

The Nonprofit Sector as a Basis for Social Entrepreneurship in Kazakhstan: Potential and Models

El sector sin fines de lucro como base para el emprendimiento social en Kazajstán: potencialidades y modelos

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ABSTRACT:

The article presents the results of the social research aimed at identifying the cases of developing business activity with regular income by nonprofit organizations in Central Kazakhstan. The authors find out the main types of gainful activities of organizations and describe the applied business models using the simplest scheme (value offer, consumers, resource and value chain, income generation) and the case study method. These types include the maximum use of tangible and intangible assets, additional income due to the use of cheap resources, the reference offer availability model, and the crowdfunding model. Business models based on the commercialization of services, which fall within or supplement the core activities, are the most successful among nonprofit organizations. As a rule, they are based upon qualified labor resources and the previous resource support of partners, foreign partners inclusive. The weaknesses of nonprofit organizations are as follows: ambiguous positioning of competitive advantages, lack of a clear development strategy, including a marketing one.

RESUMEN:

El artículo presenta los resultados de la investigación social destinada a identificar los casos de desarrollo de la actividad empresarial con ingresos regulares por organizaciones sin fines de lucro en el centro de Kazajstán. Los autores descubren los principales tipos de actividades remuneradas de las organizaciones y describen los modelos de negocio aplicados utilizando el esquema más simple (oferta de valor, consumidores, cadena de recursos y valor, generación de ingresos) y el método de estudio de caso. Estos tipos incluyen el uso máximo de activos tangibles e intangibles, ingresos adicionales debido al uso de recursos baratos, el modelo de disponibilidad de oferta de referencia y el modelo de crowdfunding. Los modelos de negocio basados en la comercialización de servicios, que se encuentran dentro o complementan las actividades básicas, son los más exitosos entre las organizaciones sin fines de lucro. Como regla general, se basan en recursos laborales calificados y en el apoyo previo de recursos de socios, socios extranjeros inclusivos. Las debilidades de las organizaciones sin fines de lucro son las siguientes:

Keywords: nonprofit sector, social entrepreneurship, business model, identification, social value.

posicionamiento ambiguo de ventajas competitivas, falta de una clara estrategia de desarrollo, incluyendo una comercialización.

Palabras clave: sector no lucrativo, emprendimiento social, modelo de negocio, identificación, valor social.

1. Introduction

The nonprofit sector is a segment of economic entities in the market economy with social corporate objectives. The business cycle of such organizations arises, when they aim at financial independence of their social activities in the absence of permanent sources of financing or desire to ensure the maximum social integration of trust groups (Shlikhter 2006; Bakhankova 2014).

The nonprofit sector provides socially vulnerable groups with the goods either in kind or in a form of salary or profit, if they take part in a gainful project.

Nowadays, nonprofit sector with certain potential has emerged in the Republic of Kazakhstan. This sector can form a basis for innovative settlement of social and economic problems of socially vulnerable groups, which can be settled neither by the state nor by the market to a full extent.

2. Review of recent studies and publications.

The idea and the phenomenon of social entrepreneurship received an impetus in the nonprofit sector of the world's major economies in the retrenchment period during the 1970s. Nonprofit organizations (NPOs) looked for opportunities to set up regular income activities or to combine commercial activity with a social mission. One can find a detailed evolution of nonprofit sector business activity in works by J. Dees (2006), K. Sommerrock (2010), K. Alter (2007), J. Austin (2010) and others.

Three modern concepts of social entrepreneurship focus on: genesis of new opportunities for solving social challenges through innovative resource combination (Light, 2006; Aray, 2015; Shaw 2007); the model of deriving revenue as a basis for entrepreneurship (Boschee & McClurg 2003; Moskovskaya 2011); duality of economic and social values production process and continuous search for their balance towards the latter one (Thompson & Doherty 2006).

A. Moskovskaya (2007), E. Shmatkova (2013), N. Voskolovich (2013), N. Kadol (2013) and others researched social entrepreneurship in the CIS. The research resulted in determining the potential, business models and lines of development.

Social entrepreneurship was not consistently researched in Kazakhstan from a perspective of its identification and determination of actual business models. Thus, it is important to find the potential and to determine the development trends of NPOs' gainful activity in Kazakhstan.

The research goal is to assess the potential and to identify business models of the nonprofit sector in Central Kazakhstan in order to determine the peculiarities and prospects for its development.

3. Methods

Our research was grounded on the survey and the case method of analyzing organizations of social entrepreneurship.

The goal of the research was to assess the business model applied by the organization in terms of its constituents: value offer, clients, project financial resources, value chain, income generation, actual strategy and marketing program.

The case method was based on the principles of construct validity, external validity, internal validity, and sustainability (Yin 2014).

4. Results

The SNA (system of national accounts) - based assessment of the nonprofit sector potential shows that the share of this sector in the household actual consumption has grown from 1.74% to 2.07% for the last two years (National Accounts of the Republic of Kazakhstan, 2015).

At that, the net profit and net mixed income share in the GVA (gross value added) of the sector averaged to 11.6% in 2009-2014. It means that in the sector there are organizations with regular income to support the social function. It should be noted that in 2009 the net profit was not even fixed and the GVA included remuneration of labor, capital depreciation and other production taxes (land, property, etc.).

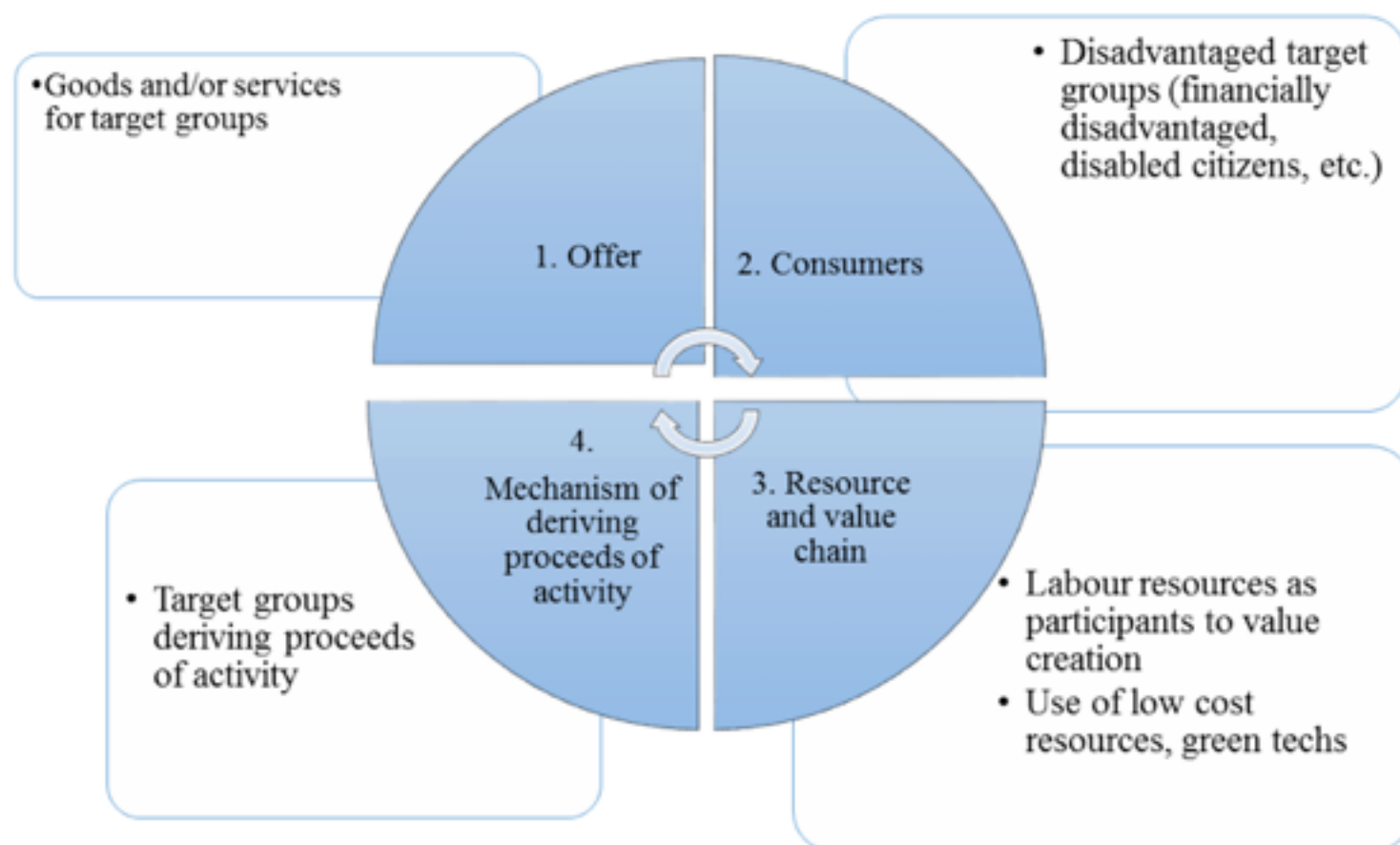
We have conducted the social research in order to define the types of business models used by NPOs in Central Kazakhstan. The survey covered 186 NPOs in the region aiming at identifying the nature of their commercial activity, if any. For this purpose, we applied the simplified description system of a business model used in the most recent research by the Swiss team of scholars:

- Client or customer segments;
- Value offer or the method of meeting needs of target buyers;
- Value chain or the product/service development method;
- Deriving revenue or the profit making method of a company (Gassmann, Frankenberger, & Csik, 2016).

We suggest not to separate social and economic projection of social entrepreneurship, but to combine them and to determine the social component profile against the basic economic model. One can say that our approach combines the simplest model structure consisting of 4 elements and the inclusive approach to social entrepreneurship (UNDP, 2014) specifying the role of target groups in the model. The specific character of social entrepreneurship, presented by a variety of its types, can be related to any element of the business model. In the model adjustment variant, we show the content related to target groups only. It means that in parallel to target groups all elements can involve another social groups (Figure 1).

Figure 1

The social entrepreneurship business model from the perspective of target groups



Note: Done by the authors

Within the framework of social entrepreneurship, target groups can both receive goods and services and take an active part in their creation as labor resources or using their entrepreneurial skills.

As the main difference of social entrepreneurship is the creation of social value, which within the framework of the business model is primary and determines the business strategic target, one can say that social value can be created in any of four components of the business model. According to our analysis of empirical examples, the creation of social value, as a rule, requires special changes minimum in two model blocks.

At present, we have found out four variants of business models in the nonprofit sector:

1) Standard service availability and maximum tangible and intangible assets use. Social value can be created in blocks 1, 2, 3.

A lot of Kazakhstani NPOs have experience and knowledge enough to turn it into cash and to earn funds for their activities without participation of the state or to enlarge the number of supported target groups. Now, such income support model is implemented by organizations providing services of longitudinal care to disabled and senior citizens, as well as special social services to children with disabilities.

The Public Association German Society Wiedergeburt in Karaganda is equipped with visual aids and educational materials on care of disabled and senior citizens. Specialists of the Association organized training courses for social workers and all people wishing to get counselling assistance for settling such issues in their families. The operation of the center is supported by the growing demand for consulting and technical assistance due to the ageing of population. Consultations are paid once per month, and practical classes – when attended. This model has a social effect as the proceeds are used for food and essentials for financially disadvantaged and senior citizens, who need help.

The Public Association Jewish Community Hesed Miriam has special methods and great experience in at-home social services. The Society holds advanced training courses for employees of other companies and public social workers paid by private persons, organizations or the state. The proceeds enable the Association to render free (or at below market levels) services to one or two clients wishing to get services from it.

The nonprofit organization Public Association Luchik Nadezhdy in Karaganda region provides services to children with disabilities at the expense of participation in social service commissioning and household funds. The organization also trains ordinary children from surrounding areas at Montessori classes, in the swimming pool, applying its professional experience and skills. The proceeds are used, among other things, to transport children from villages to county towns, which have branches of Public Association Luchik Nadezhdy. So, children with disabilities and ordinary children, whose parents cannot take them from villages to county towns every day, can have classes in the development center. However, public contracts do not cover such expenses at the moment.

In general, this type of a business model can be described as follows:

- Extension of the circle of customers due to rendering educational services to more people;
- Value offer for the groups that did not use these services before, but need them;
- Value chain formation based on tangible and intangible assets of the company;
- Payment for educational, consulting and development services by private companies or organizations.

The strengths of the model: skilled and experienced labour, sustainable qualitative services and the diversification of the value offer due to the maximum use of tangible and intangible assets.

A lot of organizations that apply this model can use experience and financial resources of foreign foundations and organizations, which provide technical and financial support from the

very beginning.

2) Additional income for NPOs due to cheap resources and market labour. Social value can be created in blocks 1, 3 and 4.

The Public Foundation Best for Kids was the first to implement this model. The Foundation is involved in community adjustment of teenagers from orphan asylums. Children integration is the challenge that is settled in this case. The Foundation includes the following departments: career guidance, educational work with teachers, leisure activities with children, etc. Each department is headed by the coordinator, who supervises his volunteer group. 30 volunteers work in the Foundation continuously and approximately 115 volunteers cooperate with the Foundation from time to time and render different assistance.

The description of the business model:

- Standard offer – rattan furniture from relatively cheap raw materials (technorattan – a state-of-the-art artificial polymer produced in Russia, UV- and atmosphere-resistant, etc.).
- Wide range of customers both in the retail and wholesale market.
- Not only graduates from orphan asylums, but disabled workers (especially persons with hearing disabilities), people from disadvantaged backgrounds can work in the workshop. People are trained directly at the workplace as it is virtually hand work.

Workers from the workshop are paid according to their performance. The income from the business is allocated to work with orphans. Children career guidance is an essential part of this activity.

The same model is used by Shanyrak company. Its activities include the following services: car repair, welding, production of simple sewn products. The services are rendered by graduates from orphan asylums.

The strength of all organizations applying this model is the focus on cheap resources (up to informal sources of their purchase), and the utilization of labour forces that agree to smaller salaries and occasional income. If disadvantaged people (disabled, teenagers from orphan asylums, ex-prisoners, etc.) are employed, official payment sources are good for them. As a rule, they are not highly qualified; they just gain experience in the labour market or restore their qualification, and that's why they are not expensive. Moreover, there are state employment programs that subsidize social jobs or youth practical training (The Productive Employment and Entrepreneurship Development Program for 2017-2021, 2017).

3) Availability at standard offer. Social value can be created in block 2.

The National Federation of Professional Combat Sports Ju-Jitsu "Profi Fight" is a nonprofit organization involved in development of this sport; it has 10 founders and several sponsors. It implements the project of establishing ju-jitsu sections at orphan asylums. The Federation has its branches almost in all large or medium-sized towns in Kazakhstan, and one of its departments is in charge of orphan asylums. Classes are free and salaries for coaches are covered by revenues of other departments rendering paid services for children in normal condition. Sometimes they apply crowdfunding to collect funds and take children from orphan asylums to competitions.

The description of the business model:

- Standard offer for everybody – ju-jitsu sport services;
- The Federation organizes fee-based sport sections and gives free classes in gyms at orphan asylums;
- Value chain – sport services similar to usual activity;
- The number of ju-jitsu enthusiasts is constantly growing, the scale effect is realized and the Federation gets sufficient income to pay coaches for their work at orphan asylums.

The strength of this model is a stable potential demand for the service and qualified personnel.

4) Crowdfunding is not a popular business model as it is impossible to attract sufficient resources for social projects continuously. But some NPOs use this model to master market instruments for attracting funds and to start regular activities on the market basis.

The idea of the model is that funds of private parties are attracted in exchange for some tangible or intangible benefits, which they can get from participation in this project. Very often crowdfunders are not interested in financial benefit; the key value is the participation in the project. In this business model, the initiators get valuable feedback that can be a source of new ideas and possibilities to continue the project.

The Public Foundation Tan Zhuldyz is involved in social integration of orphans. The Foundation offers people in coffee houses and other public places to make charitable contribution to its organization, so as in future to present an individual coupon for a birthday or any other holiday to their friends, relatives, closed ones. The idea is based on the fact that many people wish to help, but don't know how to do it better. They offer to see the results of Zhuldyz activity in any form and to get sure that the campaign is true.

Table 1 presents the analysis of the core activities of NPOs with profitable units based on social mission and components of the business model.

Table 1
Components of typical business models of social entrepreneurship in Kazakhstani nonprofit sector*

Social mission	Ju-jitsu section for orphans, Profi Fight	Services of longitudinal care to disabled and senior citizens, Public Association German Society Wiedergeburt, Public Association Jewish Society Hesed Miriam	Special services to children with disabilities (free transportation), Public Association Luchik Nadezhdy	Social integration of orphaned children, earnings for target groups, Public Foundation Best for kids
Block 1 – Value offer in the market	Sport services: ju-jitsu	Professional training services for social workers from other companies (state inclusive) and resource center for everyone	Children developing services	Production of rattan furniture, sewn products, car repair
Block 2 – Consumers	Mass consumers	Organizations and private persons wishing to acquire care skills or to get care	Children with disabilities	Mass consumers
Block 3 – Resource and value chain	Qualified personnel of the Federation Free gyms in orphan asylums Clothes for children at the expense of their organization	Material and technical base and methods of foreign partners Qualified personnel of the company	Use of material and technical base for classes of multiple types	Production of rattan furniture, sewn products, etc. Labour resource – target groups

Block 4 – Mechanism of deriving proceeds of activity	Proceeds of sport sections with mass consumers	Fee for training, courses, consultancies	Fee for classes, swimming-pool for all children of community	Rattan furniture sales proceeds
Done by the authors				
**In the opinion of authors, models realizing 4 and more subjects in NPO are typical				

5. Discussion

The specific features of NPO-based business models:

1) NPOs are the most successful in business projects based on available tangible and intangible assets. In the first case, they render services related to the main activities (training, consulting, etc.) or free services to target groups (ju-jitsu section). In the second case, they use available tangible assets (swimming-pools, game rooms, etc.) and skilled personnel for wide consumer audience.

2) Available tangible and intangible assets of prosperous NPOs are largely driven by the strong ties with partners that provided finances, methods and technical aids, equipment and even invested in staff training. Thus, the German Society Wiedergeburt depended on German charity funds and the Jewish Society Hesed Miriam – Israeli and American ones, and the National Federation of Professional Combat and Sport Ju-Jitsu depended on sponsor companies, etc.

In some ways, these organizations are more dependent on their partners than regular entrepreneurs. That's why one may talk of network structures supporting their activities and enabling them not to bear all costs individually, but to support each other on a mutually beneficial basis.

Thus, the Public Association Luchik Nadezhdy rents the assembly hall at the community center of the Municipal Society of the Deaf Kargau for free in exchange for development services for some children with hard hearing at its facilities.

One might as well say that NPOs have a potential to implement gainful projects, because they are involved in network relations with partners and largely depend on their resources.

3) NPOs' relations with the clients bear the specific nature as the clients face difficulties, while entering the market (orphaned children, senior citizens, etc.). At the same time, these organizations are skilled in communicating with their clients and know their demand peculiarities. So, in some cases they make efforts to market their services (for example, the resource training center to train everyone interested in homecare services).

One business model offers to involve vulnerable social groups (disadvantaged and disabled) into economic value production that meets social entrepreneurship optimally.

The restrictions in the development of NPO-based social entrepreneurship, as a rule, are presented by:

- Weak material and technical basis resulting in restrictions for the development of the capital intensive business (for example, recreation centers for full- and day-time residence).
- Lack of competitive skills in industrial markets and clear positioning of their differences from other companies.

We think that the unrealized opportunities of these organizations lie in:

- Elaboration of development strategies and strategic marketing program enabling to expand competitive advantages to the full extent.
- Establishment of the alliance with the other subjects of social entrepreneurship to share the assets, to advertise mutually, to enter the advertising resources and social networks jointly.

6. Conclusion

The social research aimed at finding an ongoing project with regular income or a business unit in the nonprofit sector shows that there is every reason to talk about four business models with various degrees of completeness of a business cycle. The case analysis to determine business models allows for the following conclusions.

NPOs' strength is the commercialization of their professional knowledge, skills and competences to a wide range of customers, who need this knowledge both on personal and business grounds. The achievement of the economies of scale due to these sales and redistribution of income applying the individual price method enables the organizations to get the social effect keeping the salary for their employees. Accrued tangible assets are additional financial resources, when they are used to render services to a wide range of customers. In some cases, partners played the role of accrued tangible and intangible assets sources that helped to accumulate the potential to diversify activities and to expand market segments. The business model with the independent production unit (the model is based on the attraction of cheap resources, first of all, labour ones) and the crowdfunding model (the project is at the stage of a strong advertising campaign) are still at the initial stage of their development. Thus, it is safe to say that the nonprofit sector has not mastered these business models yet and is at the stage of finding extra financial stability.

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