:

The concept of social entrepreneurship is developing rapidly, and attracting progressively increased attention from many spheres. The idea of social entrepreneurship combines the passion of a social mission with business. Since major social institutions are often regarded as ineffective and inefficient, social entrepreneurs are needed to solve rising social problems with new approaches and models. The meaning of social entrepreneurship varies with people and culture. Many use it to describe a nonprofit organization, some associate it with businesses that engage in corporate social responsibility, and others use the notion to refer nonprofit organizations starting for-profit ventures. Social entrepreneurship is mostly beneficial for developing countries. This initiative is gaining popularity also in Georgia. Here, the concept is mainly associated with nonprofit/ nongovernmental organizations. The current legislation does not take into account Social Enterprise as a legal entity. Rather, Georgian NGOs launch social enterprises with start-up grants awarded by international donors. The primary objective of this study is to present an overview of the social entrepreneurship activities by Georgian organizations. This study is based on secondary data collected from various webpages and related articles. The key research questions are: What does social entrepreneurship mean in Georgia? How this concept is implemented here? The research demonstrated that social entrepreneurship in Georgia is associated with NGOs, which establish businesses to ensure continuous funding for their social projects, causing less dependability on contributors. The social entrepreneurship sphere in Georgia ranges from bio-products, agriculture, media, arts and culture, medical centers for vulnerable groups, to small souvenir, toy or wheelchair factories. Although social entrepreneurship is a recent phenomenon in Georgia, the interest towards it is increasing significantly. Social enterprises are operating in a small scale, yet the tendency shows its future spreading.

Key words: Social entrepreneurship, social enterprise, social entrepreneurs, Georgia, developing countries

JEL classification: M10, M14, O10

1. INTRODUCTION

The concept of social entrepreneurship has been receiving increased attention all over the world, but especially in developing economies. Although social entrepreneurship has recently received greater recognition from both the public sector and scholars, the phenomenon still lacks a definition. Consequently, the lack of a unifying paradigm in the field has led to a proliferation of definitions. However, social entrepreneurship can generate positive outcomes both for the key parties involved and for wider society.

Social entrepreneurs are mostly defined as individuals who launch entirely new noncommercial ventures with social purpose (Light P. C. 2005). But some researchers (e.g. Thompson, et al. 2000) have argued that social entrepreneurship "requires a combination of different kinds of individuals who complement each other" (Light P. C. 2005).

According to Bornstein and Davis (2010), social entrepreneurship is a process by which people build and/or transform institutions in order to offer solutions to different social problems, ranging from environmental destruction, corruption, and human rights abuses, to illness, poverty, and illiteracy. The main idea of social entrepreneurship consists in making life better for many. Moreover, Social Entrepreneurship offers promising opportunities for nonprofit organizations. They can generate funds and develop new income strategies in order to achieve their social aims. Thereby the organizations do not depend on the donors or financial support of the government. Benefits for the nonprofit organizations can be derived from the methods and tools of business, as well as generating independent sources of income. Thus, their long-term viability can be ensured (Fueglistaller, et al. 2016)

On the grounds that scholarly research in social entrepreneurship is still at its initial stage, the modern literature is richer on inspiring examples rather than on theoretical insights or analytical power (Steyert & Hjorth, 2006; Bacq & Janssen, 2011).

The objective of this paper is to clarify the concept of social entrepreneurship in Georgia and examine activities of Georgian social enterprises. After the demise of the Soviet Union, Georgia has got lots of social problems that need to be solved urgently. With the financial support of international organizations, many nonprofit organizations were founded to find solutions for those problems, or offer services.

Social entrepreneurship has recently gained attention also in Georgia, and social enterprise start-ups have been launched. However, both social entrepreneurship practice and its research are at the infancy stage. In fact, there is not any previous academic research on Georgian social enterprises on which this study could be based.

Thus, this paper is attempting to answer the following research questions: How does Social Entrepreneurship is defined in Georgia? Since when have been social enterprises established here? What social problems are addressing Georgian social enterprises? What products are they produce, and in which fields are they mostly active?

2. LITERATURE REVIEW

Social entrepreneurship gained practical relevance during the years of 1970s-1980s, but both governments and academia devoted their attentions to this subject only in 1990s (Braunerhjelm & Hamilton, 2012). From an academic point of view, Bacq and Janssen (2011) argue that research in this field has long remained descriptive. Furthermore, some highly successful social entrepreneurs attracted considerable media attention, including the Nobel Peace Prize winner - Muhammad Yunus, founder of the Grameen Bank for microfinance), one of the 2006 TIME100 - most influential people in the world - Jeff Skoll, founder of the Skoll Foundation to support social entrepreneurship (Braunerhjelm & Hamilton, 2012), which has led to popularity of the concept.

Consequently, Social Entrepreneurship has been emerging around the world as a new type of entrepreneurship that is not generating economic wealth as its main objective, but rather is based on creation of social wealth (Leadbeater, 1997; Braunerhjelm & Hamilton, 2012).

However, the lack of finance for the development of social capital is one of the major limitations that social entrepreneurs face in performing their social mission (Sharir & Lerner, 2006). Nevertheless, researches show that social entrepreneurship has not only social but also economic effects to decrease poverty, enhancing growth, and improving large-scale development (Zahra, et al. 2009; Braunerhjelm & Hamilton, 2012). Moreover, Nyssens (2006) argues that the social objectives of social enterprises are obviously at the core of the mission, and besides, economic goals play a supportive role for the social goals. Thereby the primacy of social argument is highlighted. According to Bacq and Janssen (2011), social entrepreneurship can be seen "as a source of solutions to certain illnesses of contemporary societies".

In addition, under circumstances in which the competition for receiving donations or grants has been increased, the not-for-profit sector has to engage in the activities that reduce financial dependence upon donors, and therefore, ensure their economic long-term stability in order to accomplish successfully their social mission (Braunerhjelm & Hamilton, 2012).

Considering the fact, that cultural and geographical contexts in which social entrepreneurial activities appear are different, so they mean different things to people in different places (Mair & Martí, 2006). Subsequently, not only diverse approaches of the concept but also several schools of thought have emerged in different regions of the world. The meaning of Social Entrepreneurship in Europe differs from the Anglo-Saxon traditions (Friedman & Desivilya, 2010). These differences come from the various notions of capitalism and the role of government, which leads to the American and the European conceptions of social entrepreneurship (Bacq & Janssen, 2011). In the Anglo-Saxon tradition (especially in the USA), Social Entrepreneurship usually refers to a wide

array of experiences in both the non-profit and for-profit sectors, and even to the public sector, in which market strategies are used to generate own incomes. However, Social Entrepreneurship in the European tradition is often viewed as an alternative way of doing business (Braunerhjelm & Hamilton, 2012). In particular, the Social Innovation School focuses on characteristics of social entrepreneurs, and emphasizes their importance as individuals; whereas the Social Enterprise School believes that nonprofit organizations can survive only if they conduct business activities, which will enable them to finance social value creation. But the European tradition of social entrepreneurship creates specific legal frameworks for social enterprises (Bacq & Janssen, 2011).

Social entrepreneurs address the major social issues offering new ideas for large-scale changes. Contrary to business entrepreneurs, the bottom line of which lies in maximization of profits or shareholder wealth (Shaw & Carter, 2007), the bottom line of social enterprises is to maximize social impact, usually addressing a social need that is being mishandled or ignored by other institutions (McMullen, 2011). Thus, the world needs both types of entrepreneurs, also due to the fact that there are often intersections between business and social entrepreneurs (Braunerhjelm & Hamilton, 2012).

Researchers suggest two main points that differentiate the social and commercial entrepreneurs (Bacq & Janssen, 2011). First, both enterprises aim at different targets: social entrepreneurship has an explicit central social mission, while a commercial venture has a mission of profit maximization. Second, while the major part of the economic profit generated by the commercial activities of the social enterprises are reinvested in the social mission, in a commercial venture on the contrary, profit will be distributed to shareholders or reinvested in the commercial activities of the company. However, similarities between both entrepreneurs can still be expressed in terms of the entrepreneurial process, innovation, opportunities recognition, etc. (Bacq & Janssen, 2011).

Since environmental factors are very important to the emergence, development, and implementation of social actions (Mair & Martí, 2009; Nicholls, 2010), social enterprises typically respond to areas of unsatisfied social needs. Besides, they create new social opportunities that the public and private sectors have failed to address (Corner & Ho, 2010; Braunerhjelm & Hamilton, 2012).

In Georgia, it can be observed that American conception of social entrepreneurship is more common. The Center for Social Entrepreneurship in Georgia (www.segeorgia.org) defines Social Enterprises as revenue-generating businesses that have two goals: to achieve social and economic outcomes. Social enterprises can be operated by a non-profit organization (NGO) or by a for-profit company, but the economic goal is a secondary one, and main goal is social efficiency. The abovementioned Center describes social entrepreneurs as "individuals with innovative solutions to society's most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change" (www.segeorgia.org).

3. RESEARCH AND FINDINGS

An exploratory and descriptive research has been conducted to study the practice of Georgian social enterprises, and to identify development directions of social entrepreneurship in Georgia. Besides, the research intends to explore the further research topics in this area. First, secondary data were gathered from the Internet about Georgian social enterprises and nonprofit organizations. Then, each social enterprise was analyzed according to the information from their websites. Finally, the conclusion has been drawn, and further research questions were exposed.

The main research questions for this study were: How many social enterprises are there in Georgia, what products are they produce? How many enterprises as well as nonprofit organizations are registered here? Who are tend to establish a social enterprise in Georgia? Is there any special legal status for social enterprises?

The concept of social entrepreneurship gradually gains popularity in Georgia thanks to various activities of International donor organizations that allocate grants for this reason. In this regard, the Center for Social Entrepreneurship has been founded, which not only promotes the concept and the development of social entrepreneurship in Georgia, but also provides trainings, and holds consultations in business and legal issues for Georgian social enterprises. It also arranges annual forum, and student competitions to support social enterprises with business or marketing plans, and solve a specific problem in the enterprise. The Center carries out its projects with financial support of donor organizations, such as the European Union for Georgia, Bread for the World, and with help of its partners such as Arbeiter-Samariter-Bund, Education Development and Employment Center.

In total, there are 44 social enterprises in Georgia (www.segeorgia.org). Almost all the Social Enterprises have been established by not-for-profit organizations. In general, nonprofit/nongovernmental organizations were founded at first to address social or environmental issues facing the country, and then, sometimes after several years, the social enterprise were launched with the financial aid and consulting support of international funds or with governmental grants. As the analysis of their websites demonstrated, 38 social enterprises have been launched by nonprofit organizations (Figure 1), while only 5 of them were set up by individuals, and one - by a government agency (legal entity of public law).

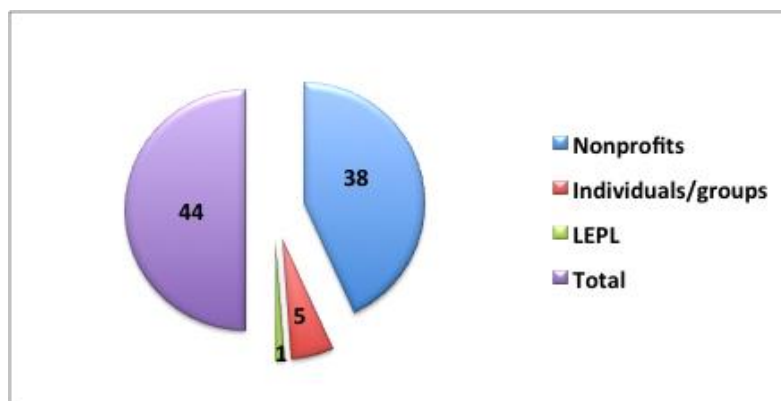


Figure 1. Social Enterprises established by

The research of the secondary data shows that there is no specific juridical form for social enterprise in Georgia, but rather it can be found in any kind of organizational form since it is considered to be a matter of ideology and world-view. Nevertheless, mostly nonprofit organizations are establishing social enterprises in Georgia to ensure independent income and long-term activities towards performing their social mission.

According to the data of National Statistics Office of Georgia [Geostat], there are 25 763 Non-commercial legal entities registered in Georgia (Table 1), among them, 3 583 are active, which is only 3.8%. This number indicates that in comparison with other legal entities, the most registered nonprofit organizations are not active, which might be caused by the lack of adequate funds. Therefore, establishing social enterprises can be an effective solution for their financial problems.

Table 1. Business Register by legal Status (1 March 2018)

Legal status	Number of entities	Active	%
Commercial legal persons	231732	72995	33.7
Non-commercial legal persons	25763	3583	3.8
Individual entrepreneur	419285	97151	61.1

Source: www.geostat.ge

Thus, all the social enterprises in Georgia are registered as Non-commercial legal entities. In Georgia, the most social enterprises have been founded since 2010 (Figure 2), when the international donor organization decided to distribute start-up financial support for launching social enterprises. There are several grant competitions during the year, when both nonprofit organizations and action groups (groups of initiators) can apply for funds to set up their social enterprises. It should be noted that only one social enterprise (Day Center) was founded in 1990 and another one in 2017.

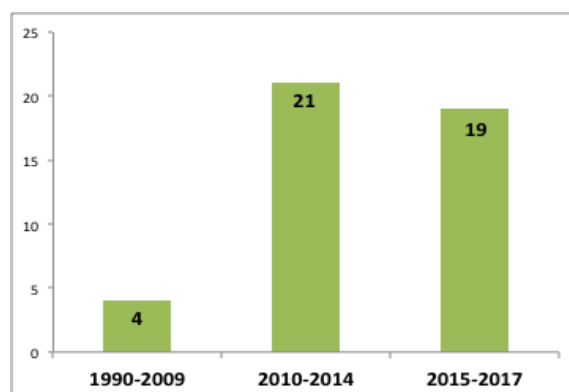


Figure 2. Number of social enterprises launched from 1990 to 2017

The findings demonstrate that the most social enterprises were launched in 2015 (Figure 3), which is clearly correlated to the number of grant competitions announced in this year. No social enterprise were established without the state or donor grant.

However, it is worth noting that the tendency goes up and more nonprofit organizations tend to be interested in establishing their own enterprises.

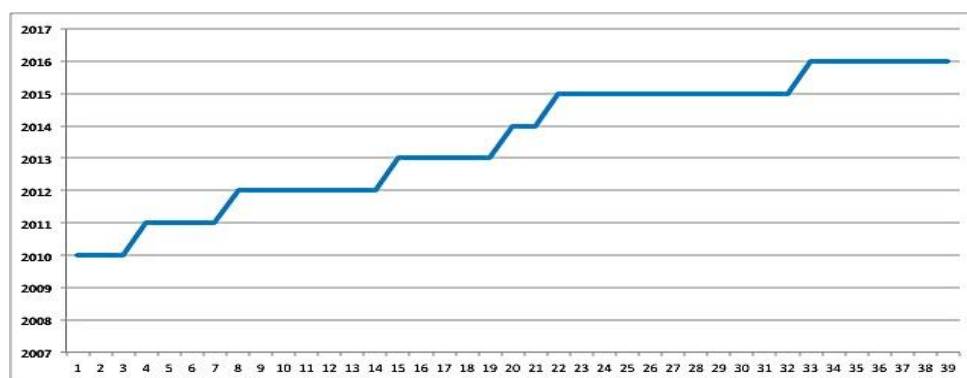


Figure 3. Dynamics of Establishing Social Enterprises in Georgia

According to the Census of 2014, the population of Georgia is 3 713 804 (Table 2). The population in urban areas amounts to 2 122 623 inhabitants while rural population consists of 1 591 181 residents (see Table 2). In the Capital city (Tbilisi) inhabit 1 108 717 people (Geostat).

Table 2. Population of Georgia

Urban Population	2 122 623
Rural Population	1 591 181
Total	3 713 804

Source: www.geostat.ge

Thus, it is important that people in rural areas also launch a social enterprise to contribute to

solving local social or environmental problems.

The research shows, that there are 21 social enterprises in Tbilisi whereas there are 23 social enterprises in the rest regions of Georgia. The reason lies in the development of capital city more than other cities of the country, but also in the accessibility and in general infrastructure of the rural areas, where the most activities of the international donor organizations do not spread to.

As the statements of their websites confirm, both the social enterprises and their parent nonprofit organizations are serving the most vulnerable groups of the country, such as: Disabled persons (there are about 898 000 persons receiving pension package and social packages in Georgia, according to National Statistics Office of Georgia - www.geostat.ge), internally displaced people (due to the several conflicts last 20 years (in 1990-1992 and 2008), there are 259 247 IDPs living in Georgia, according to the data of Ministry of Internally Displaced Persons from the occupied territories, accommodation and refugees of Georgia - www.mra.gov.ge), former drug-addicted or former prisoners, and aiming at their social reintegration and psycho-social rehabilitation.

Besides, some Georgian social enterprises focus on other important issues too: promoting organic and environmental farming as well as new technologies in agriculture; supporting children and young people providing them trainings, education, or culture. Several social enterprises (for instance, Art Studio Snoveli, Traditional Fashion House) pursue their goals to teach traditional skills - works on felt or wooden items. With this purpose, they arrange workshops to transfer the traditional knowledge from elder to the new generation, teach handworks to young people, and simultaneously open shops to sell their products.

Although Social Entrepreneurship comes from microfinance idea of Grameen bank, yet merely one Georgian social enterprise (Ethicalcapital Credit Union) is active in this field. It supports disadvantaged populations by providing them with access to financial backing.

Furthermore, the research revealed the product range made by the social enterprises in Georgia. In order to analyze in which type of goods are engaged the most social enterprises in Georgia, enterprise products were classified to the related product fields. However, it should be noted that some groups still include only one enterprise, because, as mentioned earlier, there is a small amount of social enterprises operating in Georgia. In addition, some companies are active in the several areas - they produce diverse production.

According to the findings, the most social enterprises produce handmade souvenirs or wooden goods, as well as handcrafts (Figure 4).

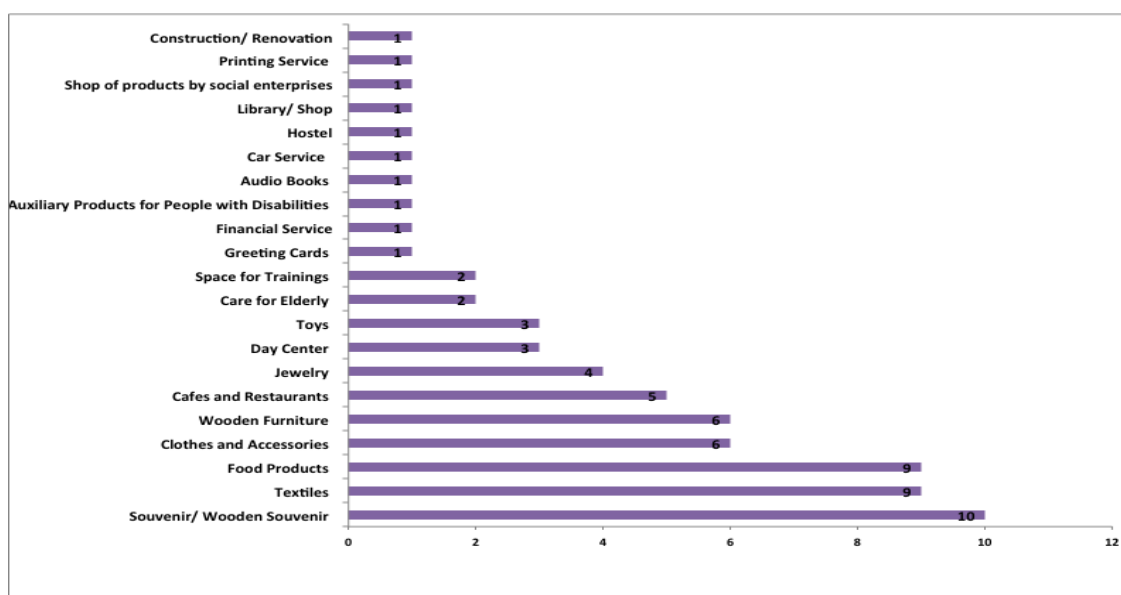


Figure 4. Product Areas of the Social Enterprises in Georgia

Thus, many Georgian social enterprises are specialized on handwork. The social enterprise

products include also environmentally friendly products grown in the greenhouse conditions, and also, furniture, jewelry, toys. The social enterprises in Georgia offer as well library, care, financial, and printing services. In spite of various products, most fields are still open for other social entrepreneurs to enter.

4. CONCLUSIONS AND FUTURE RESEARCH AVENUES

The concept of social entrepreneurship has a number of alternative definitions. Social entrepreneurs change the society by creating new combinations of people and resources, and thereby considerably improve society's capacity to solve problems. Social entrepreneurship has the ability to address to certain problems of societies, particularly in developing or poor countries. Indeed, the social enterprises in Georgia are contributing to solving current social problems. With regard to the legal status or organizational form, either a nonprofit organization has established social enterprise, or social entrepreneurs adopt a not-for-profit form. However, it is crucial that social entrepreneurship is not limited to this form alone, and chooses the legal form in accordance with its strategy. Therefore, the focus should move from the form to the purpose, and consequently, for-profit organizations can also consider launching social enterprises to achieve social and economic development simultaneously.

In spite of strong recent increase in research interest, the reviewed literature confirms the beginning stage of research in social entrepreneurship as a field of scientific inquiry. Moreover, there are still limited research data from developing countries, and especially Georgian social enterprises have not been studied yet.

Literature review identifies three main schools of thought of social entrepreneurship. Two of them are rooted in the Anglo-Saxon culture, and are studying the phenomenon from different perspectives; whereas the third refers to the European legally regulated 'social enterprises'. In Georgia, we observe that the concept of social entrepreneurship is developing towards the direction of the second school of thought emerged in the USA, and that reckons the survival of nonprofit organizations only by launching profit-generating activities. The Georgian nonprofit/nongovernmental organizations are striving for establishing social enterprises in accordance with the Social Enterprise School; they finance their social mission by profit-making activities. Consequently, nonprofits benefit from business methods and tools as well as generating independent income.

Generally, the social enterprises in Georgia aim at improving economic conditions of members of the vulnerable groups, and facilitating their social reintegration. Besides, they support new technologies in agriculture, produce environmentally friendly products, promote traditional methods of producing handmade clothing, accessories, and wooden items.

To compare, in Tbilisi (the capital city of Georgia) are more enterprises than in other regions. This tendency needs to be changed and more enterprises should be established both in rural areas and in other cities. Such development will help the local population to solve efficiently the social or economic problems they are facing.

In addition, social enterprises should offer low-interest financial services to contribute to expanding and enhancing the production capabilities of small enterprises or farmers.

Moreover, the initiatives of additional services including consulting, networking, marketing and business trainings are essential for the social enterprises in Georgia, because the social entrepreneurs typically come from nonprofit sector with little or no experience in business. On the one hand, they have a good knowledge of social or ecological issues, and on the other hand they need to improve their business skills to manage enterprises successfully.

Finally, social entrepreneurship initiatives are growing in number and importance, particularly in developing countries. Social entrepreneurs focus on enterprise development and innovation while addressing the concerns of the society; using business models, they solve problems and generate independent income.

This paper also raised future research avenues. Research in the field of social entrepreneurship should move from descriptive to analytical methods. Therefore, analytical studies are to be conducted, and quantitative data should be gathered through surveys. First, the driving forces for social entrepreneurship in Georgia as well as hindering factors and challenges should be studied. Second, the role of the environmental context in social entrepreneurship is also an issue that needs to be explored. Third, changes that social enterprises bring in Georgia need to be researched. Finally, the role of governance structures in managing tensions between the social mission and market requirements should be examined.

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