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Health resorts as a social enterprise in Ukraine's economic development

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Abstract:

Modern economic development is highly dependent on sustainable community development. In Ukraine, the tourism sector is one of the driving forces of economic development. The main aim of the paper is to study health recovery tourism in Ukraine, on the case of creating social enterprises in a health resort network. The paper is oriented on the managerial and value creation issues. The aim is to describe the business idea of a health resort (Lviv region of Ukraine) as an innovative economic agent with social goals and value added to the local community in general and on the example of three existing spas. Taking into consideration the amount of tourists in Lviv region and the key indicators of small businesses in the sector, the social enterprise is an alternative to the for-profit entities. The study findings suggest that starting the social enterprise in health resort services may become a good practice for the local development strategies. The health resort social enterprise may add value to the Lviv region by supporting the employment of local population and social value provision to groups of the society. The main contribution of the paper is in applying the social entrepreneurship model in the sector of health resort services. As the current political and social issues and problems in Ukraine are concerned, the non-profit entity project has potential for implementation.

Keywords: tourism sector; social enterprise; local development; health resort services; non-profit entities; value creation; modelling

JEL codes: Z32, I19, O18

1. INTRODUCTION

Economic development in Ukraine is currently dependent on the regional policy. The national state authorities consider effective regional and local development policies as an instrument for the short and the long-run welfare promotion. The regional differences among the administrative entities called oblast in Ukraine have proven to affect the economic and social well-being. New development strategies need to be integrated with local assets, competitive advantages and opportunities.

Regional investment promotion and entrepreneurship development efforts must result from and help achieve national and regional economic and social development goals.

Strong regional disparities and resulting economic and social implications can hamper or delay the implementation of reforms and sector policies. Rapid restructuring can exacerbate traditional regional gaps (e.g. between urban and rural regions) and create new disparities. A design of a regional development policy should even out the regional unbalances in the transition, define policies and tools that tackle the different structural problems. There is high probability that interventions at a city or regional level can enhance the beneficial impacts of the macro changes and the higher tier policies. The capacity of cities and regions to develop and implement effective development strategies become vital to harnessing indigenous strengths, contributing to national growth and levelling regional disparities.

The tourism sector in Ukraine can become one of the significant drivers of regional development and social value creation in industrial and post-industrial countries in the 21st century. The potential challenges of this sector is the negative impact on the local environment of local identity. Thus, the tourism sector policy in terms of regional development has to be coordinated with the long-run regional development strategies. Pursuing sustainable regional development in the tourism sector will mean the search of an effective competitive advantages of the location and appropriate quality of the applied solutions.

Nowadays there is a high demand on the social issues of the communities. Often the members of society are expressing their need to balance commercial and social values. Private sector agents are expected to act more socially responsible towards society and the environment. Communities can now develop business ideas that answer local needs, help provide vital services and support vulnerable groups. This is a new way for communities themselves to provide goods and services in response to people's needs and to improve the quality of life for others (Angove, 2007). Innovative entities such as social enterprises not only provide employment, but also engage motivated workforce invaluable work to tackle real needs in the community. A Survey of Social Enterprises undertaken by the Small Business Service in 2005 reported that in 17 % of social enterprises' primary aim was to help the environment; 34% aimed to help both the environment and people by providing employment, goods or services and 49% aimed to specifically help people (Survey of Social Enterprise across the UK, 2005).

The main aim of the paper is to study health resorts activities in Ukraine and their role in the tourism sector. Three existing spas are described along with identification of existing opportunities for further growth. It positions social enterprises in the health resort network as a tool of the tourism product provision and as means of additional value creation for the local community. It aims to promote the business idea of a health resort in Lviv region of Ukraine as an innovative economic agent with social goals and value added to the local community.

2. SOCIAL ENTERPRISE AS AN INNOVATIVE BUSINESS MODEL

There are several models describing the social enterprise from different points of view. Current paper aim was to study the managerial and value creation issues. In the paper, the idea was to develop more the possibilities of the social entrepreneurship on the regional level. The model PCDO is a central to describe the model of the health resort social enterprise.

The PCDO (people, context, deal and opportunity) is a management-focused model of the entrepreneurship presented by Sahlman (Teo & Tan, 2013). The model developed in 1996 explains the four interdependent components and their role for the management according to different situations (Figure 1).

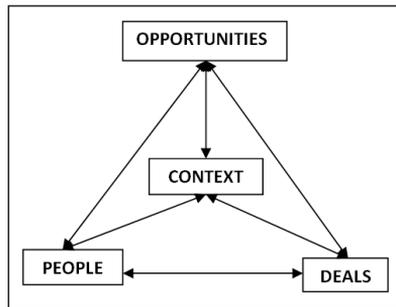


Figure 1. People, context, deal and opportunity (PCDO) framework
Source: Austin et al. (2006).

A group of authors (Austin *et al.*, 2006) has elaborated the application of PCDO framework for the social enterprises. The elaboration of the Sahlman’s PCDO model was for the purpose to study the interdependency of the people, context, deal, and opportunity, which the entrepreneur must recognize and manage accordingly in different situations. In the PCDO model, the managerial ability of the entrepreneur is critical and is the key determining factor of success and progress of the entrepreneurial venture.

The opportunity and the context (Figure 1) together form the scope of the opportunities for the social entrepreneur. Opportunity is a desired future state that is different from the present and the belief that the achievement of that state is possible. Opportunities in the social sectors require the investment of scarce resources with the hope of future returns (Austin *et al.*, 2006).

The authors of the PCDO model consider as well the external context. They define it as factors affecting the nature and outcome of the opportunity, but are outside the control of management. There are several components of the external context which are the macroeconomic, the tax and regulatory, and the socio-political environment(Austin *et al.*, 2006).

One should understand the role and goal of the human resources in the social enterprise building. The key suppliers, customers, competitors, and talent are required to create the organization. Others should also recognise the social entrepreneur for the reputation and capabilities to gain the trust from others who will be willing to work with and invest in them. Social entrepreneurs are seeking to attract resources for the social good, rather than for financial returns. Thus, they rely on a robust network of contacts that will provide them with access to funding, board members, and management and staff, among other resources. A social entrepreneur must be skilled at managing a wider diversity of relationships with funders, managers, and staff from a range of backgrounds, volunteers, board members, and other partners.

Deals are mutually beneficial contractual relationships between the entrepreneurial venture and all resource providers (Austin *et al.*, 2006). Social entrepreneurs are seeking investors to provide financial resources, as well as skills and talent to help them generate a return on their investments, whether financial or social. The sources of talent, contacts, capital, and amounts raised are of primary concern for both types of entrepreneurs.

Other models attempt to explain more in details the social enterprise and its features. Among such models, authors name the model of Guclu, Dees, and Anderson from the Centre for the Advancement of Social Entrepreneurship and the Social Entrepreneurship Framework of the three authors Austin, Stevenson and Wei-Skillern of Harvard University (the modification of the discussed model) (Kickull & Lyons, 2012).

Value chain creation is a model that helps to analyse specific activities through the firm's activities in creating value and the competitive advantages. The model may be a tool to identify or distinguish the traditional businesses and social enterprises, and with the framework, it can help in creating the value of social enterprise. It enables the identification of different values collected with the value chain creation model in contrasting these two business models.

The term 'social enterprise' came into use in the 1980s, as an attempt to differentiate traditional, purely non-profit, charitable organizations from socially-oriented organizations that venture into revenue-generating activities (Defourny & Nyssens, 2010). While scholars have advanced many definitions of social enterprise, social enterprises essentially refer to the range of organizations that operate for a social purpose. The difference between a social enterprise and a purely for-profit business enterprise, and in some cases, from a charity is often not obvious. There are social enterprises that behave like for-profit business enterprises, while others enclose qualities more of charities than business enterprises. Although the agreeable and widely accepted view that, there is a conceptual gap in establishing clear distinctions among the three organizational forms (Teo & Tan, 2013). Social entrepreneurs may share similar characteristics to the for-profit ones such as efficiency, dynamism, innovativeness, high performance and economic sustainability (Austin *et al.*, 2006).

Social entrepreneurs are innovators who use their ideas and different resources for troubleshooting in the social sector. The differences between the social enterprises charity organizations and traditional business are in the table 1.

Table 1. The key features differentiating social enterprise from charity organisations and traditional business

Social enterprises	Charity organisation	Traditional business
Social oriented structure	Social oriented structure	Commercial oriented structure
No dependence on the external financing; initial capital is needed only	Dependence on the external financing, donors, grants	No dependence on the external financing; initial capital is needed only
Revenue is gained from its activities, which are aimed at troubleshooting of some specific social problems	Receives grants, donations, which are aimed at troubleshooting of some specific social problems	Revenue is gained from its activities, which are aimed at maximising the profit
Profit is reinvested	No profit	Profit is distributed among the shareholders

Source: own elaboration.

Social enterprises are entities that solve social problems based on self-finance, innovations and sustainability. There are some main characteristics of this type of firms. They are the following:

1. Social influence as means solving or softening some specific social problem or need;
2. Innovation as new ways of solving old problems or new ones, new views on things;
3. Self-financing as a financial sustainability and independence from external financing or grants;
4. Replicability as the ability to apply the same model and approaches in different location and in other social environment.

The main principles of a social enterprise are:

1. Mutual ownership of the members and distribution of the shares with the enterprise;
2. Membership is according to the charter;
3. Democratic decision-making;
4. Revenues invested within the entity or in external social or ecological projects;
5. The entity is receiving both the revenues and the grants;
6. The commercial, social and ecological outcomes assessed by the financial and social audit;
7. The goal is the social welfare, not the private one.

According to the surveys, the share of the social enterprises in Europe is around 10%, representing nine million full-time jobs. The European policy towards this type of economic agents is loyal and the European Commission has established

a Social Economy Unit in the Directorate General for Industry (IFF Research, 2005).

3. POTENTIAL OF LVIV REGION

The tourism sector of Ukraine is one of the sectors that possess potential for further economic development, employment and regional development (Figure 2). The number of foreign tourists in Lviv region was fluctuating considerably from 34591 in year 2003 to 19033 in year 2012 and to 15 in year 2014. Thus, the region has prospects for becoming a tourist destination. The lack of appropriate promotion of tourism services results both in the low trends during last 10 years (Figure 2) and negative impact on local areas and communities' activities.

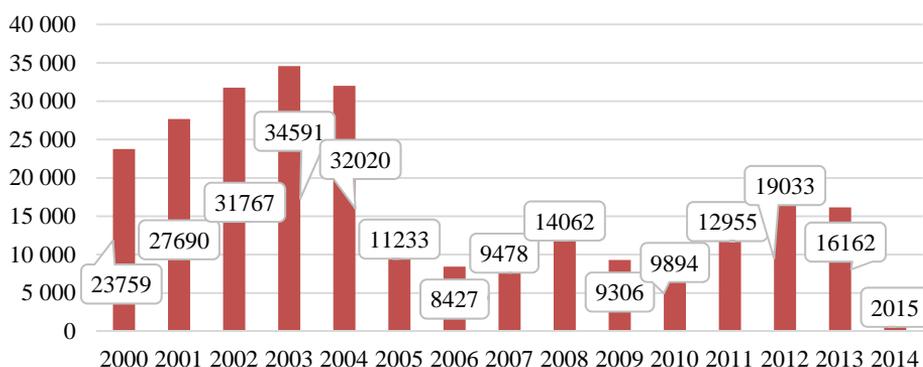


Figure 2. Number of Foreign Tourists in Lviv Region during last 14 years
Source: adapted from Regional Statistics Lviv.

There is a small amount of businesses in tourism sector in Lviv region (Table 2). During the last 4 years the number of business decreases from 1038 in 2010 to 794 in 2014. The share of the payroll expenses is around one third to the total sales.

Table 2. The key information about the small enterprises in sector of tourism in Lviv region

Year	Number of enterprises	Number of employed persons	Number of hired persons	Payroll expenses (mln UAH)	Total sales (mln UAH)
2010	1038	6574	6325	82.6	243.3
2011	854	6501	6267	102.3	268.1
2012	789	5390	5213	107.3	322.3
2013	825	4878	4577	99.5	288.2
2014	794	4500	4161	95.2	315.6

Source: adapted from Regional Statistics Lviv

Recently, development of small scale entrepreneurship in the regions of Ukraine helps to revive business. It is an opportunity to encourage people to work and implement changes, to increase social resources of the region with the help of

development of a small scale entrepreneurship, farming, cooperatives and different forms of self-organization.

According to data, there were 96 enterprises in tourism of Lviv region as self-employed forms (Table 3). There was a substantial increase in the number of the provided service to foreigners from 73 in 2011 to 1256 in 2013 and that is around 17 times more. The private businesses that may be in form of social enterprises are the entities that possess the opportunities for the employment in the region and the attraction of foreigners. For instance, the tourism services provided for the foreigners in 2013 is 10% or 7 million UAH.

Table 3. The key features of individual enterprises in Ukrainian tourism sector

Indicators	2011	2012	2013	2014
Total number	96	131	129	92
Average amount of employed persons	46	64	89	53
Revenue (mln UAH)	4.41	17.57	9.7	7.84
Number of provided tourism services:	5067	7051	12032	7980
including foreigners	73	537	1256	307
including foreigners (%)	1.44	7.62	10.44	3.85
Amount of provided tourism services (mln UAH):	29.39	42.99	79.71	75.96
including foreigners	0.69	2.84	7.44	1.13
including foreigners (%)	2.35	6.61	9.33	1.49

Source: adapted from State Statistics.

The total number of legal entities in Lviv tourism sector is higher respectively to the self-employed (Table 4). Such tourism entities provide the majority of the services and raise higher revenues. During the 2011-2014 years, the tourism business has faced a trend of decline. The number of foreign customers decreased significantly from 6500 persons in 2012 to 864 in 2014 or by 87%. Taking into consideration the previous years, there are available opportunities for the tourism services delivery including those aimed at foreign customers.

Table 4. The key features of legal entities (enterprises) in Ukrainian tourism sector

Indicators	2011	2012	2013	2014
Total number	134	148	143	143
Average amount of employed persons	627	679	757	654
Revenue (mln UAH)	109.65	159.15	219.00	166.91
Number of provided tourism services:	49170	58889	75060	52947
including foreigners	6332	6500	4334	864
including foreigners (%)	12.88	11.04	5.77	1.63
Amount of provided tourism services (mln UAH):	128.89	162.77	227.46	330.73
including foreigners	16.58	18.76	25.82	4.73
including foreigners (%)	12.86	11.53	11.35	1.43

Source: adapted from State Statistics.

The involvement of the tourism industry such as hotel accommodations, leisure services and health resorts, can also be a target for entrepreneur to create social enterprise cooperation while establishing and growing their businesses. Such innovative model in Lviv region of Ukraine may generate a new level of social economy adapting to the consumers' expectations and gaining social benefits for the local society.

The potential for tourism services is based on the location and efficient branding of Lviv as a cultural and European centre in Ukraine. Thus, health care services such as health resorts that provide rehabilitation and spa, in combination with the social goals may be a profitable business model. According to the current information, the available resources in the health resort entities are applied only per 50% (Table 5).

Table 5. The key information about the health resorts in Lviv region and Ukraine

Indicators	2011		2014	
	Lviv region	Ukraine	Lviv region	Ukraine
Applied health resorts potential (%)	0.53	0.25	0.49	0.46
Employed persons (thousands)	9.06	94.62	7.37	51.12
Employed doctors (thousands)	0.52	4.82	0.33	2.05
Customers (thousands)	231.03	2639.11	170.83	1463.84
Foreign customers (thousands)	37.77	355.90	9.00	22.77
Revenue from provided services (mln UAH)	749.04	6869.94	690.91	3084.87
Revenue from rooms (mln UAH)	15.42	981.70	15.57	168.48
Revenue from total tour (mln UAH)	697.37	5547.93	648.30	2739.84
Revenue from additional services (mln UAH)	36.25	340.30	27.05	176.55
Operational costs (mln UAH)	632.46	9298.05	541.36	2868.98
Costs of materials (mln UAH)	278.03	3469.18	240.20	1303.64
Payroll costs (mln UAH)	159.44	3145.81	151.77	742.81
Depreciation (mln UAH)	59.05	603.25	32.10	161.89
Total costs (mln UAH)	1128.98	16516.29	965.43	5077.32

Source: adapted from State Statistics.

4. HEALTH RESORTS AS SOCIAL ENTERPRISE: STUDY OF THREE SPAS

There is a growing demand for medical services tourism. The experts are assuming that around 50-70% of the health services are delivered to the foreign patients. There are a few Ukrainian health spas worth considering for tourists. The two most popular Ukraine health spas are Morshyn and Truskavets. Shidnytsia health resort is more local customers oriented. The infrastructure is not sufficient for the foreigners to arrive to Shidnytsia. Truskavets is the largest and the most international one. The three Ukrainian spas offer mud baths, natural springs, specialized diets, physical exercise, massages, Jacuzzis, etc. The visitors usually find that Ukraine's spas are high quality and affordable.

Health resort may become the entities that run a responsible business. Creating the social enterprise in sector of health resorts for a social purpose will generate social value while operating with the financial discipline, innovation and determination of a private sector business in the region. The motivation for health resort social entrepreneurs is the high demand in the sector of health tourism nowadays in Europe due to the ageing population and the need for medical treatment. There are several health resort areas in Western Ukraine, which may provide good price/quality recovery medical services.

The model of creation social enterprises in health resorts sector may be a part of the cooperation programs within the Carpathian Euro region. The approach was to model three different health resort social enterprises in main recovery health services regions- Truskavets, Morshyn and Shidnytsia (Figure 3).

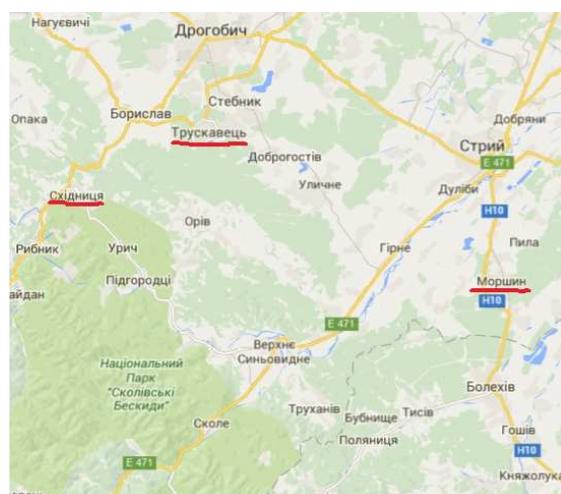


Figure 3. The location of the three towns Truskavets, Morshyn and Shidnytsia
Source: Google maps.

Truskavets is among the most advanced health resorts in the country. Most of the services provided by the commercial hotels are pools, saunas, steam baths, massages and salt caves. The main advantage of this area are large reserves of underground mineral waters that are rich in hydrocarbons, magnesium, and calcium and petroleum carbons. Such a combination of the location and natural resources holds potential to attract a major hotel and medical development to the region where businesses enjoy special tax breaks. The region and town of Truskavets have been developing considerably during the Euro 2012 championship preparation period. The resort is located 100 km south from Lviv and 90 km from the western border.

Another popular spa resort, Morshyn is famous for its healing waters, which contain such minerals as iron, iodine, dissolved oxygen, bromine, and magnesium. However, Morshyn offers many of other treatments as well, including simple massages and mud baths to exercise routines and specialized diets.

Following the PODO model, the market failures in the Ukrainian regions are the external context of the social enterprises creation in Ukraine. There are several prerequisites for a social entrepreneurship as the following: 1) the state authorities are unable to solve all the social problems; 2) traditional business entities are not receiving good spurs to join the social programs; 3) traditional business and state representatives are searching for commercial and political benefits respectively. As the grant programs are decreasing, social entrepreneurship is a good option for the third sector of the economy. The social entrepreneur may be as a person able to compete with traditional businesses. Thus, there is a significant room for the social enterprises development in Ukraine.

Nowadays there is a tendency of the charitable funds to appear in many locations in Ukraine as reaction to the military conflict needs. There were 10 thousand of charitable funds in the end of October 2014 and 15 thousand in the February 2015.

The problem of creating social enterprises in Ukraine is that the founders overestimate the role of grants as a form of funding compared to other resources. The fact of raising financing in other forms requires business profit-oriented approach that consequently will lead to efficient activities of social entrepreneur. The grant technique of investments results in a low level of motivation among the staff to implement the goals and social ideas of the entity.

The social entrepreneurship in tourism industry is a new phenomenon in Ukraine. The perception of tourism as a sector for receiving profit poses obstacles for the probability of creation of non-profit entities. In case of Ukraine, the innovative approach that is guaranteed by the social enterprise creates both monetary, well-being and social value. The latter one is discussed often in the context of regional policy.

Applying the PODO model for the case of health resorts in Lviv region requires understanding the market forces. The opportunities and the context elements of the model in case of Ukraine and Lviv region may be a good source of financing for the social enterprise and the demand for the social value from the society. Such source is the sector of the IT services. There is already voluntary project that is designed to provide free courses for the ex-military persons who are not able to find employment. The project is not yet formed as a social enterprise.

The social enterprises in Truskavets and in Morshyn are modelled as health resorts, rehabilitation and training centres for the participants of ATO (antiterrorist operation). The health services are designed for physical rehabilitation. The training services are the additional and voluntary activities for the new competencies of the soldiers for their future employment. The idea of the project is to run already proved type of business with some extra options like training courses.

The social enterprise in Shidnytsia is a model of the entities that makes profit for the infrastructure objects building in the area of the small town. The idea of the project is to run already proved type of business with extra option in terms of the profit allocation. The social enterprise uses the strategy of buying only local food

for consumption in the health resorts, e.g. the distance has to be not more than 35 kilometres.

The data of the clients of the modelled social enterprises is taken based on the previous information about the amount of the persons who have travelled to the three locations in the years. Such information is provided in the table 3.

Table 6. The amount of customers at the spa resorts Truskavets, Morshyn and Shidnytsia

Years	Amount of clients of the spa resorts (in thousand)								
	2005	2006	2007	2008	2009	2010	2011	2016*	2017*
Boryslav (Shidnytsia area)	1.8	2.0	2.2	2.3	2.2	2.2	2.4	3.2	4.3
Morshyn	39.9	44.5	47.9	50.5	49.9	42.5	46.3	68.9	91.9
Truskavets	159.2	164.7	158.6	171.1	159.8	150.0	135.1	235.4	313.8
Total market force	2205.9	2217.2	2215.7	2231.8	2220.9	2204.7	2194.8	3319.5	4426.0

Source: adapted from Regional Statistics Lviv; * - estimated by author.

The findings show that the trend in the service consumption is relatively low. The stable small amount of tourists in the area of Shidnytsia health resorts is the result of the lower standards of both accommodation and staff. But the region has an attractive location near the mountains.

Following the PODO model the people is the main asset of the social enterprise. Any business is divided into three different spheres. It firstly exists for the product/service that it offers, then for the people who use the product/service, and finally for the employees. For the business to thrive, the three spheres must be coherent. Those three spheres then make a concept/entity that helps the product/service differentiate from other products. The combination of the coherence and the differentiation are the foundations of the business model (Lafeuille, 2009).

The motives in the case of health resorts must be mixed: it must appeal to both goodwill (preservation of the land) and self-interest (empowerment of the community). As for the key stakeholders, the enterprise will have to benefit the community as well as the visitors. The members of the community will represent 100% of the workforce, who will get a market-rate salary.

The common issues in the business model of social health resorts in the three towns is the marketing program which aims to promote the understanding among the customers the social idea and the benefit of their personal consumption of the services for the local community.

The application of the value creation approach is built on the customer side. There are benefits for the consumer while the product or service is delivered. The additional bonus is the awareness of the consumer that a share of the revenue supports social needs or ecological issues. The social entity is planned to be a profitable project and ecologically friendly with the aim of the social welfare. The effectiveness of the social enterprise is considered on the basis of the three results. The three results are the financial viability, the creation of public wealth and environmental responsibility. The details of the triple approach are the following (Spreckley, 2014):

1. Financial viability is the commercial success and independence in the decision-making and in control. Attaining it means the organization and management are efficient.
2. Creation of public wealth is the ability of the group of people mutually to reach their goals.
3. Environmental responsibility is the responsibility for the green gas emissions, the biodiversity, the balance between the commercial benefits and the ecology.

The analysis was conducted to show the new value which can be created in social enterprise, namely social benefit. The social benefits of the new tourism entities in towns of Truskavets, Morshyn and Shidnytsia are the following: (i) clients – IT employees and the persons participating in the antiterrorist operation in Ukraine, internally moved persons within Ukraine. The clients are both shareholders and main clients; (ii) products or services – health services, spa services, rehabilitation services, spa services for IT employees.

The interested parties in the social enterprise are local government (authorities), local citizens, local other business (transportation, restaurants, shops, malls, theatres, etc). The approach is to divide the interested sides in three categories: main ones, the secondary ones and the third ones. The main interested side is the target group of people or main clients. They are employees, the consumers, business partners, volunteers. The secondary interested sides are the suppliers, banks, other partners, private and non-governmental organisations, the competitors. The third interested side is the amount of people who communicate rarely with social entrepreneur, e.g. financial institutions, consultants, etc.

5. CONCLUSIONS

Ukraine's social problems are very crucial nowadays. Social benefits were in demand during the independence period of Ukrainian state. The modelling a social enterprise now in Ukraine means benefiting from local resources.

The tourism sector in Ukraine can become one of the significant drivers of regional development and social value creation. The opposite side of this sector functioning is the negative impact on the local environment and objects of local identity. Thus, the tourism sector policy in terms of regional development has to be coordinated with the long-run regional development strategies. Pursuing a sustainable regional development in the tourism sector will mean the search for an effective competitive advantages of the location studied and appropriate quality of the applied measures.

The steps for the establishment of a social enterprise in health resort regions are the following. The first step is the education issue. There should be a special program for the local owners and managers of tourism social enterprises. That program would include the tourism management training, the apprenticeships for the business skills. The regional tourism associations are an efficient tool for better understanding the industry (Fruchtman, 2013), for personal communications, the market information sharing, the problems discussions and decision-making. Such

associations must develop and implement a market research program for social tourism entities, so that potential entrepreneurs can base themselves on reliable sources. A regional association, with a Board of Directors formed with experienced social tourism operators, could then provide a social tourism voice in the tourism industry strategic planning and policy development.

The realization of the modelled social enterprises is crucial for the Lviv region and the three towns analysed in the paper. There are several prerequisites which should be mentioned as follows: building a strong linkage between business and research by modifying the academic curriculum at the appropriate universities and institutes according to the changing needs of the tourism sector of economy; further development of tourism cluster functioning in Lviv region such as active membership of all institutions involved in the sector of tourism services.

Preliminary conclusions of the study show the expected positive effects on the employment of the regional citizen labour market. The employments possibilities may lead to improved living standards, as they have resulted in each of the three studied cases. Thus, the innovative model of running business improved the managerial skills, decreased the level of governmental instruments of financing, increased the responsibility for the environmental issues of the region's community.

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