

# Social Entrepreneurship and its Role in the Modern Economy

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**Abstract**—This article analyzes the role of social entrepreneurship in addressing global social issues through market mechanisms. Amid growing challenges like poverty and inequality, social enterprises play a crucial role in balancing financial sustainability with a social mission. The paper examines mechanisms to achieve this balance, such as hybrid financing models and partnerships with government and private organizations. Successful examples, like Toms and Warby Parker, illustrate the effectiveness of such models. The article also discusses key challenges faced by social enterprises, including financial instability and scaling difficulties.

**Keywords**—social entrepreneurship, social enterprises, hybrid models, financial sustainability, social impact, entrepreneurial innovations.

## I. INTRODUCTION

Social entrepreneurship is increasingly recognized as a vital part of the modern economy, especially when it comes to addressing pressing social issues. In a world grappling with challenges like poverty, unemployment, environmental damage, and inequality, social enterprises serve as a bridge between business and society. They channel entrepreneurial energy into achieving meaningful social objectives. Yet, a major challenge these organizations face is maintaining a delicate balance between fulfilling their social mission and ensuring long-term financial sustainability.

Unlike traditional businesses, social enterprises must not only address societal problems but also secure their financial health, even when their work may not always generate profit. Achieving this balance often involves creating innovative solutions, such as hybrid business models, diverse funding sources, and regular assessments of social impact. This requires thoughtful management strategies and a focus on both the financial and social aspects of the business.

This article delves into the mechanisms that allow social enterprises to navigate this balance, explores the challenges they face, and discusses the risks involved in sustaining both their social goals and financial viability.

## II. MAIN PART. FACTORS AFFECTING THE SUCCESS OF SOCIAL ENTREPRENEURSHIP

The growing recognition of social enterprises as a vital component of global economic and social development has led to their rapid expansion in recent years. As of 2024, there were 10 million social enterprises, accounting for more than 3% of enterprises worldwide (fig.1).

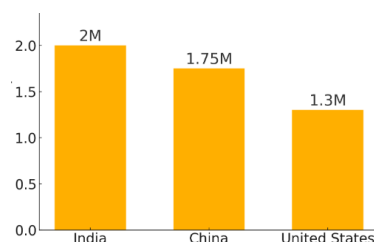


Fig. 1. Country ranking by number of social enterprises [1].

The success of social entrepreneurship is influenced by several factors, including the institutional environment and financial structures in place. In countries where there are favorable tax policies or grants designed to support social enterprises, these organizations are more likely to flourish. Such financial incentives allow them to focus more on addressing social issues rather than on securing funding. Effective leadership and corporate culture also play a vital role. Managers need to balance financial and social objectives while engaging with various stakeholders, ensuring that the social mission does not take a backseat to financial pressures.

A key challenge for social enterprises is the financial model. Since their primary goal is to solve social problems, it can be difficult for these enterprises to attract traditional investment. However, innovative financial instruments like social bonds and hybrid financing models can improve their financial stability. Collaborations with government bodies, private enterprises, and NGO (Non-Governmental Organizations) are essential, as they generate synergies that help address social issues more effectively.

Additionally, the business ideology of «making the world a better place» is crucial for sustaining both social and financial success. This approach cultivates sustainable values and helps maintain employee motivation, unlike traditional profit-driven businesses that often struggle to integrate social missions into their core operations [2].

At the same time, enterprises with the dominant goal of generating large profits sometimes face internal conflicts between commercial interests and a social mission, which can weaken their competitive position and public trust. These ideas are supported by research [3], indicating that combining a social focus with an effective business strategy allows not only to solve pressing problems, but also to ensure the financial stability of a business.

## III. MECHANISMS FOR BALANCING SOCIAL MISSION AND PROFIT

To function successfully, social enterprises must effectively balance the achievement of their social mission and financial sustainability. This balance is achieved through various mechanisms that ensure long-term viability without compromising social goals. One key tool is a hybrid business

model that combines commercial and social elements, allowing for profit to be generated to address social problems (table 1).

TABLE I. Funding models for social entrepreneurship.

Funding model	Advantages	Risks and limitations	Examples
Cross-subsidization	Reducing dependence on grants and subsidies. Financial sustainability.	High dependence on the success of the commercial part of the business.	Charity shops that fund social causes.
Investments with social impact	Access to more capital. Strengthening the social mission.	Limited circle of investors. Difficulty in measuring social impact.	Funds investing in sustainable development, energy efficient projects.
Social bonds	Support for innovative projects. Possibility of attracting large investors.	Difficulty in measuring achievement of goals. High project management costs.	Projects for the rehabilitation of prisoners financed through social bonds.
Income diversification	Reducing the risks of financial dependence. Business sustainability.	Increased complexity of management and reporting. Potential conflict of interest between sources.	Social enterprises offering commercial services and attracting grant support.

Social enterprises employ various strategies to maintain a balance between social mission and profitability, such as cross-subsidization, revenue diversification, social bonds, and impact investing. Cross-subsidization allows profits from commercial activities to be used to finance social programs, reducing dependence on external sources such as grants and subsidies. Revenue diversification also plays a key role: enterprises can combine different sources of funding, such as grants, private equity, and crowdfunding, which reduces risks and promotes financial stability while maintaining a focus on social issues [4].

Regular performance evaluation using models such as SROI (Social Return on Investment) and Theory of Change is important for assessing the success of social impact. This allows for measuring social and financial results, demonstrating the value of the enterprise to investors and adjusting business models to increase impact [5]. In addition, innovative financial instruments such as social bonds attract capital and provide a return on investment when the set social goals are achieved, making the model more attractive to both parties.

#### IV. EXAMPLES OF SUCCESSFUL SOCIAL ENTERPRISES

An example of a successful social enterprise is Toms [6], founded in 2006, which operates a «One for One» business model – for every pair of shoes sold, the company donates a similar pair to children in need of shoes. This business model successfully integrates profitability with a social mission, demonstrating a hybrid approach. Toms not only tackles

poverty and joblessness in developing nations, but also establishes a commercially prosperous brand that appeals to consumers looking to back socially conscious businesses. Throughout 2020, the company remained active, distributing goods in over 70 nations, demonstrating the effectiveness of their approach in achieving both societal goals and financial gains.

Another striking example is Warby Parker [7], a company that manufactures and sells eyeglasses. From the very beginning of its activity, Warby Parker developed a model in which for every pair of glasses sold, the company provides free glasses to those who cannot afford them. The «Buy a Pair, Give a Pair» model allows solving the problem of accessibility of medical services and goods in different countries, while maintaining high profitability. In addition, the company uses innovative approaches to sales, such as online glasses try-on, which helps attract a wide audience. Thanks to its business model, Warby Parker was able to become not only a socially responsible company, but also a financially successful enterprise, attracting significant investments to expand its activities.

Greyston Bakery [8], a New York-based company, is an example of a company that uses an inclusive approach to its business. The company offers employment opportunities to individuals facing challenges in finding jobs, such as ex-convicts, those experiencing homelessness, and individuals transitioning from welfare programs. The principle of «Open Hiring» is used by Greyston Bakery, offering employment to individuals regardless of their background if they are interested. Simultaneously, the company guarantees top-notch product manufacturing and a consistent financial outcome by distributing its products in major supermarket chains. This instance demonstrates how a social enterprise can prioritize addressing social inclusion while maintaining financial viability.

#### V. RISKS AND CHALLENGES FOR SOCIAL ENTREPRENEURSHIP

Social entrepreneurship faces numerous challenges that limit its development and effectiveness. Volatility of financial flows is one of the key risks. Social enterprises use mixed funding models – grants, investments and income from the sale of goods or services. However, dependence on these sources makes them vulnerable to economic crises and changes in government policy. For example, a reduction in funding or changes in the terms of grant programs can undermine the sustainability of such organizations, making it difficult to fulfill their social mission.

Scaling issues – is another serious challenge. Most social enterprises start with local projects, which limits their ability to expand. Scaling requires significant resources, as well as changes in the business model, which can cause a conflict between the social mission and commercial interests. This is especially noticeable when it comes to optimizing costs, which can affect the quality of social services provided.

Social impact assessment is also challenging. Social results are difficult to quantify, making it difficult to demonstrate the effectiveness of a program to investors and partners. Without a

clear assessment system, businesses risk losing credibility and opportunities to attract funding.

In addition, the lack of qualified personnel remains a critical issue. Social enterprises need specialists who understand both social and business aspects. However, unstable working conditions and relatively low salaries make it difficult to attract talented employees. This hinders the formation of teams capable of implementing complex initiatives.

Regulatory risks also play an important role. There is no unified approach to legislative regulation of social entrepreneurship in different countries. Tightening the rules related to taxation or reporting can increase administrative costs and make it difficult to access resources.

## VI. CONCLUSION

To sum up, social entrepreneurship remains important in tackling urgent social problems through market strategies to accomplish positive societal objectives. The ability to balance social mission and financial sustainability is crucial for the success of these enterprises, relying on hybrid management models and innovative financial instruments. Taking into account government support, leadership, and partnerships is crucial as they can greatly enhance the efficiency and longevity of these organizations.

Companies like Toms, Warby Parker and Greyston Bakery show that it is possible to merge social goals with financial success to establish sustainable and profitable business strategies. Nevertheless, social entrepreneurship encounters various obstacles, including financial insecurity, challenges in

expanding, and the necessity to precisely evaluate social effects. In order to address these obstacles, social enterprises need to actively adjust by utilizing various funding models and creative management strategies. In the future, social entrepreneurship is expected to have a greater impact on addressing global issues, if obstacles are overcome and financial stability is enhanced.

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