

SIMPACT PROJECT REPORT

Report # D4.1 (Part II)

Existing Forms of SI Dynamics & Features influencing SI Processes and Business Models

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Table of Contents

1	DYNAMICS AND FEATURES INFLUENCING SI PROCESSES AND BUSINESS MODELS	1
1.1	Deliverable 4.1 Part II: Introduction, rationale and structure	1
1.1.1	Social Innovation Components	2
1.1.2	Social Innovation Objectives	3
1.1.3	Social innovation principles	4
1.2	SI features that affect development processes	6
1.3	SI features that affect the business models	9
2	DEEPER VIEWS ON SI DYNAMICS AND FEATURES	13
2.1	Social Innovation Components	13
2.1.1	SI as an Institutional Challenger	13
2.1.2	Civil Society and Volunteers as Primary Actors of SI	16
2.1.3	Lack of Managerial Competencies as a Barrier to SI	19
2.1.4	Underestimation of Economic Aspects as a Barrier to SI	23
2.1.5	Lack of Competencies and Skills to Conduct Side-Businesses as a Barrier to SI	26
2.2	Social Innovation Objectives	29
2.2.1	Unbalanced Use of Surplus as a Barrier to Growth	29
2.2.2	Empowerment as a Core Objective of SI	32
2.2.3	<i>Bricolage</i> as a Rationale for Goal Attainment	37
2.3	Social Innovation Principles	45
2.3.1	Context-dependency as a key characteristic of SI	45
2.3.2	Scaling Out as the Typical SI Diffusion Mechanism	47
2.3.3	Reliability and Availability of Risk-taking Funds as a Barrier to SI	51
2.3.4	Lack of Ad-hoc Policies as a Barrier to SI	56
2.3.5	Networking as a Condition to Kick-off SI	59
2.3.6	Lack of Measurement as a Gap of SI	61
2.3.7	Hyper-exploitation of Scarce Resources as a Key Characteristic of SI	67
2.3.8	Divergent Allocation of Cost, Use and Benefit as a Key Characteristic of SI	70
3	REFERENCES	74

TABLES

Table 1.	A first impression on processes of social innovation	49
Table 2.	Policy options at actor and systems level in a static (neoclassical) and a dynamic (evolutionary) theory of change	69

FIGURES

Figure 1.	Interplay of Social Innovation's Components, Objectives & Principles	1
Figure 2.	Results of under-estimation of economic aspects	11
Figure 3.	Results of the roles of actors	12
Figure 4.	Conceptual model for understanding emerging markets	40
Figure 5.	A spectrum of capital	55
Figure 6.	Social Impact Investment Market Framework	56
Figure 7.	The EU consumer market scoreboard	63
Figure 8.	Mapping of impact tools	64
Figure 9.	Example scheme to structure impact logic	67

1 DYNAMICS AND FEATURES INFLUENCING SI PROCESSES AND BUSINESS MODELS

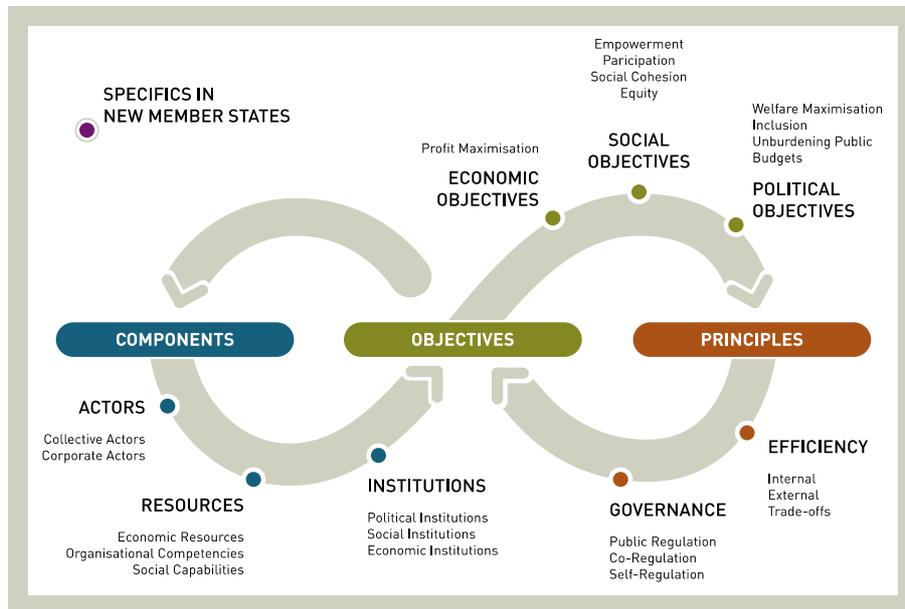
1.1 Deliverable 4.1 Part II: Introduction, rationale and structure

A multi-disciplinary study

Considering the specificity of the SI process and the complexity of SI Business Models, as emerged from the analysis presented and discussed in Part I of this deliverable (Rizzo, Komatsu & Deserti, 2015), **Part II of the deliverable** will undertake a multi-disciplinary study to advance the understanding of the different factors influencing its peculiar nature. The literature review will contribute from one side to build a theoretically sound and comprehensive deepening of the numerous factors that underlie the actual economic structure of social innovations, and, from the other, will enhance differences or similarities with other forms of innovation.

The factors and concepts affecting the social innovation business structure, which emerged from the cases reported in D3.2, have been organized following the first categorization of SI economic principles, objectives & components.

Figure 1. Interplay of Social Innovation's Components, Objectives & Principles



Source: Rehfeld et al. (2015, p. 45)

1.1.1 Social Innovation Components

Given the fact that the economic crisis - and the subsequent budget cuts that has put pressure on public organisations to become more efficient by adopting models and practices from the private sector - has affected the provision of welfare services, narrowing access for increasingly wider segments of the population, gradually deepening marginalisation and vulnerability, these public and private failures have opened spaces for SI. As already emphasised in D3.2, in fact, SIs are taking place against a backdrop of institutional and/or market failures, trying to fill the gap in welfare services. In this sense, if from one side, institutional and market failure can, thus, be viewed as «unintentional» drivers of SI, on the other, this framework seems to question if **SI** can be viewed **as an institutional challenger (2.1.1)**. In the majority of the cases analysed in SIMPACT's empirical research a **reactive attitude of SIs emerged** which is often the result of a direct or indirect response to gaps in the welfare system. The essay 2.1.1, starting from the actor-centric view of social innovation and from the results of the Comparative Report, will discuss this issue describing the different position of SI within the institutional settings. Actually, if technical innovations are born on the rich grounds of an established institutional setting and nurtured in rich environments (higher levels of education, higher standards and norms, organized networks for innovation, patent regulation, academic research...), on the contrary, social innovations still lack a proper framework and are new on the societal and political agenda.

Institutions

Considering an actor-centric view of social innovation, the interpretation of the organization's rationale is based primarily on the roles of various stakeholders, actors and networks, and on their contribution on SI birth, maintenance and development. Whenever modern Welfare States fail to fulfill social needs and/or delay the execution of proper measures or the design of new public policies, then civil society represents a crucial resource for the implementation of Social Innovation. Social mobilization and social entrepreneurial initiatives address unattended social problems relying on the voluntary sector, social capital and networking. In the essay *2.1.2 Civil Society and Volunteers as Primary Actors*, Castro Spila & Luna Garcia analyse the different factors that come into play concerning the implications that both civil society and volunteers have in Social Innovation.

Actors

The authors discuss both the positive role of the free labour provided by volunteers and their social networks, and the key role of their specific skills connected to social needs; on the flip side, they discuss how they also represent a lack of capabilities to match the market and commercial interests of the private sector.

Resources

Social capital is a crucial resource for SIs to recognize and identify social problems, share ideas, practices and knowledge inside society and reinforce social ties inside communities. SIMPACT's empirical research has shown that a significant part of the cases concentrates on the social mission of the SI and on the urgency of results achievement, while economic requirements and SI sustainability are underestimated. Committed people and focusing on the mission alone however do not guarantee the success of the SI, managerial and vertical business competences must accompany them. The collection of essays 2.1.3, 2.1.4, 2.1.5 will discuss how the **lack of specific business/managerial competences and the underestimation of the economic aspects of SI can represent a strong barrier to SI**. In the SI framework - characterized by an increasingly dynamic environment - knowledge, learning abilities and cross-sector collaborations are essential resources as in technological and economic innovations. Volunteers and civil society, the primary resources of SI, often lack the competent skills and capabilities to match the market and commercial interests of the private sector. Often, the creative solution provided to solve social problems may bring them into unknown fields of activity and businesses and might create vertical (3.1.6) as well as managerial knowledge (3.1.4) gaps.

1.1.2 Social Innovation Objectives

Economic objectives

SI's lack of managerial knowledge and its underestimation of the economic aspect affect goal attainment. The strong perception of the social mission pushes Social Innovators to use surplus and resources to support the initiative and to achieve social impact. On contrary, they invest very little in strengthening their business, affecting the growth of the social innovation. Considering that the vast majority of social innovators pursue a particular social objective in combination with a form of economic or commercial goal, the resulting organizations are hybrid organisms which can be defined as actors placed on both sides of the demarcation line between for-profit/non-profit, who pursue a social mission like non-profits while generating income from commercial activities like for-profits in order to pursue that mission (Rago & Venturi, 2014; Grassl, 2012). Distinguishing organization in two main groups - those relying on grants and those that achieve surplus - essay 2.2.1 discusses the use of surplus in SI.

Social Objectives

Following SIMPACT's understanding of social innovation as "***novel combinations of ideas and distinct forms of collaboration that transcend established institutional contexts with the effect of empowering and (re)engaging vulnerable groups either in the process of the innovation or as a result of it***" we can recognize empowerment and capacity building as core objectives of social innovations addressing vulnerable and marginalised groups in society. Due to institutional constraints, market gaps and policy failure, these groups are not able to fully participate in the economic, social, political and cultural life of society.

Empowerment, as a catalyst of people's abilities and an activity that strengthens their self-esteem improving their knowledge and skills, unlocks the hidden potential of vulnerable groups in society. Thus, enabling the vulnerable through empowerment, is more efficient than leaving them in their situation of constraint with permanent subsidies. In SIMPACT's understanding, empowerment and participation are both the means and outcome of SI.

Empowerment

Essay 2.2.2 presents different forms of empowerment from passive to active, from knowledge-based empowerment to capacity-building, sustaining the hypothesis that empowerment activities are a core objective for SI as enablers of its growth and an instrument to tackle societal challenges.

Social Innovation is hence the result of highly constrained creative processes that take place under resource scarcity. Despite the fact that Social Innovators do not apply New Product Development (NPD) strategies (use of prototypes, feedbacks, etc.) nor any other structured process - as they don't have resources to support an idea generation or prototyping phase - SI solutions emerge from a creative process. In situations characterized by resource scarcity, where new resources cannot be easily acquired, *bricolage* seems to be the only way in which social innovators may react. Taking into account the recent literature and research on the emerging area of *frugal innovation* and considering *bricolage as a rationale of goal attainment*, the essay 2.2.3 discusses the actual role of this informal approach in the ideation and development of SI in opposition to the formal job description.

Bricolage

1.1.3 Social Innovation Principles

SI Principles are those mechanisms that include decision-making and the interaction between actors and environmental forces. When analysing the economic foundation of SI, SIMPACT, takes into account, in particular, two relevant principles emerging from D 1.1: efficiency and modes of governance. In order to better understand modes of efficiency, business models and modes of governance Section 2.3 will deepen the connected issues of SI ecosystems (in terms of communities, context specificity and policy) and of resource management and governance (in terms of procurement, exploitation and reinvestment of resources and of results measurements).

As already argued, although literature on organisational efficiency mainly focuses on the field of for-profit business, some authors identified specificities of non-profit organizations, that, committed to deliver free services with limited funds, must focus on keeping organizational costs as low as possible and demonstrating a highly efficient use of resources (Daft, 2012, p. 13). Considering Berman's (2006, p. 9) definition of productivity

Efficiency

of no-profit as “the effective and efficient use of resources to achieve outcomes”, SI resource management is connected to outcomes and pursues the need to attain both financial stability and social purposes. In the attempt of reaching such a results under resource scarcity, **social innovators**, through their *bricoleur* attitude, generate solutions that operate under a **hyper-efficient regime**, exploiting and maximising at the same time the scarce resources in a very short term, on one side, and on the other, are exploring new solutions, recombining and reconfiguring assets to survive in the medium term. Starting from the lack of risk-taking found in SI initiatives (2.3.3) and discussing how hyper-efficiency characterizes SI (2.3.7), the deliverable highlights how social innovators tends to cover structural resource gaps a) re-using redundant capital as well as volunteer work, and b) relying on the use of personal, private assets and the strong personal commitment of people working in the organisation. The essay 2.3.7, discusses the hyper-efficiency connotation of SI, presenting the differences between a resource-based view and an evolutionary view based on dynamic capabilities, and provides a reflection of possible policy trajectories to support social innovators towards the building of a less fragile business structures.

The lack of managerial competence, connected to the initiators’ bricoleur attitude and to the fragility of organizations, is also considered when discussing the divergent allocation of cost, use and benefit as a key characteristic of SI in 2.3.8. Considering the differences between for-profit and mission-driven organizations, the essay shifts from an analytical to a generative frame underlining the necessity to introduce new components and mechanisms in traditional business models as Michelini (2012) suggests.

SI Ecosystems and context dependency

Whereas social challenges and the connected vulnerability problems are quite transversal, the possible answers, the involved actors, the modes in which they are solved and the resources available to foster solutions tend to be shaped in relation to the SI contexts (including social, political, and institutional ecosystems). The lack of common laws, normative regulations and public funding programs has become a barrier for the design of public policies to support Social Innovation. Essay 2.3.4 discusses the different factors and obstacles that come into play in the lack of ad-hoc policy sustaining SI and identifies also context dependency as a heavily influencing factor. In fact, policy measures are designed and carried out in specific institutional and administrative contexts, with particular normative regulations and legislation codes that in many cases won’t match other context’s social and institutional requirements.

As examined in 2.3.1, **context dependency** affects SI more than other types of innovation, influencing in particular the ways in which SI can be scaled. Essay 2.3.2 deepens the concept of “**indirect scaling up**”, through which the SI solution may influence or trigger cultural and mind-set changes that identify different modes of scaling. SI diffusion requires bridging the micro- and meso-level which can be tracked by the initiators them-

selves through different forms of direct scaling, by imitators or followers and can include forms of bargaining between actors (institutions, initiators, opponents).

Even recognizing that only successful social innovations are attractive to public or private investors, our empirical research shows that most of the time they cannot be scaled due to the impact that social circumstances and contexts have in the places where they are developed. As reported in 2.3.5, **networks** and social capital are crucial in driving and shaping SI. In this context, as a result of networking dynamics, collaborative innovation shows up through different levels of intensity and interactive learning throughout the social innovation process. Essay 2.3.5 discusses the concept of *collaborative innovation* as an alternative approach to better understand the processes of co-design and co-production of social innovations.

1.2 SI Features that Affect Development Processes

The horizontal approach provided above offered a comprehensive mapping of the specificity of SI related to different roles played by ‘actors’, ‘institutions’ and ‘resources’ as well as to the social, economic and political context. Although the connection between the single ingredients (principles, objectives and components) has been clarified in D3.2 through the analysis and interpretation of our collection of Business Case Studies (BCSs) and Social Innovation Biographies (SIBs), it is crucial to provide SIMPACT with a deeper understanding of the dynamic aspects of SI connected to its peculiar development process. As already mentioned, the process of SI follows complex and constrained paths that are affected by: the scarcity of resources in R&D compared to technological innovation; the lack, in SI, of the culture of prototyping and trial and error; the lack of specific vertical knowledge or transversal cross-sector knowledge to support the hybrid nature of SI models; and the little importance that SI gives to the economic value compared to social value and immediate impact which, in turn, will influence their complex SI business models (as we’ll see in 1.3).

Considering that SIs are new trajectories of innovation – where social innovators are brokers who need to be able to connect actors from the public, private and civil society – committed to rethink and recombine solutions and scarce resources along the process, creative solutions, knowledge resources and empowerment are crucial for SI development.

Operating in an environment heavily influenced by resource scarcity, social innovators tend to adapt their initial idea into a frugal solutions, usually made possible by a small network of actors who share the same social mission.

**Social innovation
as constrained
creative process**

At the very beginning of the initiative, in particular, when the gap between the services supplied by welfare states and societal needs became evident to civil society, **networking seemed to be a necessary condition to kick-off SI** (2.3.7). Evidences from SIM-PACT's cases suggests that only the processes of social action between network members helps the establishment of common goals inside social organizations, public institutions, and the private sector. A particular role in filling social gaps is covered by social mobilization processes where volunteering, social capital and networking have become crucial to answer to specific social needs. In this sense, as discussed further in 2.1.2, **Civil Society and volunteers result as primary actors of SI**, playing a significant role in addressing societal challenges.

A process in which social innovators exploit only the human resources, personal relations, infrastructures, and small subsidies available, requires a continuous recombination of resources in creative ways. In order to cope with difficulties and unexpected drifts, initiators adopt frugal solutions, which are the result of a *bricolages* process. Similar to what happens in the 'bricolage' approach in design, it seems that the social organisation of work does not pre-exist in any precise or detailed way, but is constituted "in the making" by SI networks, practitioners and communities of practice (Suchman,1987). These modes of actions - where the take-up, toning or rejection of a solution and the adjustment of the products/services that will take place around a developing SI, are radically unknowable and unpredictable - often make SI fragile. As discussed in 2.2.3 (Bricolage as rational of goal attainment), *Frugal Innovation - a new paradigm to confront within its more actual, wider and comprehensive form*, can be defined as a "design innovation process in which the needs and context of citizens in the developing world are put first in order to develop appropriate, adaptable, affordable, and accessible services and products for emerging markets" (Basu et al., 2013). In this sense, frugal solutions are not meant to test and assess the initial ideas nor are prototypes. Instead, **SIs are expected (and are often able) to immediately demonstrate their ability to produce outcomes and social impact.**

The choice of frugal and improvised solutions is also due to a **lack of ad hoc policies**. According to an analysis of current policy activities in the field of social exclusion, poverty, migration and unemployment, **reactive policies** are the dominant logic of policy-makers who, as a consequence, shift responsibility to civil society and thereby to SI projects, organisations and social enterprises. Essay 2.3.4 deepens the issue that the **lack of specific SI policies** is a barrier to SI development in comparison to the technological innovation framework. In particular, SI policies should include: the creation of particular organizational infrastructures; access to micro-finance; and mentorship programs involving vulnerable and marginalised groups in the creation of business projects in the labour market, which support their capacity to react to their own problems.

The process of SI, even if not completely overlapped, has some points in common with the Open Innovation process. Open Innovation, first coined by Henry Chesbrough (2003), represents a paradigm shift in the field of innovation and is labelled a new model of product development, built on the free flow of information and ideas across departments and organizations. Actually, as a result of the enabling action of digital technologies, the expression has gained a wider meaning being associated with new forms of collaboration between users and firms. On the one hand, thanks to this widening, the practices of open innovation find a fertile area of application in the social field for its capability of engaging citizens in the design and development of SI. (SI Theory and Research EU, TEPSIE 3.2). On the other hand, a less visible connection is that both - open and social innovation - address problems that present high levels of complexity due to their intrinsic correlation with societal challenges (D3.2). Currently, we are confronted with a broad range of open innovation initiatives, often engaged by private firms, that call for solutions that serve society as a whole, which address pressing problems of our time or try to attract attention and engagement for the creation of solutions beyond a firm's product and service spectrum. According to the analysis of 2.1.3 – discussing the importance of the skills and knowledge of the initiators – the Open Innovation framework is useful when reading SI in terms of knowledge resources. In particular, the use of co-creation methods to engage suppliers to bring in specific knowledge and competences allow Social Innovators to cover and manage the whole innovation chain. With an open process they can cope with the lack of knowledge resources both on vertical and horizontal (managerial) capacities, connected to side-businesses (2.1.3, 2.1.5). Nevertheless, since innovators are not confident with the complexity of the innovation process, the approach is often used unconsciously and therefore not widely spread under this name in the field of social innovation so far.

Open Innovation
process similarities

Several studies have highlighted the need for skills and skill formation strategies in Europe and in particular have identified a lack of training and experience as one of the main barriers to SI success. In order to tackle this problem, innovators strive for cross-sector collaborations, investment in relation-specific assets, knowledge sharing routines and knowledge outsourcing by acquiring it on the market. Considering also Nonaka's (1995) view of innovation as knowledge transformation and accumulation, we can state that: *Just as technological innovations, the development of social innovations identifies knowledge and cross-sector-collaborations as the most indispensable and important resource for innovation and especially in those cases the innovation faces an increasingly dynamic environment* (2.1.3).

SI as learning,
empowering
& collaborative
process

Contrarily, whereas technical innovation is about applying and combining different knowledge sources (analytic, synthetic and symbolic knowledge), social innovation is much more about the design process itself (2.1.1).

Thus, the innovative ability and success of SI is moreover highly dependent on its collective ability: collaboration can provide the necessary support otherwise lacking from present or non-existing institutions, thereby filling institutional gaps by connecting actors and assets, as well as by spreading information and resources (Murray et al., 2010). Collaboration and participation, in an overarching approach that systematically create large-scale empowerment, not only results in sustaining SI but also, and mainly, collective benefits: the concept of empowerment is widely seen as a comprehensive one, which refers to goals, means, processes and results of individual and social change (2.2.2).

A territorialised process

The development process of a SI is highly influenced by its context (institutions, markets, networks and embeddedness), which explains its path-dependency. Essay 2.3.1 on context dependency reports a wide range of literature on SI discussing its strong dependency on the local context and strong territorial bounds. Moulaert (2009) and Van Dyck and Van den Broeck (2013) discuss that **SI should be understood as a territorialised process**, as it is highly rooted in the local context, and that the concept of territory is central in SI theories. In the same vein, essay 2.3.6 underlines that specific SI policies designed for a certain social context cannot be applied to another (Rossi & Russo, 2009), as SI processes, differently from other forms of innovations, involve such a consistent group of stakeholders and contexts that the need for local adaptation, tacit knowledge and face-to-face communication is greater. This factor hinders the design of homogenous policy-making in social innovation and also its scaling opportunities. As discussed in 2.3.2, the process of scaling and diffusion, due to the strong context dependency of SI (2.3.1) that acts as a barrier, needs to be understood in a broader sense, including the mechanisms of indirect scaling.

1.3 SI Features that Affect the Business Models

As epitomised in the Study of Business Models (see D4.1 Part I, Chapter 4), a business model describes the rationale of how an organization creates, delivers, and captures value (Osterwalder & Pigneur, 2009). A business model translates choices about value propositions, markets and customers into value and match those choices with an organizational structure that can then capture/monetize the value created (Smith et al. 2010). According to Osterwalder and Pigneur (2009) a business model can best be described through nine basic building blocks that cover the four main areas of a business: customers, offer, infrastructure, and financial viability. The Business Model Canvas (BMC) represents a well tested tool and is like a blueprint for a strategy to be implemented through organizational structures, processes, and systems.

Business models and their use as a source of innovation rose to importance at the advent of technological advances as the economy started to understand and evaluate the value of intangible products. Currently, as third sector organizations are called to fill in the gap between market and state failure, finding the right business model, able to generate economic value and maintain and increase social value is crucial for SI success. Also according to Michelini (2012, p. 4)

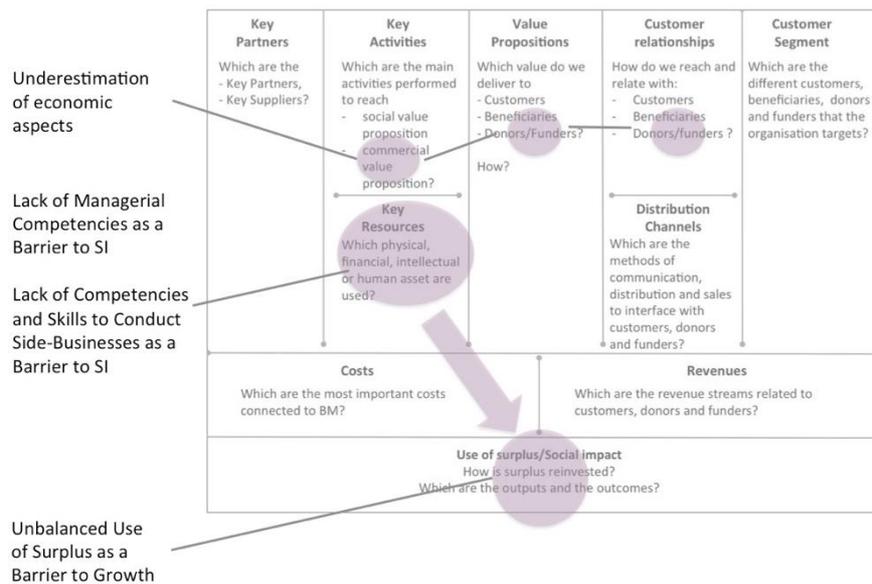
“leading companies have recently developed innovative forms of social innovation by combining three elements—the concept of shared value creation, the theory of the fortune at the bottom of the pyramid, and a corporate social entrepreneurship approach—through which they enter low-income markets by helping to solve global challenges while simultaneously generating profits”.

The results of our empirical research confirmed this vein, as we discovered that business hybridity is a transversal characteristic of the majority of the SIs that we analysed. The resulting SI business models are characterized by an intrinsic complexity, which is the outcome of paradoxical strategies that try to manage the tensions between the need to pursue the social mission and the need to remain financially stable. Hereafter, we'll try to connect briefly which SI features affects BMs requiring a hybrid solution.

As already epitomised, the strong commitment of initiators with the social mission often reflects a total underestimation of the economic issues and of innovation sustainability. The lack of specific vertical knowledge or transversal cross-sector knowledge to support the hybrid nature of SI models, the little importance that SI gives to the economic value compared to the urgency of immediate impact influence complex SI business models. In particular, the underestimation of economic aspects (2.1.4) is not limited to the social innovators themselves, but is extended to the whole environment of SI (intermediaries, evaluators, funders). In this sense, as reported in Figure 1.1.3-1, the incapability to express the economic activities and the connected commercial value proposition influences the relationship both with donors and funders. Moreover, the lack of specific competences and skills to manage side business may affect hybrid business models and restrain social impact and growth.

Overall under estimation of economic aspects

Figure 2.
Results of under-
estimation of economic
aspects



The double role of actors

Another group of features affecting the Business Model Canvas is represented by the nature of SI actors. As shown in Figure 1.1.3 -2, institutions, and their specific context and policy framework, represent an important actor/counterpart of the SI solution. In an actor-centric view of social innovation (2.1.1) - where the roles of various stakeholders, actors and networks, and their contribution to social innovation throughout the lifecycle is the reading key - institutions are not static and the changes in the welfare systems are one of the most important drivers for the need of social innovation. In this sense, depending on the context, institutions can represent a barrier as well as a driver for SI or both, requiring a complex business model built on seemingly antagonistic assets (Hockerts, 2015) and traditionally antagonistic logics, constructed in reaction to the tensions created between: assets, logics and the institutional setting (Terstriep et al., 2015).

Moreover, another important difference from traditional forms of innovation is determined by the key role of volunteers and civil society. Usually volunteers, as discussed in 2.1.2, are the primary actors of SI providing free labour, resources, assets, knowledge and commitment to the social aim of the institution. Their complimentary labour often is the major source of key activities. The scarcity of resources influence the economical structure as social innovators often start an initiative with personal funds. They do not give themselves a salary for quite some time, and the SI remains highly dependent on funding from others, mostly in the form of public grants or subsidies and donations (2.3.5). This ad-hoc funding lacks a structural, long-term strategy, and represents a barrier to self-sustainability.

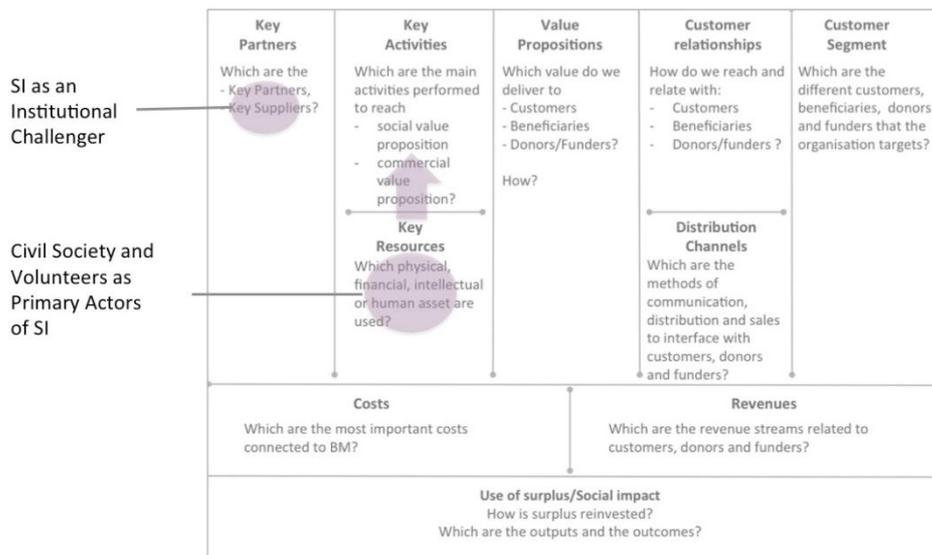


Figure 3.
Results of the
roles of actors

As discussed further, the hyper-exploitation of scarce resources is a key characteristic of SI that can be framed within the so-called Resource-based view of innovation. According to this view, resource scarcity may be balanced by another specific resource or capability, generating a unique combination. The kinds of key resources in SI are often different from those for other types of innovation. Frequently, the social resources or capabilities and/or political resources and capabilities are more prominent assets and counterbalance economic resources. Nevertheless, this hyper exploitation of existing resources through creative solutions affects the business model structure making it more fragile and less sustainable in the long term.

2 DEEPER VIEWS ON SI DYNAMICS AND FEATURES

2.1 Social Innovation Components

2.1.1 SI as an Institutional Challenger

SOCIAL INNOVATIONS TEND TO CHALLENGE INSTITUTIONS MORE THAN OTHER FORMS OF INNOVATION.

DIETER REHFELD - IAT

Introduction

This aspect covers a key question of social theory, the interplay of individualistic and structural or institutional approaches. With reference to the actor centered institutionalism approach (Manytz and Scharpf, 1995) this challenge was pointed out in the SIMPACT description of work as followed:

“The institution-centric (or structural) view focuses on how markets, the public and tertiary sector, as well as institutions (including incentives, norms and laws) function (or not) in looking after the marginalized and poor. The actor-centric view of social innovation centers on the roles of various stakeholders, actors and networks, their contribution to social innovation throughout the lifecycle as well as their embeddedness in specific cultural, economic and social contexts.”

The “Comparative Report on Social Innovation in Europe” (Terstriep et al., 2015) concludes that “Social Innovations tend to challenge institutions and thus, require an understanding of institutional order and multilevel governance that direct institutions, which facilitate or impede their implementation.”

Discussion

The discussion of this topic needs a clear understanding what “institution” is about. In general, have two faces: they are result of collective social action and they define the rule of the game and guide (not determine) individual and collective action. For a deeper view it is useful to differ between different layers of institutions, in a broader sense there are four layers.

Firstly, on an abstract supranational level (in SIMPACT we focus on the European level, the case becomes more complicated when we look at the global level) there key institu-

tions that structure the way societal subsystems work: the economy is market driven, the political system bases on parliamentary democracy and a power balance between political and juristic system, civil societal bases on privacy (cf. for the aspect of social construction of these key institutional assets for instance Polanyi or Siedentop, 2015). We have to keep in mind that these institutions have different normative bindings: whereas the democracy or division of power are a basic societal principal and out of discussion the market driven economy is not an essential aspect and an alternative balance between politics and economy is possible between these European normative institutional settings.

Secondly, there are institutions that guide the way specific policy fields works. This aspect is discussed in approaches like varieties of capitalism or varieties of the welfare state (Hall and Soskice 2001; Esping-Andersen 1997). The most established categories are stakeholder vs. shareholder capitalism, federal vs. centralistic political systems, collective or individualistic welfare systems. With respect to social innovation a broadly accepted assumption is that collective welfare systems cover most aspects of individual welfare and the need of social innovation is poor whereas individually organized welfare systems developed hand in hand with institutions of neighbourhood solidarity or social entrepreneurship.

These institutions are not static and the changes in the welfare systems are one of the most important drivers for the need of social innovation that aim at improving the conditions of live of marginalized people. Facing challenges like economic and fiscal crisis most European welfare systems followed a cost-cutting service strategy often hand in hand by the introduction of market driven elements. In consequence the responsibility for the basic conditions (work, minimum income, appropriate education, health, access to public services) for an active societal life had been shifted step by step from the public sector to individual responsibility (cf. the broad overview in Romahn and Rehfeld, 2015).

This shift had been driven by a neo-liberal societal thinking (cf. for instance Ther 2014; Crouch 2015). In consequence the balance between political, economic and civil sectors of societal (mentioned in the first layer that has been discussed in this essay) changed and social innovation that focus on institutional change aim at rebalancing the division of functions between these three societal subsystems. At the same time, the neoliberal pressure leads to the third layer of institutions that has to be discussed.

Under the surface of the formal institutions of the welfare systems we find rules and regulations that guide the specific programs, rules and rights of individuals – the third layer of institutions. These rules are defined in norms and regulations, prescriptions, enactments or decrees as well as in procedural rules or technical norms.

**Social innovation
& technical
innovation**

This layer is crucial when we go to compare technical and social innovations. Technical innovations are embedded in a dense and established institutional setting:

- In the courses and approach of higher education, especially in engineering,
- There are well accepted standards and norms that facilitate the cooperation of different companies basing on codified technical norms,
- In the way large companies organize innovation, especially in separated research and
- In the terms of reference of a lot of innovation politics and programs, especially when innovation networks have to integrate academic research,
- In the way innovation is framed by intellectual property rights, especially in patent regulation,
- Not at least, academic research studies innovation by measuring patents, research and development activities, research funding and so on.

In contrast, social innovation is new on the societal and political agenda and it is far from a fitting frame. There is coherent mode of higher education with an accepted curriculum, stands and norms are outstanding, research projects are still in search of criteria to assess and evaluate social innovation, and political programs are in an infantile phase in most countries.

Due to the different time line this lack of an institutional frame of social innovation is not surprising. Nevertheless, we can claim that there are key differences between technical and social innovation that have to be kept in mind when we ask for an institutional frame. Three aspects are mentioned in order to illustrate the differences:

- Whereas technical innovation starts with phases of piloting, testing or certification social innovation is experimental in the beginning, the social innovation is comparable with the piloting phase in technical innovation,
- Whereas technical innovation is about applying and combining different knowledge sources (analytic, synthetic and symbolic knowledge), social innovation is much more about design a process,
- Whereas technical innovation goes hand in hand with the protection of knowledge in a highly competitive environment, social innovation depends on free and broad knowledge flows.

The fourth layer has no formal regulation. It bases on tradition, habits, prejudice and so on. In technical innovation for instance there is an on-going assumption that innovation

focuses on saving money (and not resources). In social innovation – as it is understood in SIMPACT – the assumption is that disadvantaged people are a societal and economic potential or resource and not a burden that has to be financed by the welfare system.

Coming back to our conclusions from the Comparative Report mentioned in the introduction the challenge of institutions by social innovation has two aspects. The first and more general aspect is the institutional frame that helps to facilitate social innovation and frames it like this is the case in technical innovation. The second and in the context of SIMPACT more important case is the institutional frame of the related policy field. In this case not all social innovation activities compared in our report challenge the institutional frame. Some compensate institutional failure at the periphery of the institutional setting, other activities make the institutions frame more efficient. The key question is whether the process of social innovation contributes to institutional change for instance in a way that it is more aware of the specific aspects of disadvantaged people. Insofar it would be worth to rethink the conclusion mentioned in the introduction as followed: “Social Innovations should aim at challenging and changing the institutions in the related policy field in a way that the institutions facilitate to make use of the societal potential of disadvantaged people. This aim requires an understanding of institutional order and multilevel governance that direct institutions, which facilitate or impede their implementation.”

Conclusions

2.1.2 Civil Society and Volunteers as Primary Actors of SI

SI SHOWS A STRONG INVOLVEMENT OF CIVIL SOCIETY. FOR EXAMPLE, VOLUNTEERS MAY BE FUNDAMENTAL RESOURCES FOR THE SUSTAINABILITY OF THE SOLUTION. A STRONG VOLUNTARY SECTOR CAN HENCE BE CONSIDERED AN ENABLER OF SOCIAL INNOVATION.

JAVIER CASTRO SPILA & ÁLVARO LUNA GARCÍA, SINNERGIAK

The involvement of civil society is a highly relevant resource for the implementation of Social Innovation. The failure of modern Welfare States to answer to certain social needs and challenges through the design of new public policies, has led to social mobilization and social entrepreneurial initiatives to address unattended social problems. These initiatives rely in the voluntary sector, strong social capital and networking to develop sustainable innovative solutions in the social sphere. However, due to the non-profit nature of social organizations and the Third Sector, these actions often lack of human resources with competent skills and capabilities to match the market and commercial interests of the private sector.

Introduction

The present essay is focused in the discussion of the following hypothesis:

Social Innovation shows a strong involvement of civil society. For example, volunteers may be fundamental resources for the sustainability of the solution. A strong voluntary sector can hence be considered an enabler of social innovation.

In the following pages we will analyse the different factors that come into play concerning the implications that both civil society and volunteers have in Social Innovation. The failure of modern Welfare States to build effective public policies that attend the socially excluded sectors of society has driven the civil society address these challenges. This gap has been filled by the relevance of social mobilization processes where volunteering, social capital and networking have become a crucial component of socially innovative actions to answer to specific social needs.

It has been very much argued that a strong civil society and volunteering are key resources for non-profit organizations and the social economy to promote successful social innovations. A strong involvement of the civil society in social organizations highly contributes to social integration, and the adoption of innovative solutions both at the private and public levels, demonstrating their influence in the design and redefinition of public policy, and their impact in the private social economy, which looks to answer and improve unattended social problems and challenges. This makes the analysed hypothesis highly relevant to understand how social demands can influence the development of bottom-up social innovations where civil society, the voluntary sector, and social mobilization play a significant role, representing the voice of socially excluded and vulnerable groups.

**Crisis of
the Modern
Welfare State**

According to Gerometta et al (2011), the crisis of the modern Welfare States, political fragmentation, and the increasing lack of public policy to answer to certain social needs, has encouraged social actors to privately address social problems such as social inequality, social exclusion and spatial segregation, through non-lucrative organizations and social mobilization. These actions lie in the heart of a strong civil society to privately manage and influence public policy, and answer to certain social problems, which lack a response from the State. *“There is a tendency to self-organization and civic engagement: citizens increasingly take matters into their own hands in areas where the direct effects of their efforts can be seen and thereby redraw the boundaries between the political and the private.”* (Gerometta et al, 2005, p. 2012-2013). **The involvement of a strong civil society through social mobilization and organization processes demonstrates a highly socially innovative capacity to address social problems** of certain social groups that are not publicly represented (Gerometta et al, 2005).

Moreover, a stronger or weaker civil society is influenced by its social context, being the rate of openness and democratization of its political institutions a key component of its nature. Consequently, **civil society will only influence social innovation at the local or regional levels if there are connections that bridge the interests of both the “excluded and integrated segments” of society**, promoting their participation in the public and private spheres, and thus being the voice of the social problems and challenges they encounter in their communities (Gerometta et al, 2005, p. 2019).

These processes not only can influence the design of socially innovative public policies, but also can persuade private and non-profit organizations to invest in the social economy through socially innovative initiatives. In this context, a strong civil society also strengthens community ties by encouraging social actors to volunteer in the social economy. **Volunteers are a key resource for non-profit organizations providing free labour and skills to answer to specific social needs.** These associative processes inside the community have been empirically studied by the theories of **social capital** where high levels of trust and solidarity inside social groups, and the creation of strong social networks, improves the quality of life and the social wellbeing of these communities (Putnam, 2002, 2003). The intangible social factors of civic engagement favour the answer to critical social problems. In this sense, social networks are the crucial component of social capital, and also a key resource to understand the nature of social innovations.

For this matter, **social networking and social capital play a significant role in civil society**, where the processes of social action between network members helps the establishment of common goals inside social organizations, public institutions, and the private sector. This connection allows for a greater flow of knowledge and strengthens the collaboration between the different agents which use and share different resources and skills, favouring the inclusion of inter-organizational partnership agreements that are crucial for social innovations to happen (O’ Leary et al., 2008; Vaillancourt, 2009).

However, although civil society and a strong voluntary sector are important drivers of social innovation, **the values that social and non-profit organizations pursue when responding to a certain social need, do not always meet those of the private sector**, which can be a huge barrier when matching market interests towards the design of social innovations. According to Harrison et al (2012), *“A public corporation relies on the market for its dominant values, while associations coordinate their values through social justice”* (Harrison et al, 2012, p. 11). This specially comes into play when these social organizations look to finance their activities by establishing alliances with other agents such as the private sector.

Values and Motivations of SI initiatives

When studying the different organizational examples that are present in the Deliverable 3.2 (Terstriep et al., 2015). (Roda, Vielfalter, Libera Terra, VorleesExpress), the empirical evidence shows that **values and motivations inside social innovation processes are driven by different goals and mechanisms of implementation for them to be sustainable**. Many non-profit organizations look for new funds through private grants under Corporate Social Responsibility programs in the private sector. The market and commercial interests of the company that provides the funds can be different than those of the non-profit organizations. This can create conflicts between the different partnerships and inside non-profit organizations when the economic and the social interests of the initiatives are not the same, especially because social innovators are rarely familiar with the entrepreneurial and financial factors that come into play when designing a specific business plan. This is clearly a barrier for SI to have market success.

Final remarks

Therefore, we conclude that this hypothesis is not only relevant for the study of SI, but also crucial to understand how the social context influences the degree to which and/or why certain social innovations are successful or can be scaled up. A strong Civil Society can influence the design of socially innovative public policies and also be a crucial driver to conduct social innovations into market-oriented activities. For this to happen, the degree of openness and democratization of societies are crucial. The capacity to bring to the public eye social problems and share ideas, experiences and knowledge inside any given society, generates trust by strengthen social ties inside its social communities. This trust influences any innovative process. If this process turns out to be successful both in the public and private sectors, then this cycle is reinforced, leading to new cooperation and building trust through the creation of social capital (Adler and Kwon, 2002; Ansell and Gash, 2008; Harrison et al., 2012, p. 4).

2.1.3 Lack of Managerial Competencies as a Barrier to SI

CAPACITIES, NAMELY SKILLS AND KNOWLEDGE OF THE INITIATORS, TEND NOT TO BE ADEQUATELY CONSIDERED AS PRE-REQUISITES TO KICK-OFF AND RUN A SI. IN PARTICULAR, SOCIAL INNOVATORS LACK MANAGERIAL COMPETENCES MORE THAN OTHER INNOVATORS.

MARIA KLEVERBECK: IAT

Introduction

Several studies have highlighted the need for skills and skill formation strategies in Europe and in particular identified a lack of training and experience as one of the main barriers to the sector's success. ***The establishment of several forms of innovation show that lack of transversal managerial knowledge and lack of vertical knowledge of the industry are among the most important reasons for mistakes and failures.*** It

is argued that management of the diverse and complex income/revenue streams require financial and managerial competences of mission-driven organisations' staff.

Just as technological and economic innovations, the development of social innovations identifies knowledge and cross-sector-collaborations as the most indispensable and important resource for innovation and especially in those cases the innovation faces an increasingly dynamic environment. Under these circumstances sound decision-making is challenging because social innovation actors must decide and act rapidly in order to respond to environmental dynamism. In this vein, drawing on the relational view and the dynamic capability view in strategic management the role of networks, knowledge, learning, internal capacities and environmental factors plays a pivotal role in managing and implementing innovations.

Considering the ex-ante experiences of engaged people in the social innovation process our empirical research shows that initiators have competences in working with vulnerable people and know the special requirements of the target group. Distinct experiences are often available from prior projects, which showed to be related closely to their respective academic education and curriculum vitae. In addition, initiators sometimes have a professional expertise in regional projects and knew the local contexts where the social innovation should to be introduced quiet well. It is also evident that the way in which the social problem is solved may bring them into unknown fields of activity and businesses and might create managerial knowledge gaps.

Hypothesis

A key factor distinguishing social innovation processes from other innovation processes is its inherently cross-sectorial nature. That is, social innovation processes are characterised by cross-sector partnerships involving some form of structured collaboration between organisations from business, non-profit (NGO), public and informal sector focused on achieving beneficial knowledge.

Cross-sector collaborations & relational capital

In respect to cross-sector collaborations as key aspect in innovations, the relational view points to the importance of relation-specific assets to generate relational rents and competitive advantage (Duschek, 2004; Dyer & Kale, 2007). Relational rents accrue from shared value creation through the combination, exchange and co-development of alliance partners' resources and cannot be generated by either partner in isolation. Potential sources of relational rents comprise investments in relation-specific assets, knowledge sharing routines, complementary resources and capabilities, and effective governance structures (Dyer and Singh, 1998; Lavie, 2006).

Investments in relation-specific assets allow for optimised inter-organisational (business) processes through co-specialisation which in turn lower transaction costs along the value chain, enable greater product/service differentiation and faster development

cycles. However, the establishment of knowledge-sharing routines accounts for inter-firm learning processes and the development of problem solving competences within the partnership. These routines can be defined as “[...] a regular pattern of interfirm interactions that permits the transfer, recombination, or creation of specialized knowledge” (Grant, 1996). Whereby alliance partners’ complementary resources and capabilities offering synergy potentials are a precondition for generating relational rents. Only by leveraging partners’ complementary resources endowments and therewith, the creation of collective network resources greater rents than the sum of those obtained from the individual endowments of each partner can be achieved (Dyer & Singh, 1998; Lavie, 2006). Moreover, effective governance structures as functioning coordination and management mechanisms play a decisive role in the creation of relational rents as they influence transaction costs and alliance partners’ willingness to engage in value creation processes (Dyer & Singh, 1998; Gaitanides, 2007).

Thence, cross-sector collaboration poses significant managerial challenges, as partners are required to work together despite the fact that they represent organisations that may have different and potentially contradictory objectives, value propositions and philosophies. Leveraging the advantages of interactive value creation (Reichwald and Piller, 2009) – both in terms of specific benefits for the respective partner and the social value added by the partnership – requires openness to external knowledge sources and an understanding of how to explore, transform, and exploit cross-sector knowledge. Forasmuch, social innovation actors must establish certain structures and processes to facilitate and operationalize organisational learning across sector boundaries.

**Dynamic
Capabilities and
the relevance of
knowledge**

Our empirical research identifies that the strong motivation of the social innovators tends to make them underestimate the need of managerial knowledge. Even if this remark is specifically related to managerial knowledge, to a certain extent it could be applied to all types of resources. Management scholars have proposed firms dynamic capabilities as means for addressing turbulent environments which tend to be associated with rapid and discontinuous change in competitive, technological, social, and regulatory domains (Helfat, Finkelstein, Mitchell, Peteraf, Singh and Winter, 2007; Teece, Pisano, and Shuen, 1997; Teece, 2007). In the context of social innovation and accounting for the indispensable role of knowledge in the innovation process collaborative capability and absorptive capacity are picked up as important dynamic capabilities. The former comprises the capacity to develop and manage networks based on mutual trust, commitment and communication (Blomquist and Levy, 2006), while the latter refers to the ability to recognise the value of knowledge, acquire, assimilate, transform, and exploit this knowledge (Cohen and Levinthal, 1990).

In the past decade, a new approach –Open Innovation- became famous in order to expand knowledge resources. The approach advances the use of co-creation methods to

engage suppliers to bring in specific knowledge and competences. It is argued that companies realise that they are not capable to manage the whole innovation chain, because they are not only forced to be specialise in their production, but even in R&D. The solution proposes to share research effort for new products and markets in order to accelerate the innovation process and to reduce the transaction costs (Chesbrough and Bogers, 2014). This is the process, which could successfully establish social innovation, what also becomes evident by some of the analysed cases. Nevertheless, the approach is often unconscious used and therefore not widely spread under this name in the field of social innovation so far.

In addition, a lack of transversal managerial knowledge and vertical knowledge of the environment and sector are among the most important reasons for mistakes and failures. According to our empirical research, underestimation of the economic aspects does not seem to be limited to the social innovators themselves, but is extended to the whole environment of SI. This phenomenon was particularly found in cases where for-profit branches are meant to provide surplus to be utilised to pursue the social mission. As discussed before, innovators do not know how to cope with complexity and duality of the innovation process. Hence, there is firstly a dominant model how to manage and lead innovations “strategic choice model”, secondly a dominant model how to deal with complex situations “model 1 theory-in-use” and thirdly a dominant human information processing model that strive reducing the human psychological effort to solve problems “fast thinking” (for more information see Stacey, 2010; Argyris, 2010; Kahneman, 2011).

Such models as well as tools of evaluation methods in the early stages of development would be particularly useful to funders, incubators, intermediaries and policy makers. Besides the relevance of the social mission and the expected social impact, evaluation should take into account product-, firm-, project- and market-related factors. Even if failure may be seen as a learning process and understanding the complex management system social innovations are often launched without evaluation of their economic sustainability.

Several forms of innovation try to balance competences as the primary way to cope with failure and the need of taking care of multiple aspects of the innovation. In social innovations it is more likely to have the same background with the focus on working with vulnerable groups, what is also confirmed by our empirical research. In order to tackle this problem, innovators strive for cross-sector collaborations, investment in relation-specific assets, knowledge sharing routines and knowledge outsourcing by acquiring it on the market. In the majority of the cases the scarcity of resources has forced social innovators to find creative solutions to cope with the lack of knowledge.

How to manage
complex inno-
vation processes

Conclusion

2.1.4 Underestimation of Economic Aspects as a Barrier to SI

SOCIAL INNOVATORS SHOW A LIMITED CAPACITY TO CORRECTLY ESTIMATE ECONOMIC ASPECTS COMPARED WITH OTHER INNOVATORS. UNDERESTIMATION OF ECONOMIC ASPECTS IS NOT LIMITED TO THE SOCIAL INNOVATORS THEMSELVES, BUT IS EXTENDED TO THE WHOLE ENVIRONMENT OF SI (INTERMEDIARIES, EVALUATORS, FUNDERS).

RÜDIGER GLOTT- UM-MERIT

Introduction

Economic sustainability is a precondition for any entity that operates in a market environment where the input of resources results in costs. Cost pressure is a vital driver of innovation in the private and public sector of the economy. Many social innovation initiatives seem however to ignore critical economic aspects and fail thus to secure sustainability.

Economic Aspects and Social Mission as Drivers of Innovation

According to Schumpeter (1934), innovation is driven by competition. In order to maximize revenues and/or minimize costs, enterprises seek for opportunities to improve performance, increase demand, enter new markets, or make processes or structures more effective. As the Oslo Manual (OECD/Eurostat 2005: 18) points out, the objectives of such innovators “may involve products, markets, efficiency, quality or the ability to learn and to implement changes.” The ultimate reason of these forms of innovation is to improve the firm’s performance and to gain a competitive advantage over rivals (OECD/Eurostat 2005: 29). Product, process, marketing or organizational innovation requires from the innovator to carefully observe the business strategy, information sources, innovation obstacles, diffusion of new technologies throughout an economy, R&D resources, and the regulatory framework in which the enterprise operates.

Social innovation (SI) is often described analogically to technological or product innovation. For instance, the “spiral model” (Mulgan et al., 2007) conceptualizes social innovation as a sequence of prompts, proposals, prototypes and sustaining (Terstriep et al., 2015). The underlying assumption of this view is that social innovators make a number of decisions between various options at each level of the spiral, thereby following a more or less explicit strategy.

However, there are significant differences between social innovation and other forms of innovation. In stark contrast to other forms of innovation, as described above, SI is driven by a social mission. In their self-perception social innovators do not compete but they help to respond to social problems that result from market or policy failures. While Schumpeter’s “creative destructor” strives to eliminate competitors the social innovator rather strives to complement welfare policy and to eliminate anguish.

The evidence on SI collected by SIMPACT shows that a majority of the cases is largely – for not to say – exclusively focussed on the social mission of the SI and underestimates or even ignores the economic requirements that must be met in order to make the SI sustainable. Only very few cases have developed a business model and a business strategy from the outset and strive to secure a constant flow of revenues and surplus.

SI founders often have a more or less clear view on the social value proposition of their initiative and on the beneficiaries whom they want to help. This is often based on personal experience of the founders, either based on observations in their professional environment or on personal involvement in the problem in their private / family sphere. Consequently, the lack of strategy and understanding of economic constraints and opportunities mentioned above often spans the whole business model, which requires a value proposition for which customers are willing to pay and not only beneficiaries who benefit from the SI's services for free.

The most critical economic aspect that is often underestimated by the SI founders is the financial sustainability and the costs of the business. Typically, a mid-term or long-term perspective based on an idea or concept of how the market is structured and will probably develop and how the SI shall evolve over time is lacking. The lion share of the cases depends completely or to a very large extent on the founder's own investments, public grants and/or private donations. Often, these financial means have been raised in the founding phase of the SI and are used to finance the initial development of services, tools, and infrastructure. It appears that in many cases the founders of the SI trust in this source of revenues as a continuously available resource, even though these grants and donations are usually granted for a specified period of time and/or for specific purposes.

**Underestimation
of financial
sustainability**

The often observable lack of business strategy and business model often results in a critical underestimation of costs. Even new money that has been raised is often not used to cover fixed costs but invested in the development of new goods or services, which often creates additional costs.

**Costly Bricolage
instead of
Sustainable
Strategy**

This does not mean that SI founders are ignoring the fact that they have to secure financial revenues in order to pay for the costs of their activities. Many of them seem to be very successful in fund-raising and manage to find donors that help financing the second or third step of the evolution of the business. However, often these steps are not planned but evolve more or less incidentally from practical experiences during the initial phase of the SI. This does not per se mean a shortcoming. However, the lack of strategy and planned evolution of the business seems to imply that the founders often react to needs and opportunities that they encounter in the initial phase without careful checking whether and how these needs and opportunities meet the capacities of the SI – or overburden them. This is illustrated by many examples of SI that expand the scope of their

services already at a very early stage of the SI although fixed costs resulting from salaries and infrastructure maintenance – e.g. software employers, webmasters, designers – are not yet covered.

The lack of alternative revenue streams that would improve the sustainability of the SI – e.g. when public grants run out – is often due to the lack of target groups – within or outside the groups of beneficiaries – that are able and willing to pay for services or goods provided by the SI.

In addition, in many SIs the key partners are often sponsors or people who contribute time and expertise to the SI voluntarily. While this appears natural and in line with the rationale of social not-for-profit initiatives it is also evident that an SI relying on voluntary work has to develop a strategy to keep these financiers and volunteers motivated. In other words, financiers and volunteers must be rewarded. This does not mean monetary rewards but it appears necessary to offer these essential partners – in the long-run – a reward that goes beyond the fact that they contribute to “something good”.

This aspect appears particularly relevant in context with the former point, the lack of a business strategy and a sustainable business model. If financiers and volunteers observe that the SI develops well and achieves a positive impact on the situation of the beneficiaries – which may also be valued by civil society – they would be more motivated to long-term engagement in the SI. If they, however, observe that there is no clear plan for the development of the SI and that their monetary and non-monetary investments in the SI more or less fizzle out, these key partners tend to back out.

Reinforcing Scarcity of Resources

The financial aspects of SIs have two sides, though. The economic sustainability of the SI does not only depend largely on the expertise and capacities of its founders and managers but also on the expertise of donors. Our empirical base contains a number of SIs that have received public and private grants and donations although they were not able to show how they achieve sustainability. Considered from an economical perspective, these grants and donations are misinvestments that often support chanceless initiatives. As a consequence of these misinvestments the “market for social innovations” seems to some degree to be misguided through false economic incentives. Another consequence is that the share of these misinvestments limits the potential for SIs that focus on a sustainable business strategy and business model. What is lacking, in this regard, is awareness of investors of the specifics of SIs and a clear set of categories and tools that allow evaluating the success chances of the SI in the long run. This assessment should require a clear business strategy and a corresponding business plan from organizations with a social mission.

Finally, knowledge as a key resource (Drucker 1969, 1988; Nonaka and Takeuchi 1995; Grant 1996) is often used and organized by SIs in a sub-optimal way. What we find in many SIs is outstanding expertise and creativity of the founder(s) of the SI with regard to a particular social problem and the group(s) of people who are affected by it. This expertise often provides a key asset of the SI. Much of the willingness of public and private sponsors and volunteers to invest in an SI is motivated and justified by this asset. However, the SIs themselves as well as sponsors tend to overlook that the success and sustainability of the SI depends also on managerial capacities. These capacities, however, often lack within the SI, and sponsors often do not consider them as a prerequisite for their engagement. Managerial expertise does not necessarily have to be provided by the founder(s) of the SI or by other people within the organization. It could also be acquired from the outside of the organization, either salaried or voluntarily. However, what we observe is that often expertise is contracted from the outside of the SI for the production of the social good or service but not for the management of the SI as a business.

Mission-driven social innovations often overlook the need to secure the financial sustainability of their enterprise. In these cases, underestimation of costs, reliance on scarce resources, and a tendency towards too early scaling of the operations tend to go in line – and to result from – a lack of strategy and a corresponding sustainable business model. As a consequence, these social innovations, although desirable from a socio-economic point of view, fail to survive. Moreover, a proportion of public grants and private donations, which play a significant role for many SIs, seems to be misinvested in such cases, which reinforces the scarcity of financial resources for social innovations that bear a stronger potential to become sustainable.

Conclusions

2.1.5 Lack of Competencies and Skills to Conduct Side-Businesses as a Barrier to SI

SOCIAL INNOVATORS OFTEN CARRY ON SIDE-ACTIVITIES (SALES OF PRODUCTS AND SERVICES ETC.) TO GENERATE SURPLUS TO BE EMPLOYED IN SUSTAINING THEIR SI. THE HUMAN RESOURCES INVOLVED IN THESE SIDE-ACTIVITIES OFTEN SHOW LACK OF COMPETENCIES AND SKILLS, WHICH CONSTITUTES AN INTANGIBLE BARRIER TO SOCIAL INNOVATION.

JAVIER CASTRO SPILA, ÁLVARO LUNA GARCÍA, SINNERGIAC SOCIAL INNOVATION

The present essay is focused in the discussion of the following hypothesis: **Social innovators often carry on side-activities (sales of products and services etc.) to generate surplus to be employed in sustaining their SI. The human resources involved in this SIDE-ACTIVITIES often show lack of competencies and skills, which constitutes an Intangible barrier to Social Innovation.**

Introduction

Nowadays there is an increasing effort to understand social organizations (social entrepreneurs and third sector organizations) as organizations of a hybrid nature due to their objectives (profit, non-profit), their practices (business models) and their orientations towards social problem solving. The concept of hybridity refers to the tension that is generated by the combination of different institutional logics (profit, non-profit) to provide goods and services, which serve social problems. (Billis, 2013; Dufays and Huybrechts, 2015; Grassl, 2012; Grohs, 2014; Mair et al., 2015; Mangen and Brivot, 2015; Pestoff, 2015; Pieterse, 2001; Smith, 2014; Battilana et al., 2012).

Organizational hybridity and Social Innovation

This tension between social and market-oriented objectives requires a set of skills capable of combining the logics of the market with social logics through organizational rationalities. The notion of organizational hybridity identifies this tension of conflicting interests. From the point of view of hybrid organizational management, this tension implies *accepting* that financial and social objectives coexist simultaneously, and need to be compatible with innovative action. We therefore need to *differentiate* the contribution of each of these dimensions to the process of social innovation, avoiding the hegemony of one logic over the other (the market-oriented over the social and *vice versa*), by *integrating* these dimensions (and their tensions) in the process of social innovation. In this way we can articulate commercial and financial functions with the social and altruistic purposes of social innovation (Smith et al., 2012).

These three dimensions are meta-competences that favour the *paradox management* of organizational hybridity (commercial goals articulated with social goals in organizational dynamics).

Dimensions of the Social Entrepreneur

Some authors identify three types of social entrepreneurs: a.) The **social bricoleur**, which focuses on the discovery of local opportunities of social innovation in a creative way, b.) **Social Constructionists**, who exploit the local opportunities of the market for social innovation, and c.) **Social engineers**, who identify the nature of social structures and promote radical changes. The combination of these types of social initiatives are based on three different competences (Zahra et al., 2009; Bloom and Smith, 2010):

1. *Discovery*: competences of interpretation and identification of social problems as opportunities of local social innovation.
2. *Exploitation*: competences of knowledge combination and prototyping to introduce localized social innovations.
3. *Social Impact*: competences of systemic transformation and scaling.

However, the majority of social innovations have two sources of income, those that come directly from business activities, and those that come from the financial support of public and private funds. Many cases of social innovation developed by social businesses involve the distribution between the two mentioned sources of income (public/private), and differ to a great extent depending on the different cases. This is caused by the diverse structure of costs and by the rate of access to financial sources. The distribution between the financial support of local, national, and European governments remains constant and, in some cases, are capable of identifying a mixture of the different funding sources.

Social innovators face the constantly changing nature of their environments, and are, at the same time, limited by the access to resources. In these circumstances, the necessary competences (skills) to manage the organizational paradox (hybridity), organizes social innovations in networks to assure the involvement of different actors with complementary competences through the combination of the different types of social entrepreneurs mentioned above. Nevertheless, the configuration of networks entails other types of obstacles such as the levels of social capital. Apparently, it would be difficult that social organizations could have an internal combination of the three types of entrepreneurs (*bricoleur, constructivists, and Engineers*), along with the organizational competences of the management paradox (integration of market and social demands). We therefore conclude that the development of skills of human resources is an invisible obstacle for the development of social innovations.

Final remarks

2.2 Social Innovation Objectives

2.2.1 Unbalanced Use of Surplus as a Barrier to Growth

SOCIAL INNOVATORS TEND TO USE SURPLUS AND RESOURCES TO SUPPORT THE SOCIAL MISSION: AS THEY FEEL THE NEED TO ACHIEVE SOCIAL IMPACT, THEY INVEST VERY LITTLE IN STRENGTHENING THEIR BUSINESS, WHICH MAY IMPEDE THE GROWTH OF THEIR SOCIAL INNOVATION.

RÜDIGER GLOTT- UM-MERIT

Introduction

Maximizing revenues and/or minimizing costs in order to generate profits is a vital task for enterprises to procure the means needed to improve the firm's performance and to gain a competitive advantage over rivals (OECD/Eurostat 2005: 29; Schumpeter 1934,). Obviously, this holds also for social innovations that seek for revenues and profits in the private sector, as in particular hybrid organizations try. Even though financing is different in the public sector, public authorities have to prove that they use taxpayers' money efficiently and that they are able to provide up-to-date and high quality services, i.e. to innovate. The so-called third sector, in which many social innovations operate, either provides no exception from this rule. However, as evidence from the SIMPACT case studies shows, many social innovations fail to generate a surplus, and a significant proportion of those that are successful in this regard use their surplus in a way that hampers the sustainability of the initiative.

Revenues and Surplus in Social Innovation and in Other Forms of Innovation

Resources for social innovations, in particular financial ones, are scarce. It is therefore not surprising that the number of organizations that achieve a surplus is limited. Many social innovations are not or just able to cover the costs. These organizations typically rely on public grants, private donations, and own investments of the founder(s).

However, scarce resources are not an exclusive characteristic of Social Innovation, and neither are all social innovators affected by this constraint. Like for any business, the crucial question of a social innovator is how to spend surplus efficiently so that it creates value and secures sustainability. One of the reasons for the apparent lower interest of many social innovators in revenues and surplus generation may derive from their self-perception, which differs significantly from a "typical" entrepreneur in the commercial business domain. Dees (1998, 3) describes these discrepancies as follows: "For social entrepreneurs, the social mission is explicit and central. This obviously affects how social entrepreneurs perceive and assess opportunities. Mission-related impact becomes the central criterion, not wealth creation. Wealth is just a means to an end for social entrepreneurs. With business entrepreneurs, wealth creation is a way of measuring value creation. This is because business entrepreneurs are subject to market discipline, which

determines in large part whether they are creating value. If they do not shift resources to more economically productive uses, they tend to be driven out of business.”

Building up a social innovation does not automatically imply that revenues cannot be achieved, as illustrated by a number of organizations that achieve surplus. This latter group can be divided in two sub-groups, one seems to consider surplus rather as a means to support their social mission than their business and the other one working with a strong commercial orientation.

The first group of surplus achievers tends to define target groups only in terms of beneficiaries but do not seek for target groups that sustain the organization as customers who pay for certain services or goods. They are characterized by a strong prevalence of their social mission, which sometimes implies that revenues are used for the advancement of services or goods even when covering running fixed costs is not secured in a long-term or mid-term perspective.

This spending behaviour is very different from organizations that innovate in order to survive competition. These other forms of innovations require a strong market-orientation. In this perspective, the purpose of any innovation is to reduce costs and/or maximize profits, so that as a result revenues and profits increase.

An example of this rather mission-driven than economic spending pattern of profitable social innovations is provided by BeatBullying (BB). BeatBullying (BB) has been very successful in raising funds over a relatively long period of time. However, although the running costs and especially the costs for the development of software tools stretched the capacities of the organization very much, new financial means were sought in order to expand these activities instead for stabilizing the financial foundations of the organization. In the end, the costs for service and tools development overburdened the organization and BeatBullying (BB) went bankrupt.

The second group of surplus-achievers is characterized by a strong orientation towards economic sustainability and independence right from the outset of the initiative or as a lesson learnt during its initial phase. To this end, these organizations strive to combine their social mission with a commercial supplement. Often, this strategy results in the development of a hybrid organization. In hybrid organizations, one actor serves the social mission and the commercial actor focuses on revenue creation in order to support both, the financial sustainability of the organization and the social mission of the mother organization. Often, the social actor strives for revenues as well, which are used for the purposes of this actor but are not spent in the commercial branch of the organization. The way the commercial branch benefits from the social actor is a rather indirect one,

Hybrid Organisations & Customer Segmentation as a Means to Tap Profitable Markets

e.g. through promotion activities of the social actor that help the commercial actor to open new markets and/or attract new clients.

In contrast to many SIs that define only beneficiaries as target groups of their activities and do not care for a value proposition for which customers would pay, hybrid organizations typically show a concept to define beneficiaries as well as customers and to seek for a social as well as for a commercial value proposition. This way, hybrid organizations accept that the “market” for their social core product is not profitable and compensate this limitation through the opening of a profitable market with an alternative product that targets solvent customers.

Customers and beneficiaries can overlap, though only under the condition that either the target group or the value proposition can be diversified. If there is at least a subgroup within the beneficiaries which can afford to pay for the social value proposition the SI has the opportunity to offer its services or goods through a “dual license” or “freemium” model, i.e. certain types of beneficiaries (e.g. companies or other corporations) are defined as customers and have to pay for the service or good while individuals receive them for free (“dual license”) or the good or service is diversified so that those that want a high quality (premium) good or service have to pay while those that are contented with the basic good or service receive this for free (“freemium”).

If there is a good or service that relates to the social mission of the organization and can be sold to customers, the commercial partner is responsible for the production/acquisition and distribution of this good or service and transfers (a part of) the revenues to the mother organization. In this case, customers and beneficiaries do not overlap (although they can), the commercial partner operates in a different market than the social partner.

What characterizes these organizations is that they have developed a clear and sometimes complex business model and business strategy that aims at the achievement of revenues and a clear cost structure while still the social mission prevails. This prevalence of the social mission in hybrid organizations with a strong commercial orientation is illustrated by, for instance, Specialist People Foundation (SPF). SPF is the mother organization that focuses on the social mission of bringing people with ASD and similar challenges into work. To this end, it operates like many SIs, i.e. it develops projects, raise funds and promotes its activities and goals. Under the roof of SPF operates a company called “Specialisterne”, which organizes assessment, training and consultancy services for enterprises that want to hire people with ASD or similar challenges. The clients of Specialisterne have to pay for these services. Specialisterne does not only transfer a large proportion of its revenues to SPF but the legal construction of the overall organiza-

tion is designed in a way that economic risks that Specialisterne encounters (e.g. going bankrupt) will not affect the mother organization.

Evidences from the SIMPACT business cases reveals that social innovation is often confronted with strong market limitations. Usually, beneficiaries of the social innovations shall not or cannot pay for the products of the SI. Many SIs tend to escape from this dilemma by financing the initiative through public grants or private donations. However, these revenue streams are rarely sustainable, as they are often bound to specific purposes or granted only for a specified period of time. Moreover, it appears that even if such funding is raised successfully over a longer period of time it does not easily allow for generating a surplus that can be used for necessary innovations.

Some social innovations have however found a way out of this dilemma by designing a complex hybrid organization and business model. In these cases, a commercial branch generates revenues and surplus that is used to finance the social mission and branch of the organization.

Another solution to escape from the market constraints of many social innovations is to segment the target groups, so that a part of the product distributed by the social innovation is paid for by customers.

However, generating revenues and surplus does not guarantee survival of the social innovation. The sustainability of an SI depends significantly on the way it spends its surplus. Many SIs tend to spend any surplus immediately in scaling up instead of securing that costs are covered.

2.2.2 Empowerment as a Core Objective of SI

EMPOWERMENT AND CAPACITY BUILDING ARE CORE OBJECTIVES OF SOCIAL INNOVATIONS ADDRESSING VULNERABLE AND MARGINALISED GROUPS IN SOCIETY. BENEFICIARIES OF SI ARE NOT ONLY TARGETS OF THE SOLUTIONS, BUT IN MANY CASES THEY ACTIVELY TAKE PART IN THE CO-CREATION AND CO-DELIVERY PROCESSES MEANT TO EMPOWER THEM. EMPOWERMENT OF BENEFICIARIES EMERGES AS A KEY CHARACTERISTIC OF SI.

MARIA KLEVERBECK - IAT

Working against poverty, unemployment and consequences of the demographic change meanwhile ask for effective and suitable courses of action. In that vein individuals as well as the civil society are called to react on those phenomena, which are not solved by the government. Under that argumentation an appropriate concept is needed in order to

Conclusions

Introduction

be conform to the societal requirements. From the view of social work and psychology the empowerment approach appears for years as an efficient concept to hearten people changing their lives, motivating themselves and fighting against social problems they are affected by. As from the managerial point of view empowering people results in better working conditions for employees and in a more efficient company outcome.

The concept of empowerment is widely seen as comprehensive one, which refers to goals, means, process and result of individual and social change. It was firstly introduced in the field of social work in oppressed communities in the 1970ies. Solomon (1976; 1987) highlights in "Black empowerment" that the idea of empowering is based on supporting professionals to face with power structures of individuals and families which bother the process whereby individuals establish personal and social skills. In consequence, empowerment aims at widening the possibilities for individuals as well as communities to decide themselves how to live (Rappaport, 1985). Rappaport (1987) drafted an outline of eleven assumptions for an ecological theory of empowerment that include outstanding themes like actor's relationships, context conditions, conditions of participation and influences processes. In line with this outline one can argue that empowerment is "a process and an outcome" (Parsons, 1991). It could only be analysed in a broad field of distinct assumptions and under consideration of several influences.

The overall goal of empowerment is to enable individuals to become part of the societal change process. This becomes apparent in Bröcklings (2003) argumentation about the interaction of ethic and efficiency in the field of development cooperation. He argues that participation not only results in individual benefits, but in an overarching approach that systematically create large-scale empowerment.

As consequence of the different approaches, three common assumptions of empowerment could be defined (Bröckling, 2004):

- The unequal distribution of power as a social resource that results in the feeling of powerlessness;
- Interventions that aim at raising the power potential of those who have been identified as powerless;
- Interventions that aim overcoming the feeling of powerlessness not by solving a specific problem, but by strengthening the individual and social problem.

Our empirical research is based on the assumption that social innovation objectives refer to goals as well as motivations of actors or organisational entities to engage in social innovations and can be socially or economically characterised. It is argued that tracking these objectives social and economic value for vulnerable and marginalised groups in society is generated (Rehfeld, Terstriep, Welschhoff, & Alijani, 2015). Objectives, which

generate social value, are primarily related to empowerment and participation. The analysed social innovation cases show that empowering people is the most prominent objective of innovators with regard to the overall vision to reach social impact.

Our empirical study identifies empowerment and capacity building as a key characteristic of social innovation. This hypothesis results from three main findings. Firstly, we could distinguish between passive and active empowerment. These types of empowerment signify that beneficiaries either are targets of the solution, or are actively part in the co-creation and co-delivery process as it is justified in various cases. Secondly, the application of empowerment necessitates distinct knowledge of interacting actors and context specificities. Thirdly, capacity and capability building support to enable the hidden potential of vulnerable and marginalised groups in society.

The hypothesis of Empowerment as a core objective of SI

The results of our empirical research on social innovations is in line with the overall empowerment literature and foremost with the idea of Rappaport (1987) about empowerment as an appropriate concept to re-integrate people in society. He states that the ideology of empowerment bases on the “power of people to be both the masters of their own fate and involved in the life of their several communities”. With regard to our empirical research, the core target groups of empowerment are unemployed, migrants, women, children and elderly people. They are more or less excluded from society and let their potentials unwillingly waste. In order to tackle the problems of unemployed and migrants, the empowerment approach is common practice. It is a new perspective for migrants and unemployed to enter or re-enter the labour market. It becomes also evident that empowerment as a social objective is associated to the indirect economic objective of increasing employability.

Passive and Active Empowerment

From the psychological point of view, empowerment operates as a motivational programme. Zimmermann (1990) argues that the “theory of learned helpfulness”, including opportunities to develop skills and a sense of control, advance dealing with problems in living. The given psychological view is confirmed by our empirical research and its analysis of people’s trust in empowerment interventions. This trust is often linked to people who initiate social innovation.

In the recent years, the theory of empowerment attracted more and more interest in the management area. Here, the integration of workers in designing and innovating the e.g. production process or work flow is strongly growing by supporting worker’s creativity and including them in decision-making (Wilkinson, 1998). The participation of individuals in the innovation process is also found in social innovations as described before. Moreover, design thinking allows for crossing the traditional role of individual design cognition in the for-profit sector. This innovative approach also advises for novel collective interactions between the public, for-profit and non-profit sector in order to moti-

vate human beings to participate in societal life (Melles & Howard, 2012). Likewise, this is confirmed by our empirical research that shows strong interdependences between empowerment approaches and actors constellations.

Knowledge based Empowerment

By combining empowerment and social innovation, a new idea of mobilising the creativity of people in line with novel instruments tackling societal challenges is found. This is reflected in other forms of innovations, for instance in the concept of community-driven innovation and in a growing popularity of formal and informal “Living Labs”, which builds a new model of collaborative innovation processes by participation of business, government and civil society. It is argued that the empowerment of people as “users” and “co-creator” of knowledge is affected by relational, structural and cultural barriers. Therefore the governance of “Living Labs” has to deepen the understanding of contextual influences on power and knowledge dynamics (Edwards-Schachter & Tams, 2013).

The handbook “Empowerment and Poverty Reduction” published by the Worldbank identifies four criteria for taking possession of interventions. As must have are identified: “Access to information”, “Inclusion and participation”, “Accountability” and “Local organizational capacity”. The former targets the open access to education and media and the second refers to the realisation of social inclusion in order to break down mechanisms of exclusion on the one hand and include marginalised groups in societal processes on the other hand. To achieve this, thirdly the assignment of responsibilities with regard to officials, commercial enterprises and others is necessary and lastly the involvement of local associations and networks (Narayan, 2002).

Even, our empirical research also underlines the importance of analysis factors by investigating the social innovation framework. Due to the absorption of the institutional context, actor’s constellation, solution approach etc. empowerment as the objective target is examined in a broader context.

Capacity and Capability building

In order to consider individual characteristics, we argue that empowerment refers to activities and processes that help to facilitate people’s self-control, strengthen their self-esteem and self-perception as well as to improve their knowledge and skills. According to SIMPACT’s understanding, activating the hidden potential of vulnerable groups in society through empowerment results in efficient measures against the atrophy of excluded people. In order to achieve the inclusion and integration of excluded people into labour market and society the improvement of access possibilities to education is an important step (Debref, Alijani, Thomas, Boudes, & Mangalagiu, 2015). Hereby capacities as objectives may be framed in the educational goal of social innovation and form the implementation of empowerment. Our empirical evidences demonstrate that social Innovation empowering children and adolescents are found to increase employability by following a preventive approach whereby education is viewed as means to benefit the

target group in terms of broadening the options for their personal lives, improving the quality of their lives and averting labour market risks.

Capability also forms an implementation tool of empowerment and may take numerous forms from passive and formalised attendance to active exercise of rights and power. It is argued that opening new opportunities, capacity and capability building support to enable the hidden potential of vulnerable and marginalised groups in society. The process of capability building is located in the capability approach firstly developed by Amartya Sen from 1979, later adapted by Nussbaum (2000) and refined as a measuring instrument for individual and societal welfare through empowerment (Sen, 1980). This approach is also applied to the power and freedom in other forms of innovations, for example in the field of computer ethics deals with a novel interpretation of empowerment. Johnstone (2007) argues that a complementation of traditional approaches in other forms of innovations is necessary to satisfy the claim of a normative analysis of individual intentional action. Moreover, the capability approach is also applied to the area of ICT by changing the once established economic view to Sen's theory of individual freedom in order to perform and explain development processes. (Kleine, 2009).

This discussion empathises the importance of empowerment and capability building in creating a successful social innovation. It is highlighted that the concept of empowerment is a mutual constitution of knowing and practice, while it is very hard to conceptualise a universal manual for the interaction of empowerment and social innovation. Even so, specific forms of empowerment in other forms of innovations, for instance in the field of social work, psychology, computer ethics, ICT and management are useful to adopt, but only in a modified form in order to reach the requirements of the specific social innovation. The discussion also elaborated the close connection between empowerment and capability building as it is argued that capability also forms an implementation tool of empowerment.

Conclusions

2.2.3 *Bricolage as a Rationale for Goal Attainment*

TO ACHIEVE SET OBJECTIVES, SOCIAL INNOVATION IS USUALLY CONFIGURED AS A FRUGAL SOLUTION, STRUCTURALLY COPING WITH A LACK OF RESOURCES, WHILE SOCIAL INNOVATORS ACT ON THE BASIS OF A BRICOLEUR ATTITUDE.

MANUELA CELI - POLIMI

Introduction

The social system entails smarter and more agile responses both to identifications and framing of problems and to the ideation and development of solutions. There is growing awareness of the impact of SI in understanding societal challenges and solving problems in collaboration with communities, impacting on societies and the wider environment. If we consider SI as a process of collaborative innovation that occurs between the actors and stakeholders that populate its environment, including beneficiaries and customers we soon recognize in its model some similarities with open innovation.

Both SI and Open innovation call for participation and are somehow bottom-up processes but “whereas in business the firm is the key agent of innovation, in the social field the drive is more likely to come from a wider network, perhaps linking some commissioners in the public sector, providers in social enterprises, advocates in social movements, and entrepreneurs in business.” (Murray, Caulier-Grice and Mulgan, 2010, p.7)

When operating in the social field the innovators requires both: the ability to engage several actors with different resources, skills, knowledge, background, and the capability of managing the complexity of these relationships. The literature highlights the problems for social innovators to make connections to established networks, as their issues seldom fit with existing categories. In addition, social innovators may deficit of specific skills to manage collaboration since it also raises the problem of conflicts and alignment of different vision, objectives and resources (Terstriep, 2015, p. 113). What are the main capacities required to start-up and deal with a new network and manage both the complexity and the resource scarcity inside which the social innovators operate?

Hypothesis

In the framework of SIMPACT project it has been observed a contradiction between the idea of SI as a kind of bottom-up process and that of design as a process of innovation led through the application of specific design competences (design-driven innovation). Despite the number of studies that have tried to demonstrate how SI development can be described with user-centred design principles, our field research demonstrates that planning of activity is scarce in SI and the desk research suggests that Design Thinking has been applied, until now, only to analyse ex-post processes of SI. In this regard, some tentative of interpretation on the nature of SI have tried to apply the typical process of New Product Development -NPD- (Murray, Caulier-Grice and Mulgan, 2010) and it has

been conceptualised as the development and implementation of new ideas, products, services and programmes to meet social needs (Mulgan et al., 2007).

According to SIMPACT field research there's little correspondence between the New Product Development phases and SI process and, most of all, it is very difficult to translate the different observed processes into a linear model: it seems that SI is somehow governed by the strength of motivation and a deep knowledge of the problem addressed, but solutions are not deeply explored or compared, they are improvised. Coping with a structural lack of resources the Social innovators act on the basis of a bricoleur attitude and, to achieve set objectives, they adopt frugal solutions.

Taking into account the recent literature and research on the emerging area of *frugal innovation* and on the similarities between design processes and *bricolage* the essay will discuss the actual role of this informal and improvised approach in the ideation and development of SI in opposition to the formal job description.

In the actual crisis conjunction where western companies deal with evermore cost-conscious and eco-aware customers and face a production era characterized by resource scarcity, growing attention has been paid in the recent year to the eastern countries and to the so called BOP - Bottom Of the Pyramid - as a huge untapped market. Many companies started to develop products and services dedicated to this market and characterized as suitable, affordable, and sustainable. Emerging market innovations are usually of a lower cost and offer less features than the matching products sold in the western markets but in the meanwhile, addressing BOP or underserved customers, they yield inclusive growth through a minimalist approach: this phenomenon is actually recognized as Frugal Innovation (Radjou and Jaideep, 2015).

Frugal innovation
as framework

The phenomenon is particularly flourish in India where it was labelled first as *Jugaad innovation*: jugaad is a Hindi word that means 'overcoming harsh constraints by improvising an effective solution using limited resources.' Jugaad represents a culture of creative improvisation that has been described by Radjou, Prabhu, and Ahuja (2012) in *Jugaad Innovation: Think frugal, be flexible, generate breakthrough* that foster the idea that this mind-set and the correspondent adaptability attitude, are crucial not only for Indian native innovations, but also for multinationals whose innovation processes have become inflexible, inward-looking and saturate to remain successful. *Jugaad innovation is described as* an unstructured process that embodies *making do to* come up with an innovative fix through six principles frugal, flexible, simple, intuition, opportunity in adversity and include the margin.

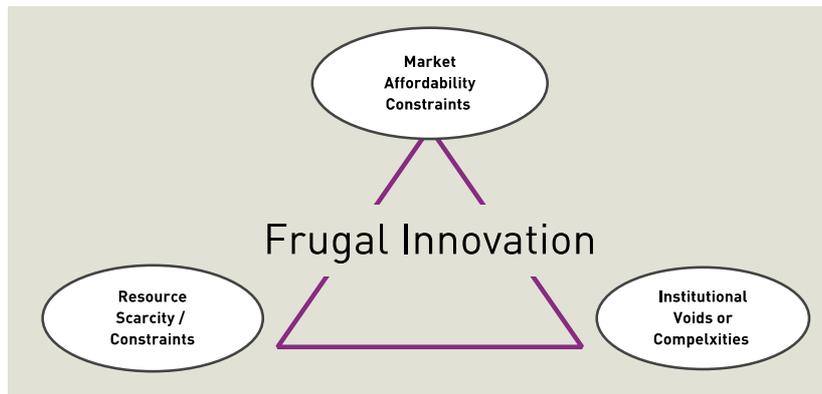
In 2010 Prahalad and Mashelkar, in their article for the Harvard Business Review, introduced a framework to describe the emerging innovation model in India as "a new value

model capable of transforming almost every element of the value chain, from supply-chain management to recruitment, and creating novel business ecosystems". They describe this phenomenon overcoming the Indian tradition of *jugaad* – considered compromising because of quality and of a make-do connotation - using the term *Gandhian innovation* recalling this type of innovation's ability in generating both affordability and sustainability - two of the Mahatma's tenets six decades ago. In their study they identify three main features of innovation: disruptive business models; modified organizational capabilities; new capabilities.

The actual wider and most comprehensive term of *Frugal Innovation* can be defined as a "design innovation process in which the needs and context of citizens in the developing world are put first in order to develop appropriate, adaptable, affordable, and accessible services and products for emerging markets" (Basu et al., 2013). Frugal innovation presents a distinctive approach to innovation both in its means and its ends (Bound and Thornton, 2012, p.10) presenting in this an overlapping with Social innovation:

- 1) *Means*. They have methods and techniques involved in creating solutions that are distinctive. They answer to specific need but with limitations in resources (financial, material or institutional) and are often able to turn these constraints into an advantage. Both Frugal and Social Innovation results in lower-cost products and services by minimising the use of resources or leveraging them in new ways.
- 2) *Ends*. The nature of the products, services or processes developed is distinctive. Effective frugal innovations are not only efficient in term of cost/performance, but often outperform the alternative opening the innovation to a larger scale (BOP) revealing an explicit social mission (Bound & Thornton, 2012, p.11).

More recently the literature adds a third element to the frugal innovation framework. Bhatti (2013) build a conceptual model for emerging market adding to resource constraints upstream of the value chain and to affordability constraints downstream (to address the needs of the bottom of the pyramid) the complex institutional contexts or institutional voids. This third constraint or challenge makes the emerging markets innovation closer to SI because of the social dynamics of vast populations that frugal innovation address.



Source: Bhatti (2013)

Figure 4. Conceptual model for understanding emerging markets

The frugal attitude of SI embodies "doing more with less": a frugal solution is low cost and affordable. But affordability extends beyond simply the cost of the solution it means that the service is designed to operate in the resource constrained context providing the complementary solutions, resources and infrastructure to continue performing to its worth.

The frugal attitude of SI

The cultural anthropologist Claude Lévi-Strauss, with the aim to define the creation of something new through a process in which actors recombine and transform existing resources, firstly introduced the idea of *bricolage* in the social field and subsequently applied to the behaviour and resource management of enterprises by Weick (1993), Ciborra (2002) and others (Baker & Nelson, 2005), has already been applied to provide an understanding of the culture, the structure and the behaviour of mission-driven organisations. *Bricolage* involves the creative adaptation and manipulation of resources such as human capital, materials, financial resources and social capital to solve a problem or embrace a new opportunity (Gundry et al., 2011).

Bricolage and improvisation rather than strategic planning emerges as common pattern of social innovation to deal with the **resource scarcity**, recombining them in creative ways in order to cope with difficulties and unexpected drifts. According to our empirical findings frugal solution are the answer to resource scarcity on different levels.

INSUFFICIENT FINANCIAL ASSETS AND KNOWLEDGE

Social enterprises have a first great obstacle in accessing financial assets. Our research confirms that to bypass this lack of resources the initiator often recurs to self financing and lean budget approach with a bricoleur attitude.

The *bricolage* view has also been adopted to explain the limited use that social enterprises make of traditional financial instruments, which is confirmed in our empirical re-

search: “*This view implies that it is not surprising that SEs are not seeking conventional business loans or equity finance, because they have instead adapted to working in resource poor environments by re-using redundant and social capital*” (Sunley and Pinch, 2012, p. 111). Here we must underline how the cause-effect relationship can be easily inverted: social innovators are forced to cope with resource scarcity because they do not use financial tools, but at the same time they do not use financial tools because of their *bricoleur* attitude. Sunley and Pinch discuss the lack of interest in traditional financial tools also in the perspective of **evolutionary entrepreneurialism** (Aldrich and Martinez, 2001), that places a great interest in the relation between the entrepreneur and the environment in which he operates. Building on this theoretical body and on empirical research, Sunley and Pinch recognise that nascent social entrepreneurs tend to draw on their own savings to cope with the lack of financial assets. With reference to this discussion, our empirical findings show a twofold situation.

On the one hand, social innovators are not familiar with financial aspects and confident in financial tools. **They tend to give shape to frugal solutions and to adopt a bootstrapping approach based on a lean budget with limited start-up capital, often using their own savings and assets.** In many of our cases, we observed that SIs were based on the self-financing of the entrepreneurs, and that initiators worked at their SIs without a salary, or with a very low salary, sometimes for quite a long time.

On the other hand, **traditional financial tools are often not suitable to the governance and revenue sharing models underpinning SI** and, apart from some exceptions, many SIs found difficulties in being supported by traditional financial tools, even when they were taking the form of a for-profit enterprise.

Moreover, the research findings show that scarcity became often a constant also for the lack of re-investment of the surplus in the organizations (Terstriep, 2015, p. 109). Surplus, when produced, is usually fed into social goals achievement and in order to allocate the greatest amount of resources to social mission, overheads are kept at minimum level making the structure more fragile.

LACK OF TRANSVERSAL MANAGERIAL KNOWLEDGE, CAPACITIES & EXPERIENCES

The SI initiators are the one that better known the problem and that are strongly motivated but the research shows that they often have a naïve approach about how to establish and develop a business assuming a bricoleur attitude. **Mission driven organization do not adopt formalized methods to evaluate economical impact but “do things on a shoestring”, making the most of scarce resources, generating a state of hyper efficiency.**

In the organizational literature the dynamic capabilities are defined as the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments (O'Reilly and Tushman, 2008). Organizational capabilities are rooted in existing organizational routines, structures, processes, but most of all embedded in people's cultures and in the governance. Same authors sustain that finding the proper human capital is harder for social entrepreneurs (Dorado, 2006): social business can rarely offer an appropriate benefit package (salary, stock options) and often rely on volunteers, which are difficult to find especially for managerial or more expert positions. **The hyperefficiency of social innovators seems to be connected with a sort of forced ambidexterity** (O'Reilly and Tushman, 2008) since initiators, are, at the same time, exploiting and maximizing scarce resources in the very short-term, from one side, and from the other, are exploring new solution, recombining and assets to survive in the medium-term.

LACK OF VERTICAL KNOWLEDGE OF THE INDUSTRY WHERE THE COMMERCIAL BRANCHES OF THE MISSION-DRIVEN ORGANIZATION OPERATE.

Often, to cope with the scarce economical resources, the actors establish instrumental commercial activities with the aim of feeding the social mission. Due to the deep involvement in the social mission often the first idea becomes the core of the solution instead of triggering a real phase of idea generation and screening. The lack of business or industry knowledge can heavily influence the success or the failure of the SI especially in the cases in which the company is meant to provide surplus to pursue the social mission.

THE URGE TO ACHIEVE IMMEDIATE SOCIAL IMPACT

In SIMPACT the empirical research shows that organisations with a social mission display the capacity of coping with a structural lack of resources to a great extent, and that they are capable of drawing the most out of scarce inputs. As a result, SI is usually built as frugal solutions and mission-driven organisations keep on existing at a small-scale, in a sort of constant condition of struggle for survival.

This attitude, is overlapping with *Jugaad innovation* in its meaning of innovative fix and improvised solution born from ingenuity and cleverness, resourceful (Radjou et al., 2012). SI often is pushed by a combination of deep understanding of problems and needs together with a high level of urgency. Differently from other types of innovation, and technological innovation in particular, SI are usually related to service and oriented to outcomes instead of outputs. Never the less, to sustain the social mission often the initiator has to deal with a commercial mission to produce surplus and feed the service. SI address specific needs not addressed by government that is often no-marketable (Brandsen, 2010) and originates from civil society and social movements in a non-

**Bricolage:
the unstructured
way to SI
sustainability**

market context. In this situations characterized by resource scarcity, where new resources cannot be easily acquired *Bricolage* seems to be the only way in which social innovators may react.

Bricolage attitude because of its unharness nature and involving contextual embeddedness and instrumental thinking tends to be avoided in the description of *managed organization*, but erupts in the *unmanaged organization* (Gabriel, 1995). In other words, in traditional production sectors, bricolage is a kind of practices that is often only admitted by employees on the opposite, in the *unmanaged or less-managed organization*, the bricoleur attitude emerges spontaneously as a resourceful and sometimes imaginative trickster.

Mulgan (2012) stated that social innovations require various actors to work together, such as social entrepreneurs, social movements, governments, foundations, and others. Despite the fact that, according to literature review, these various actors support each other collaboratively in processes “of collective idea generation, selection and implementation” (Dawson & Daniel, 2010, p. 16), our empirical research shows that the lack of assets refers also to human resources. As already discussed, SIs make use of significant quantities of unpaid labour, because they rely on volunteers or because initiators put in their labour without receiving any salary, sometimes working at their mission-driven business while keeping their original work in another organisation. As acknowledged in Jugaad innovation (2012) most innovations, at the grassroots, are typically done by single men, often with limited funds. When different authors (Radjou et al., 2012; Basu et al., 2013) described the stereotypical *jugaad* innovator, this particular talent stood out: the capacity for ***detached engagement***. These individuals seem to be deeply motivated and embroiled in their projects, but they don't let failure or success impact their passion. Also in SIMPACT evidences seems that this relentless resilience is often the core element of the SI's success.

Moreover - while in other forms of innovation the richness of competences is recognized as an asset to deal with the multiple aspects of innovation, and the answer is often connected with innovation teams that cover a wide area of competences and attitude - in SI teams are joined by the motivation for the final mission independently from competences. This mission driven vocation of the SI team push the innovators to outsource knowledge by acquiring it on the market, when possible, but, in the majority of the cases, forced Social innovators to find a creative solution.

In particular, the concept has been used to explain their attitude - particularly in the early phases of development - to make use of resources and capacities that are at hand, refusing to be constrained by resource limitations. According to this perspective, “*the lack of resources pushes the SE to use all available means to acquire unused or underused re-*

sources that are capable of being leveraged in a different way to create social value” (Di Domenico, Haugh and Tracey, 2010, p. 699). In other words, mission-driven organisations primarily “utilise their governance and stakeholder networks to access and construct resources, and they deploy persuasive tactics to build legitimacy and financial sustainability.” (Sunley & Pinch, 2012, p. 110)

Our findings are confirmed by the very few investigations of the reasons of failure of SIs that may be found in existing literature. These studies perform an in-depth analysis of mission-driven businesses that bootstrapped with high hopes, and sometimes with great fanfare, and less noticeably closed, trying to draw conclusions and lessons for aspiring social innovators and policy-makers. The accounts of the failures of Cause, a “philanthropub” that closed 14 months after it opened (Cobb, Rosser & Vailakis, 2015), and that of Aspire, a social franchising experimenting a new approach to tackle homelessness through training and employment (Tracey & Jarvis, 2006), get to conclusions quite similar to those that we draw from our empirical research.

The capacity of mission-driven organisations to cope with a structural lack of resources thus turns into a two-fold reality: on the one hand social innovators come out with frugal solutions and use their creativity to get the most out of what is at hand; on the other hand, they mistake gaps and structural lacks as potential motivations of errors and failure. Our cases confirm the strong will of social innovators, who are ready to bootstrap in lack of resources, sacrifice their own savings and time, make use of their creativity and bricoleur attitude to overcome obstacles and adapt to circumstances. In our empirical research, we met social innovators who do not give up in front of great difficulties and have often retried after failure. Nonetheless, we should distinguish the capacity of adaptation to circumstances and to scarcity of resources from the gaps in the construction of a sound organisation that can be spotted, evaluated and bridged before its establishment. Here our empirical research shows once more that specific evaluation processes and tools should be developed and adopted.

Final remarks

2.3 Social Innovation Principles

2.3.1 Context-dependency as a key characteristic of SI

CONTEXT-SPECIFICITY AND DEPENDENCY CHARACTERISE DIFFERENT FORMS OF INNOVATION. NEVERTHELESS, SI SHOWS STRONGER TRENDS OF CONTEXT-DEPENDENCY THAT INFLUENCE THE SOLUTIONS AND THE WAYS IN WHICH THEY CAN BE SCALED.

ANNA BERLINA - NORDREGIO

Introduction

The empirical research in SIMPACT project showed that there is a high level of dependency of social innovation (SI) on its context. While the problems SI addresses are quite transversal, the approaches to address the problems, resources used and the constellation of actors who implement the solutions differ significantly and are influenced by the context in which SIs are developed and diffused. By context we mean the environment and settings, such as national and local institutional settings, different spatial scale, as well as different welfare regimes and regulatory systems that create different enabling environments and settings for the emergence of SI. We argue that SI is more affected by the context than other types of innovation and that context-dependency influence the ways in which SI can be scaled.

Social innovation is rooted in the local context

Among the findings of our empirical research is that SIs are highly bound to their local context and emerge out of the local need, as local responses to big challenges. Even when environment and problems are similar, solutions are normally confined to the local or regional scale. There is wide range of literature on SI that discusses its strong dependency on the local context and strong territorial bounds. Moulaert (2009) and Van Dyck & Van den Broeck (2013) discuss that SI should be understood as a territorialized process, as it is highly rooted in the local context, and that the concept of territory is central in the SI theories.

Our empirical cases highlight the importance of local networks and social capital in driving and giving shape to SI which is in line with findings of Guida and Maiolini (2014) who state that local networks, communities and collective action are particularly important in establishing and managing SI. Moulaert (2013) also claims that social relation is at the core of the SI concept. Moreover, the importance of networks is emphasized in connection to a specific nature of the organizations within the social economy, which have less compulsion to organizational growth. Instead, social innovations often grow through means of networking and collaborations, and are shaped by the nature of those social relationships (Murray et al. 2010). Grimm et al. (2013) underline that it is essen-

tial to ensure that any strategy on fostering SI retains a local focus to draw on existing assets such as regional identity, bottom-up networks and milieu.

Our empirical research has shown that high context dependency of a SI solution influences the process of scaling up and diffusion. Some innovations are simply too context-specific to scale up (Gabriel 2014). Due to a strong stand of localism that is inherent to SI, the policy or solution that is effective in one country may not work in another and the same might be true at a regional level (Grimm et al. 2013; Moulaert 2009). As SI frequently relies on relationships between the initiator and other organizations, and other informal relations occurring in the community, such social relationships can be difficult or impossible to replicate. Local agents and institutions determine and affect the local specific character of SI, which makes copying or transferring a model from one socio-political concept to another challenging (Van Dyck et al., 2013).

Diffusion and
scaling up of social
innovation

The examples discussed above based on the empirical findings and the literature on the subject illustrates the high context-specificity and dependency of SI. In the literature on innovation in a broader context, some references to context-dependency of innovation can be found in connection to the organizational behaviour and to the dynamics of innovation in local clusters.

Discussion and
conclusion

In the literature on innovation from a firm level perspective an impact of the “local innovation milieu” on firms’ innovative performance is discussed. Local innovation milieu can be defined as the sum of external locational factors, such as the R&D intensity, networking activities, access to skilled labour force and the degree of collaboration among firms (Czarnitzki and Hottenrott, 2009). The study by Czarnitzki and Hottenrott (2009) shows that location factors may facilitate the innovation performance of firms, but the importance of locational characteristics may vary across firms and industries and may not equally important for all firms. The most important locational factors for firms’ innovative performance identified in the study by Czarnitzki and Hottenrott (2009) are the availability of highly skilled labour and the proximity to suppliers.

In the field of knowledge-based activities, with advances in information and telecommunication technology the role of locational factors in the diffusion of innovation might decrease (e.g. e-health innovations). While this might apply to other types of innovation, in case of SI the importance of local proximity is not declining. SI utilize tacit and localised knowledge which is transmitted less efficiently over long distances (Czarnitzki and Hottenrott 2009). Thus innovation success is still highly dependent on locational factors. Due to SI being rooted in a particular context, its dependence on local networks and reliance on informal relations, we argue that context dependency is stronger in SI than in other types of innovation.

Heineke and Blasi (2001) argue that context-dependency may determine the degree of success of innovation. Scaling up of an innovation is generally more likely if it is less context-dependent. Low context dependency makes it easier to implement an innovation in a different environment and it thus has a higher level of success. With increasing context-dependency the obstacles for scaling up arise (Heineke and Blasi 2001). From this perspective, a higher context dependency of SI than other types of innovation can be perceived as a barrier for scaling up and diffusion of the solutions.

2.3.2 Scaling Out as the Typical SI Diffusion Mechanism

SOCIAL INNOVATION MOST OFTEN EXHIBITS MECHANISMS OF SCALING OUT THAT DISSEMINATE THE IDEA BEHIND THE SI RATHER THAN THE SOLUTION ITSELF.

SOCIAL INNOVATION OFTEN SHOWS MECHANISMS OF «INDIRECT SCALING UP», THROUGH WHICH THE SOLUTION MAY INFLUENCE POLICIES OR TRIGGER CULTURAL AND MINDSET CHANGES.

DIETER REHFELD - IAT

Introduction

The comparative report on social innovation across Europe concludes that „Social Innovation most often exhibits mechanisms of scaling out that disseminate the idea behind the SI rather than the solution itself.” Further on, the reports shows that “Social innovation often shows mechanism of „indirect scaling up“, through which the solution may influence or trigger cultural and mind-set changes. “

The aspect of diffusion covers the question of bridging micro- and meso-level. Insofar it is important to distinguish between different modes of bridging:

- The activities that are done by a social innovator or social entrepreneur to scale up. There are different mechanisms like franchising, direct growth, installation of subsidies and so on.
- The activities that are done by followers, imitators. This is the key of the argument worked out above.
- The interplay of the activities of social innovators, supporters and opponents that could bring out an own dynamic and includes elements of conflict, bargaining, and so on.

Discussion

When we look at our case study we focus on the first two modes. This makes sense when we are interested in business models and growth but it is not enough to fix mechanisms and strategies for political intervention. The business models are discussed in a different

section of the overall report and in this sector we concentrate on social mechanisms that are bridging the micro and macro level (cf. Rehfeld and Terstriep 2015 for the theoretical background).

The search of social mechanisms bridging the micro and the macro level is the most ambitious challenge in SIMPACT's middle range theorizing. SIMPACT is on institutional change and related political change to cope with disadvantaged people in a better way than before. Insofar, SIMPACT is not about overall societal transition but has a specific focus. In consequence, the key interest of SIMPACT is the change in the related policy fields and therefore SIMPACT focuses on the mechanisms transferring micro and meso – level.

Whereas mechanism transferring the micro and the macro level recently focus on evolutionary thinking, the mechanisms transferring the micro and the meso level need a strong social and policy approach. Some interesting contributions have been studied in our literature review, some have to be added. Examples are:

The work of Elias (1976, 1977) is on social processes. Elias is interested in long-standing historical processes and he is interested in the factors driving the dynamics of such processes. His focus is on balancing or rebalancing societal principles like centralisation and decentralisation. This is of high interest for social innovation because in a broader view it is much about a new balance between public sector, economy and civil society. In the context of SIMPACT the challenge is to overcome a situation that has been dominated by neo-liberal economic thinking and resulted in a retreat of public policy and democratic participation.

The work of Mayntz and Nedelman (1997) roots in policy science. In their understanding social processes take place in the context of new modes of governance and multi-level governance systems and therefore they focus on political processes that depend on networking and bargaining. This work is important to understand the policy process of scaling and give tools to analyse the different actors involved in this process and their interest and resources.

In addition, Kingdon (1995) has worked out three processes or policy streams that are needed that politicians are open for new solutions: the feeling that the given instruments cannot solve the problems that are addressed, the availability of new and improved or promising instruments and political gatekeepers that promote the new way of problem solution. Facing the recent debate on social innovation and the results of SIMPACT, so far the second phase (improved and promising instruments) recently is the bottleneck. Complementary, Chiapello (2010) worked out what is needed for a new concept to become broadly accepted: it starts with good practice, needs promoters that

have access to the political system, it needs a well-accepted guiding idea and a certain degree of institutionalisation.

These are only first examples in order to illustrate what is needed to understand the mechanisms transferring micro and meso level. Further hypothesis have been worked out in (Rehfeld and Terstriep 2015). Table 1 of this paper illustrates the way social mechanisms transferring the different levels could be systemized. The first column entails the actors or group of actors that are initiating and driving the social innovation, the social innovators. The first three actors are on the agenda of most case studies so far but social movement and the organized civil society (welfare associations, foundations, trade unions and so on) are actors in the field of social innovation, too. The next step will be to add further actors or actor groups that are drivers of social innovations like politicians or traditional companies.

The second column is about scaling: it shows activities or instruments that are used by social innovators to diffuse their idea in a broader societal context. Instruments and activities differ depending on the social innovator’s motivation and strategy. The third column is about the process of social innovation, i.e. the process when different social innovators and conflicting actors interact to implement or hinder a new solution. In this context all modes of governance can be found and in certain phases the process is pure bargaining, in other phase it can be driven by reflexing and shared learning, it other in can be self-enforcing and rule-breaking.

The fourth column entails political instruments to intervene into the process of social innovations. Again there is a broad range of instruments: start-up supporting or project funding like in given innovation policy, different modes of cooperation and consensus building but from time to time resistance and criminalization of new solutions, too.”

Table 1.
A first impression
on processes of
social innovation

Actor	Scaling (activities initiated by SI)	Process of social innovation	Intervention by political actors
Activities in search of better solutions for social problems	Networking, Community Building, Events, Education	Imitation, Adaption No conflict as long as it remains at the periphery of welfare state, social conflict in case of successful scaling	Project funding, awards, good practice, open method of coordination
Self-organisation of disadvantaged people	Locally rooted and globally linked, campaigns, knowledge sharing		Free Urban Infrastructure, Project funding, Outsourcing (Subsidiarity)
Social enterprise	Growth (often limited) Franchising, business models	Driven by market, balancing competition and cooperation	Start-up funding, incubators, regulation, tax rules, public procurement

Actor	Scaling (activities initiated by SI)	Process of social innovation	Intervention by political actors
Social movement	Organisation (association, club, political party), Crowd Effect, self-enforcing dynamic, cellular organisation	Direct confrontation, Legal conflict, mediation	Integration, Repression, Adaption in-stitutional change, legal frame
Organised civil society	Fundraising, Lobbying, campaigns	Network gov-ernance, Modes of par-ticipation	Round table, Policy networks, Mod-eration Institutional adaptation

As far as the difference between technical and social innovation is concerned, several aspects will be discussed.

Social and technical innovation

Scaling in technical innovation goes hand in hand with knowledge protection, i.e. there is no free flow of knowledge and in this respect markets are not efficient. Social innovation broadly bases on free knowledge flows, especially because most social innovators remain in their local environment. Technical innovation scales up hand in hand with the establishment of infrastructure. Energy, especially renewable energy needs nets for integration and distribution, cars need streets and traffic lights, ITC needs net and access points and so on. Social innovation needs not an infrastructure like this but it would be worth to reflect the question of an infrastructure for the diffusion of social innovations. Technical innovation needs improvement, testing, piloting and there is a more or less common understanding how to invent and scale technical innovation. The question in this case is whether concepts like design of social innovation have the potential to play a comparable role. A common understanding is a long standing process where different disciplines are involved. This is not the place work out a common understanding but three starting points could be suggested:

Firstly, we need a deeper understanding of the knowledge base of social innovation. The knowledge base related to technical innovation makes a difference between analytic, synthetic, and symbolic knowledge. This is not suitable for the more pragmatic and bricolage praxis of social innovation. The key challenges is to professionalise social innovation and aiming at this we can suppose that design knowledge it most important (cf. Hoadley and Cox 2009). In this understanding design as a knowledge base is different from synthetic knowledge because it focuses on the process. On the other hand, design is different from a symbolic knowledge base because it is explicitly committed to the question of making decision according to values and goals.

Secondly, we need a design knowledge repository that helps to analyse and understand that overcomes the single activity in social innovation but covers the interconnected

process of social innovation. “In a connected world design processes tend to be increasingly distributed among numerous actors who differ in culture, motivation, and professional development. [...] Therefore the required knowledge must be clearly expressed (by whoever produces it), easy to discuss (by many interested interlocutors), and easy to apply (by other designers), so that other researchers can use it as a starting point for producing further knowledge.” (Manzini 2015, p.38).

Thirdly, we have to strengthen design research as an interdisciplinary approach. This means to work out accepted and operational categories, related indicators and hypotheses, and related research instruments. In this respect Manzini’s (2015, p.39) differentiation between research for design that produces better conceptual and operational tools for designing social innovation, research on design that helps to understand the nature of design of social innovation, and research through design that includes direct involvement and this means subjectivity and creativity.

Conclusion

In order to understand the mechanisms of scaling or in broader sense dissemination the mechanisms of indirect scaling are of high interest. Further studies need a strong focus on these mechanisms and the interplay between different projects aiming at social innovation. In this context the role of policy has to stay in mind.

2.3.3 Reliability and Availability of Risk-taking Funds as a Barrier to SI

THE RELIABILITY OF FUNDING AND THE ABILITY TO SECURE RISK-TAKING GROWTH CAPITAL ARE LIMITED IN SI COMPARED WITH OTHER FORMS OF INNOVATION.

RENÉ WINTJES - UM-MERIT

Introduction

Social Innovation is financed differently than other forms of innovation. As the empirical findings of SIMPACT show Social Innovators do not use traditional financial instruments from the private sector such as bank loans. They often start an initiative with personal funds, and often they do not give themselves a salary for quite some time. After a start-up phase SI remains highly dependent on funding from others, mostly in the form of public grants or subsidies and donations, and this ad-hoc funding lacks a structural, long-term basis, and is a barrier to a self-sustainable prospect. SI often does not aim for growth, and in case they do, they often lack the ability to attract funding for it. At the same time this kind of growth capital is hardly available for SI. Compared to the huge public funds available in Europe for risk-taking investments in technological innovation, the availability of public risk-taking funds for SI are still very limited. There are signs of an emerging social impact investment market, but it is very risk-averse. We conclude that in order to ‘catch-up’ with other forms of innovation new funding and policy in-

struments have to be developed to fund and empower SInnovators and SInvestors, which will enable growth of SI. However, having the analysis on technological innovation of Mazzucato (2013) in mind, and recalling the 'solutions' to the financial crisis, it should be avoided that with innovations in the financial sector aimed for SI, the public sector socializes risks, while rewards are privatized.

As Malerba (2004, p. 14) puts it: *'in an evolutionary framework there is not a sharp distinction between the learning environment and the unit of learning'*. This could explain why Sunley and Pinch (2012) found that SI *"do not seek conventional business loans or equity finance, because they survive in resource poor environments by improvising and re-using redundant capital"*. The mode of financing is dominated by a reliance on habits and practices learnt from the contexts in which social entrepreneurs have operated. It could explain the low demand for financial risk-taking growth capital and the importance of practical and ad-hoc funding arrangements. In the words of Sunley and Pinch (2012): *"This is an adaptive response to uncertainty but is also a manifestation of SEs' inherited capabilities in public and charitable finance"*.

Different modes
of financing

In many of our cases the entrepreneur initiated the SI with his own savings and often the initiators worked at the initiatives for quite a long time without a salary, or a very low salary. Within *Crossics* for instance, the development of the prototype of the booklet was fully financed by the entrepreneurs' own savings (Terstriep et al. 2015; p.69, see box 3.3-10), and *Piano C* bootstrapped thanks to direct capitalisation provided by the founding partners. This may seem similar to risk-taking by for-profit innovators but with the 'burden' of having a social impact mission social innovators are even taking higher financial risks (see Figure 5).

Unlike for-profit business innovators, Social Innovators mostly do not have a reliable and sustainable stream of revenues from customers or clients. The beneficiaries often do not pay, but indirectly the costs are covered by others, in the form of grants, donations, subsidies, and prizes. These third parties include a broad range of organisations such as charities, foundations, public sector, associations, community & voluntary organisations and social enterprises. *Catering Solidario* for instance exploited prizes from the national government as the most promising social enterprise in Spain and from the *Ashoka network* (Terstriep et al. 2015; p.93). But this kind of grant funding it is not a reliable, long-term source of funding, as the case of *Beat Bullying* showed (Terstriep et al. 2015, p. 108; see also box 3.2-26): *"despite having quite a successful solution and a lot of press, it had to shut down operations due to massive amounts of debt as it had made business decisions made on expected grant money that didn't come through"*. In the case of *Beat Bullying* there were no customers besides the beneficiaries.

External dependency for funding

This external dependency for funding is in itself an important characteristic of SI and a main barrier to SI and growth, compared for instance with firms which make profit from business innovations. These profits allow business innovators for internal funding in innovation capacity and growth of the organisation, by investing part of their profits in training, marketing, management, ICT, distribution channels, etc. (investments in capabilities and growth which are lacking in social innovators). These profits of business innovators also allow for an external redistribution of returns on investments to investors. For Social Innovators this financial profit or surplus, is lacking. Moreover, the non-financial returns on investments, or social benefits of SI are difficult to measure in monetary terms and difficult to appropriate by an investor. So, before investors can decide if they are willing to take the risk, there is a difficulty in assessing the potential risks and benefits.

This resource scarcity constrains the creative process, as there are hardly any resources that can be devoted to research, ideation, experimentation, development, prototyping, testing, etc. Also the resources to study the needs and problems in depth are lacking. Social innovators act on the basis of a 'bricolage' attitude (as discussed in 3.2.3). In such a 'bricolage' state of mind, securing risk-taking growth capital is neither a main objective nor a main capability of social innovators. The funds they do manage to secure, mostly refer to ideation and prototyping, but not for exploitation, diffusion, and scaling (Murray et al, 2009). They also do not use it to invest in building innovation capacities within the organisation, but rather spend a large share of the resources to increase social results and impact.

Overall we can say that social innovators show adversity to use financial tools for growth, and especially tools of risk-taking growth capital or Venture Capital. In case social innovators do want to grow and expand, growth or expansion capital in general, and risk-taking growth capital in particular becomes important. Risk-taking growth capital is needed to enable the move to the next level of organisational development.

In addition to the internal scarcity of financial means within the organisation of the Social Innovator (due to a lack of revenues from customers), compared to other forms of innovation, also the structural availability of external funds are limited. Moreover, grants that are available are only addressing the ideation, prototyping or implementing stage. For growth, diffusion or capability development external public and private funds are limited. Our findings are in this respect in line with others, e.g. BEPA (2011): "*a transition away from grant dependence towards other types of finance is crucial for the longer-term sustainability and growth of social enterprises and ventures*" (BEPA, 2011, p.104); otherwise we can not really speak of structural investments in the long-term development of the capacities of the social innovation sector and its infrastructure and human resources.

According to BEPA (2011) the funding gap is also rooted in the lack of recognition of the social dimension in innovation-related funding schemes and programmes. In public funded research and innovation programmes: *“social issues have been seen mainly as means rather than ends (i.e. contexts in which technological solutions could be validated)”*. Citizens have for a long time indeed been regarded only as users and consumers of technological and business innovations, which have been appreciated for their role in giving feed-back and as adopters of technological innovations. Currently innovation funding is mostly technology driven and focused on creating market-value rather than co-creation (Vargo, 2008) of value in context; and on economic returns rather than social returns.

The traditional financial sector is risk-averse any-how, also regarding other forms of innovation. As Mazzucato (2013) has pointed out the private financial sector has (unlike the public sector) rather extracted value and did not invest in the increase of innovation capacity or human capital. She calls for a renewed appreciation for the role of the state concerning value creation investments in innovation and human capital. Her analysis is focussed on investments in R&D and education, and the important role of the State as a source of value creation. This is music in the ears of ministers of science and education, who can call for even larger budgets to fuel their already huge long term Funds and structural investment programmes. But, Mazzucato (2013) ignored investments in SI and social capital; so others, like the SIMPACT project have to broaden the analysis and the concept of innovation by including the value creating investments from SI. However, compared to innovation in the science, technology and education sector there are no ministers in Europe for SI anyhow who can hear the sounds of at grass-roots level, or are receptive to the music from SI in the civil, third- or non-profit sector; ministers who could plea for mayor structural Funds directed to the growth of SI.

About the risk-taking aspect of the role of the State regarding SI, some of the SIMPACT findings are in line with the findings of Mazzucato (2013) for the more technological innovations. For instance, Mazzucato (2013) reveals that every technology that makes the iPhone so ‘smart’ was government funded: The Internet, GPS, its touch-screen display and the voice-activated Siri. She showed that the private sector only had the courage to invest after an entrepreneurial state made the high-risk investments. This is in line with the following finding of SIMPACT concerning SI: *“Generally, it could be said that any organisation initiating an SI is in some way or another connected to the government, whether it is at local, regional, national or European level.”* (Terstriep et al. 2015; p.40). However, it also depends on the political awareness and readiness of the concerning societal challenge, and there are also signs of ‘risk-aversive’ attitudes of governments, e.g. the chances to get a government grant seems higher for SI which have already got some kind of recognition or for which results can already be shown (Terstriep et al., 2015).

Figure 5.
A spectrum
of capital



Source: SIITF WGAA (2014)

Social impact investment in a market framework (Figure 6) is described by the OECD (2015) as a promising new trend. The report compares the expectations with the micro-finance industry, which was an early model of changing approaches to financing which also addressed social needs. The OECD (2015) report defines Social impact investment as *“the provision of finance to organisations addressing social needs with the explicit expectation of a measurable social, as well as financial, return”*. This excludes charity foundations which cannot generate a financial return for investors, as well as firms which are only aiming for financial profit only, not regarding any environmental or social return (see Figure 1). A main advantage of the interest from investors is in the activities on impact assessment. In order to reduce the risk, the investment decisions are based on quite robust financial calculations of the social return on investments. In this respect, we could hardly refer to these investments as risk-capital. There are other concerns as well: It seems only relevant for certain specific fields of SI; what about the role of the government and charities; who defines the objectives; will it lead to innovations; what about context dependency; and last but not least: what about the division of the return on investments?

Conclusions

We conclude that SI is indeed financed differently than other forms of innovation. In order to ‘catch-up’ with other forms of innovation new funding and policy instruments have to be developed to fund and empower SInnovators and SInvestors, which will enable growth of SI. However, having the analysis on technological innovation of Mazzucato (2013) in mind, and recalling the ‘solutions’ to the financial crisis, it should be avoided that with innovations in the financial sector aimed for SI, the public sector socializes risks, while rewards are privatized.

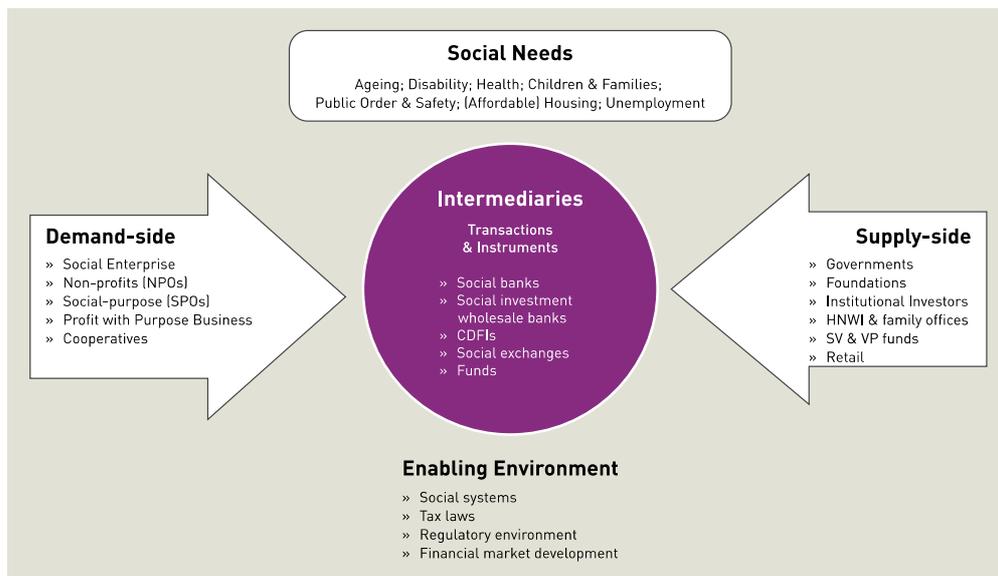


Figure 6.
Social Impact
Investment Market
Framework

Source: OECD (2015: 23)

2.3.4 Lack of Ad-hoc Policies as a Barrier to SI

THE LACK OF AD-HOC POLICIES (LAWS, REGULATIONS, LONG-TERM FUNDING OPTIONS) IS ONE OF THE CONTINGENT OBSTACLES FOR THE GROWTH OF SOCIAL INNOVATION WHEN COMPARED WITH OTHER FORMS OF INNOVATION.

JAVIER CASTRO SPILA & ÁLVARO LUNA GARCÍA, SINNERGIAC

The present essay is focused in the discussion of the following hypothesis: **The lack of ad-hoc policies (laws, regulations, long-term funding options) is one of the contingent obstacles for the growth of Social Innovation when compared with other forms of innovation.** The design of public policies that favour the implementation of social innovations has become a very complex and difficult task due not only to the intangible character of social innovations, but also to the changing and diverse nature of the social contexts where it is implemented. This makes extremely difficult the configuration of common laws, normative regulations, and public funding to match the interests and motivation of the social innovators and their diverse approaches towards the design of social innovations, which leads us to accept the given hypothesis as an relevant one.

Some of the latest European research projects have focused their attention in how governments can help the acceleration of social innovation to stimulate the creation of new markets, by diffusing and acquiring emergent innovations. However, in the majority of the analysed cases, social innovators obtain public financial support and resources after

Introduction

the development of the innovative solutions. This differentiates significantly social innovations from other kinds of technological and scientific innovations, where both, governments and private investors, are able to evaluate their importance, and the risks and probabilities of success of these innovations when launched to the market.

Investing in SI

It is also worth considering that in the case of social innovation, **only the social innovations which are successful are attractive to public or private investors, and even so, most of the times they cannot be scaled up due to the impact that social circumstances and context have in the places where they are developed.** This can be interpreted as a sign of risk when policy makers face the process of making decisions to develop social innovation policies (Osborne & Brown, 2011; Albury, 2005; Feller, 1981). In few cases there is external financial support (public or private) before the recognition of successful social innovations. As a result, the *ex-ante* measurement of their impact becomes a necessary requirement to obtain public funds.

Moreover, **the design of public policy to support innovations involves a wide range of collective actors, which makes the adoption of common regulations and frameworks more difficult and complex.** According Gerd Schienstock (2007) *“The state has to become more sensitive to the increasing demand for different expertise in innovation policy, to a growing complexity of political power, and the increasing need for joint problem solving in a transformative period. The state therefore becomes more and more dependant upon other collective actors like large companies, research institutes, unions, and employer associations and is forced to let these organizations participate in the process of policy conceptualisation...”* (Schienstock, 2007, p. 166). This diversity of public and private actors in policy formulation, has grown the necessity for the conformation of “policy networks” which often replaces top-down *“direct state intervention”*, and drives innovation policy towards *“businesslike market oriented governance”* (Schienstock, 2007, p. 166). This has been the most recent approach to innovation policy in general, which has also translated into the design of social innovation policies.

The institutional and administrative context of Social Innovation

Furthermore, **policy measures are designed and carried out in specific institutional and administrative contexts**, which have their own normative regulations and legislation codes that in many cases move away the original innovative goals from the main objectives for which the policy was created (Rossi & Russo, 2009). Federica Rossi & Margherita Russo describe very well this process when portraying policy implementation: *“When designing, implementing, and evaluating policies, awareness of the theoretical framework that inspires them is crucial to ensure consistency between policy measures and tools available for their monitoring and evaluation. Policy analysis should not only investigate the most effective policy instruments, it should also clarify their theoretical underpinnings, which may carry many different implications for policy”* (Rossi & Russo, 2009, p. 312). This forces us to make a big difference between social innovations and other kind

of innovations, and inside social innovations the different approaches and theoretical frameworks that have contributed to shape public, institutional and market-wise intervention.

According to the mentioned authors, it may occur that these theoretical frameworks and their implementations are not properly synchronized, or that in the case social innovations, the multiple fields of implementation (education, labour, poverty, social exclusion, social entrepreneurship, etc.), make the creation of ad-hoc policies a very difficult task. This demand becomes even more difficult when the different theoretical approaches advance and change overtime, without a proper adaptation of the policies, resulting in their overlapping and lack of effectiveness. Finally, we need to take into account that in many occasions the policies that are designed for a certain social context cannot be applied to another (Rossi & Russo, 2009). As also argued by Timo J. Hämäläinen *“Social innovation process rarely involve such an homogenous group of stakeholders and contexts. As a result, the need for local adaptation, tacit knowledge and face-to-face communication is greater”* (Hämäläinen, 2007, p. 100). This factor also hinders the way for the design of homogenous policy making in social innovation.

Concerning **the specific nature of social innovations and their diverse institutional and social character requires a correct analysis of their institutional coherence.**

This coherence is not only represented by specific laws and policies, but also by the variety of agents involved in their development and their different goals (Harrison et al, 2012). In this sense, the social and non-profit organizations that carry out social innovations are influenced by the organizational nature and culture of the normative and regulatory systems of the places where they take place, being that their social orientations are aligned with their specific social and institutional environments (Campbell, 2004). In this context social innovations can also influence public policy and serve as mechanisms to change the laws and regulations of these environments, but these changes are circumscribed to a particular social context, and therefore cannot be scaled up. This is a great barrier when from a European point of view, we are trying to design and transform common polices and funding resources to a regionally diverse, complex, and asymmetrical continent like Europe.

Therefore, we conclude that the hypothesis concerning the lack of ad-hoc policies is a barrier for the growth of social innovations, specially when compared to other innovations. The subjective condition of social innovation and the different actors who are present in their implementation make it very difficult to measure its value and determine the specific factors that take part in the correct evaluation and design of its policies. These policies could be improved through the creation of particular organizational infrastructures and the access to general funding (micro-finance), helping vulnerable and marginalised groups to strengthen their position in the labour market. This would allow

Final remarks

for the creation of business projects and the improvement of the wellbeing and social integration of these groups, regardless of where they come from, helping them progress in the access to social and economic benefits, and supporting their capacity to come upon socially innovative solutions to their problems.

2.3.5 Networking as a Condition to Kick-off SI

NETWORKING IS A NECESSARY CONDITION TO KICK-OFF SOCIAL INNOVATION, WHILE ITS ROLE IS NOT ALWAYS AS RELEVANT IN OTHER FORMS OF INNOVATION. BREAKDOWNS IN CO-DESIGN AND CO-PRODUCTION PROCESSES MAY IMPEDE THE FLOURISHING OF SI MORE THAN THEY DO WITH OTHER FORMS OF INNOVATION.

JAVIER CASTRO SPILA & ÁLVARO LUNA GARCÍA, SINNERGIAK

Introduction

The present essay is focused in the discussion of the following hypothesis: Networking is a necessary condition to kick-off social innovation, while its role is not always as relevant in other forms of innovation. Breakdowns in co-design and co-production processes may impede the flourishing of SI more than they do with other forms of innovation. Social innovations as well as other types of innovations (technological, organizational, institutional process, etc.) operate under different levels of networking intensity, which can influence the processes of co-creation and co-production of these innovations, showing different stages of collaboration throughout the innovation cycle.

In the last decades the paradigm of “collaborative innovation” has grown stronger (collaborative innovation). This paradigm is surrounded by extensive empirical evidence, which shows how the different types of innovations (technological, institutional, social, economic, etc.) take place thanks to the collaborations between homogenous and heterogeneous actors. The paradigm of “collaborative innovation” emphasizes the collective and interactive nature of all types of innovations.

The concept of collaborative innovation as an alternative approach

Collaborative innovation is tributary of different analytical and empirical perspectives such as national and regional systems of innovation (Lundvall, 1992; Breschi and Lissoni, 2001; Cooke et al., 1997, Johnson et al., 2003; Lundvall et al., 2002; Iammarino, 2005), open innovation (Chesbrough, 2003; Chesbrough, 2004; Chesbrough, 2006; Chesbrough and Crowther, 2006; Chesbrough and Schwartz, 2007; Chesbrough et al., 2006), collective learning (Lawson and Lorenz, 1999, Kirat and Lung, 1999, Keeble and Wilkinson, 1999; Gubbins and MacCurtain, 2008), triple helix (Leydesdorff, 2000; Etzkowitz and Leydesdorff, 2000, Etzkowitz, 2003), communities of practice (Wenger, 1997, Wenger, 1998a, Wenger, 1998b, Wenger et al., 2007, Wenger and Snyder, 2000), the reconversion of knowledge (Nonaka, 1994; Nonaka and Toyama, 2003), the new

modes of production of knowledge (Gibbons et al., 1994), and the network actor theory, (Latour, 1996; Callon, 1991; Latour, 1987) among others.

In the collaborative paradigm, all innovations are defined as a network process, which takes place between actors and stakeholders. The efficiency of innovations depends on the capacity to participate of various actors with different abilities, knowledge and backgrounds. It also depends on the capacity to manage the complexity of this relation with the different levels of the ecosystem they belong to, regardless of their innovative nature (technological, institutional, social, etc.) (Chesbrough, 2003; Mulgan, 2007, Luke et al., 2004, Bommert, 2010; Ansell, 2000; Belderbos et al., 2004; Lee et al., 2010; Blomqvist and Levy, 2006, Dodgson, 1993).

There is existing evidence inside the collaborative innovation paradigm that suggests different levels of intensity in the processes of collaboration (Himmelman, 1995). According to Himmelman (1995) we can identify three different intensities in the collaboration. Networking refers to the exchange of information for mutual benefit. This interaction is of an informal nature with a low level of confidence. Coordination implies the exchange of information and knowledge through the development of activities with common objectives for mutual benefit. This interaction is of a semi-formal nature and requires a low level of confidence. Cooperation is associated with the exchange of information and knowledge, through the development of activities that meet common objectives, sharing economic and institutional resources for mutual benefit. This interaction is of a formal nature (ex. legal agreements) and requires a high level of confidence.

The importance
intensity in the
process of
collaboration

In this context, it is possible to relate the intensity of the collaboration to the cycle of an innovation (design, prototype development, diffusion- impact and evaluation). Considering that innovations have interactive phases (collaborative cycles both internal and external), the intensity of the collaboration varies depending on the stage they are at. In this way, for example, in the co-design phase, networking can be enough to identify opportunities, models, etc., although it would not be enough for the phase of co-production (commercialization/impact), which requires coordination and cooperation. Hence, the intensity of the collaboration and the cycle of the innovation can be better understood through the notion of openness (Dahlander and Gann, 2010). This notion departs from the principle that all innovations demand a rate of collaboration, and this rate depends on the type of innovation that is implemented (institutional, technological, social, etc.), and the phase in which the innovation is located.

Consequently, innovations generate network environments that support the processes of interactive learning thanks to different modes of intermediation and infrastructures that support the connection of ideas, resources, people, and combined methods to some proportion and intensity (networking, coordination and cooperation).

Final remarks

Therefore, the statement that “the obstacles of social innovation are derived from the collapse in the design and the process of co-production” (D3.2) is not always true because all types of innovations (institutional, technological, social, etc.) are subject to the same collapsing possibilities in the co-design, co-production and co-evaluation processes, that is to say, in the different stages of the innovative cycle. As a result, these obstacles are not only a particular condition of social innovation, but of all types of innovations.

For this matter, we conclude that the theoretical and empirical evidence shows that networking environments are equally relevant in technological, institutional and social innovations. This allows us to reject the present hypothesis for two main reasons. Firstly, networking is not a form of collaboration; it only represents the intensity of the collaboration, meaning this intensity is not directly related to the kick-off of SI. Networking can exist in different moments or phases of an SI. Secondly, the collapsing process in the stages co-design and co-production are an obstacle for the different types of innovation, thus, it is not something exclusive of social innovations.

2.3.6 Lack of Measurement as a Gap of SI

COMPARED WITH OTHER FORMS OF INNOVATION, EVALUATION AND MEASUREMENT OF SOCIAL AND/OR ECONOMIC IMPACT ARE ONLY SELDOM CONDUCTED BY SOCIAL INNOVATORS AND SOCIAL ENTERPRISES.

RENÉ WINTJES, UM-MERIT

Introduction

The empirical results from Simpact suggest that social innovators seldom conduct evaluations and impact assessments. We discuss the hypothesis that SI conducts less of these evaluations and impact assessments than other forms of innovation. We will first discuss some possible explanations why so few evaluations and impact assessments have been observed in the SI case studies. Subsequently we will discuss why it is important to increase evaluation activities by social innovators. Finally, we will discuss how measurement can empower individual social innovators, as well as collaborative SI constellations.

Evaluation in SI

FORMAL TOOLS FOR EVALUATION AND ASSESSMENT OF SOCIAL AND ECONOMIC IMPACT ARE HARDLY USED BY SOCIAL INNOVATORS

According to the analysis of Terstriep et al. (2015; Simpact D3.2) the impact of SI is hardly measured or evaluated. For instance, Terstriep et al. (2015) report concerning

the case study KONNEKTid (box 3.4 -42; p.113) that it “doesn’t measure its social impact in any way although internal communication regarding performance and results are discussed, but is limited to concerned stakeholders”. This statement explains that the social innovator evaluates the performance and results in an informal, qualitative way, by exchanging tacit knowledge with stakeholders. The SI didn’t use formal, quantitative tools to measure results in terms of standardised indicators for impact. Vielfalter (Terstriep 2015; box 3.4-18) has not issued any formal communication on the impact of their programme, but in internal communications it has.

There are many reasons why Social Innovators may not use formal tools for evaluation and why it is more difficult, and different for SI. As has been confirmed in our cases studies Jepson (2005) and Nicholls (2008) for instance refer to the “trust or legitimacy surplus” which is granted to many non-profit organisations because of their charitable status or reputation, which means that resources are not allocated based on measured performance. Compared to impact assessment of for profit business innovations it is more difficult for SI to find out what causes what, since there are more different inputs involved, from various actors (funders, beneficiaries, donors, implementers, users, partners) with various objectives (or aimed outcomes), and therefore also likely to have a broader range of outcomes and impacts.

So, a main reason why the SI case studies did not record many evaluations and impact assessments could be the confusion of what it actually is, since there is no agreement on the definitions and the methods: do only formal evaluations count? Is tacit knowledge and learning less valuable? There are many definitions of social impact, social value and impact assessment. As explained by Mulgan (2010) at least some of the funders, non-profit executives, and policymakers are increasingly enthusiastic about measuring social value, but, in the words of Mulgan (2010), “they cannot agree on what it is, let alone how to assess it”. Becker (2001, p.311) defines social impact assessment as: “the process of identifying the future consequences of a current or proposed action which are related to individuals, organizations and social macro-systems”. Social impact assessments were typically commissioned by governments to assess the consequences of a major public project, next to assessment of the social consequences also economic impacts, environmental impacts and fiscal-impacts could be part of the assessment. By now, social impact assessments are obligatory for most governments in the EU when they innovate their laws, institutions or policies. According to the International Association of Impact Assessment (2015, p.2) social impacts are changes to one or more of the following: people’s way of life; their culture; community; political systems; environment; their health and wellbeing; personal and property rights; and/or their fears and aspirations. Later, also many firms and non-profit organizations made use of social impact assessment when they formulate new policy, seek funding for new proposals, or report on past activities in annual reports. Since we probably still mostly have the large scale, resource

What is social impact assessment?

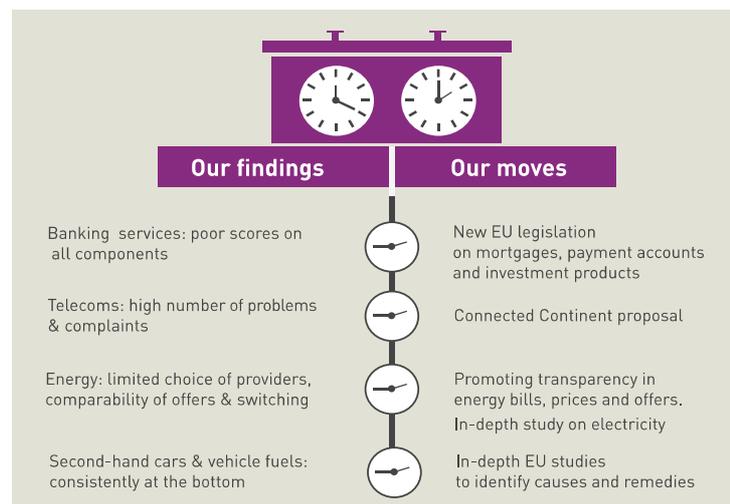
intensive social impact assessments in mind that are commissioned by governments for large projects, most SIMPACT case studies probably didn't spot the many, small-scale, light, tacit, ad-hoc social impact assessment activities concerning the changes in the lives of beneficiaries of the SI.

Do other kinds of innovators more often evaluate impacts?

In the pharmaceutical sector it is obligatory to assess the impact from new medicines on health. Innovations in the automotive industry have to be assessed on their impact on pollution and safety. The kind of impact that firms are obliged to report on differs by sector and political context. Terstriep et al. (2015; D32) states that some for-profit companies do more on social impact assessment than SIs. In order to convince markets that they are not irresponsible they voluntarily show some indications of positive social consequences of their activities.

In some fields self-reporting is institutionalised, when industries are for instance requested to record the use of child labour for off-shored production. Most common kind of evaluations of business innovations is perhaps customer satisfaction, but this information is mostly kept private or only positive, for marketing purposes. Customer markets are however evaluated by for instance the EC. The results of the 10th EU consumer market scoreboard for instance shows that among the worst performing sectors are: banking and telecoms (see also Figure 6). We are not aware of evaluations conducted by banks or telecom companies on the social and or economic impact from these bad performing innovative mortgages or telecom services (although they might contribute to homelessness and youngsters with high-debts).

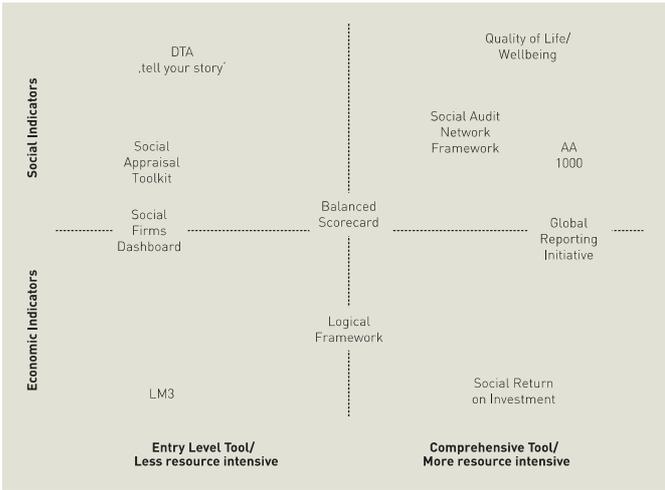
Figure 7.
The EU consumer market scoreboard



Source: Adapted from [European Commission \(2014\)](#)

So, in general, we would not be able to support the hypothesis. Some firms, in the context of corporate responsibility may voluntarily conduct and report on social and economic impact assessment, but not all. However, for SI we could even claim that they all report on social and or economic impact in one way or another, but the form and the methods used are very basic, light, qualitative, low-cost, less resource-intensive. E.g.: based on personal testimonials from beneficiaries on a face-book page which emphasize the social aspects, instead of resource-intensive tools with a focus on economic indicators such as Social Return on Investment (Figure 8)

This brings us to another reason why the more formal and resource intensive methods of SI impact evaluations are rare: it fits their bricolage mode of innovation, the scarcity or resources, their mission oriented mode of innovation, and their aversion to bureaucracy and forms. Impact evaluations are costly, so in case the funders do not dedicate a separate budget for it, or demand it for getting subsidies or grants, social innovators may consider it a waste of resources, resources they would rather spend on supporting additional people in need. Social innovators or partners may not see the need for measuring and evaluating impact. They might object to the ‘bureaucratic paperwork’, and mistrust the objective. Evaluations among beneficiaries, may for instance, be considered by volunteers or other participants as signs of lack of trust. This was for instance the case in VoorleesExpress (Box 3.2-5) where originally they asked the children to give the volunteers a grade after each session. But the children actually did not like to do this, so they had chosen another, less judging form, at another moment in time. Formal quantitative evaluations can also form an additional push for ‘hyper-exploitation’ and getting stuck in a mere output oriented mode of innovation.



Source: Wood & Leighton (2010: 22)

Figure 8. Mapping of impact tools

Measurement, evaluation and impact assessment should be seen from a learning point of view. To learn from the past and to incorporate lessons in plans for the future; to

Why evaluate and assess impact?

learn from your own experiences, but also of those of others. Many of the informal ways of learning and evaluating are not less useful, but there are some advantages in codified forms and more standardised modes of evaluation and impact assessment. Agreeing that learning is the overarching objective, the EU Guidance document on Monitoring and Evaluation (2014), subsequently distinguishes two purposes of evaluations or impact assessments: supporting (strategic and operational) management and assessing whether the desired effect has been produced. Counterfactual impact evaluations focus on this latter purpose by answering the question Does it work? Since not all changes can be attributed to the SI, impact refers to the change that can be credibly attributed to a SI (EC, 2014, p.6). The quantitative methods used are developed in statistics and medical research, e.g. 'treated' and a 'non-treated' control group are compared to make it likely that the difference can be attributed to the 'treatment' or SI in our case. Theory-based impact evaluations serve to support the SI management by answering the question: why and how does the SI work? The theory of change is central in this more qualitative impact assessment approach. The question why certain actions produce effects, and for whom, and under which conditions, intentionally or un-intentionally is very useful for the social innovator and for all those involved in the implementation, moreover costs in terms of resources, time and competences are less, and in time evaluation practices can evolve towards, and complemented with, more codified, formal and resource intensive forms of impact assessments.

The case of Mothers of Rotterdam

Evaluations at the level of eco-systems provide opportunities for learning among actors in related fields, but also to share costs. In the case of Mothers of Rotterdam (Terstriep et al. 2015; Box 3.2-7) the university had developed a large international research proposal in which the socio-medical impacts of combined medical and social care (as it is done in the SI of Mothers of Rotterdam) would be assessed at systems level. Probably they will apply advanced quantitative statistical techniques with control groups, because in the medical field that is the norm for assessing impact. Their focus will probably be on health output indicators such as the size of the unborn child. Although the Social Innovator already has seen enough evidence from his own tacit experiences, and from his informal discussions with his medical and socio-medical partners in the project, he will of course follow this academic research with interest, and the results might serve as additional pieces of evidence, which he could show to others.

However, the concerning SI was more interested in talking about how and why the SI that he developed works. He talked about his theory of change when explaining how they managed to change the lives and behaviour of the pregnant woman in problematic neighbourhoods. He explained that they first tackle the main stress-causing problem. Often the mayor problem is having a high financial debt. He had also read about the theory of scarcity (Mullainathan and Shafir, 2013), which confirmed his experience, that people in financial problems can not think properly anymore, their IQ drops, they behave irra-

tional, and get themselves in all kinds of other problems as a result of having such high debts. We won't repeat his whole theory-based impact evaluation, but when we asked if an evaluation or impact assessment had been conducted he said "no, not yet", and he only referred to the above mentioned research proposal of his university partner.

	Evaluation at actor level	Evaluation at eco-system level
Tacit knowledge/ informal learning	Self-evaluation in discussions with beneficiaries, partners, donors, clients	Organise shared events, networking; Human mobility schemes
Codified knowledge/ formal learning	Standard Reporting forms Satisfaction-ratings , Surveys (Voorlees Express; Box 3.2-5 of D3.2)	Evaluation platforms Evaluation by university (Mothers of Rotterdam; Box 3.2-7 of D3.2)

Table 2. Formal & informal learning from evaluation

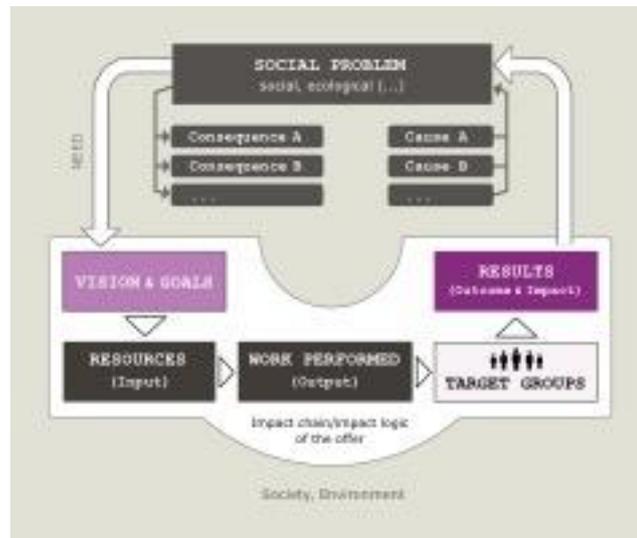
LIGHT, INFORMAL AND THEORY-BASED IMPACT EVALUATIONS ARE PREFERRED AND IMPORTANT FOR SOCIAL INNOVATORS

Informal assessment

A light form of evaluation is the Social Impact Reporting Standard. The case study of Education for Accommodation followed this approach (Terstriep et al. 2015; box 3.4: 44). But there are many others that only followed bits and pieces of such methods in a non-standardised way, but this does not make them less accurate or less valuable. Some follow the examples of others by entering more information into their annual reports, which also includes information and indicators concerning 'learning-cycle elements' such as problem, goal, inputs, activities, results, impacts. In several cases the social innovators didn't refer to their own scientific impact assessments, but to impact assessments from scientists in their field of SI.

This kind of circumstantial evidence is all valid to back your case. Also the so-called 'theories of change', and logic frameworks, do not necessarily have to be used in a heavy, and academic mode. Social Innovators rather opt for the short catchy colourful statements on such logics, narratives, and wisdom, on how things work, why and for whom, in which circumstances.

Figure 9.
Example scheme to
structure impact logic



Source: Social Reporting Standard (2014: 9)

2.3.7 Hyper-exploitation of Scarce Resources as a Key Characteristic of SI

MANY SOCIAL INNOVATIONS ARE CHARACTERISED BY A STATE OF «HYPER-EFFICIENCY» (HYPER-EXPLOITATION OF SCARCE RESOURCES) WHICH MAY INDUCE FRAGILE BUSINESS STRUCTURES AND MODELS.

RENÉ WINTJES: UM-MERIT

Introduction

The state of 'hyper-efficiency' in the sense that social innovators hyper-exploit their scarce resources seems to coincide with having fragile business cases. Gaps of structural resources are often bridged by: volunteers, use of personal private assets, strong personal commitment of people working in the organisation, and a strong orientation on achieving impact for their target group. With their focus to invest in others they often forget to invest in themselves. In this section we will discuss this Hyper-exploitation of scarce resources. The Resource-Based View and the 'dynamic capabilities' concept will be used to discuss the pathways for SI towards less fragile business models? In search for an appropriate 'theory of change' or 'SI logical framework' which might be applicable to change this behaviour of social innovators we could think of the safety instructions we all get in airplanes: put on your oxygen mask as a parent first, before supporting your child. This kind of mental framing is less necessary in a 'for-profit-only' business innovation context, where the norm is to believe that self-interest is the key to success.

Hyper-exploitation of scarce resources is a key characteristic of some SI, as shown by the empirical results in wp3. For instance, Crossics (Terstriep et al. 2015; box 3.2-8) relied in its starting phase to a considerable degree on the financial means of the founder and contributions of a software developer. The latter one was a critical resource for the development of a mobile app. However, over time the software developer apparently felt that he got no fair remuneration for his efforts, left the initiative and even started a lawsuit on IPR against the founder. The focus on effectiveness and maximising impact is on the one hand to be explained from the ethical drive towards social impact among the marginalised beneficiaries, and on the other hand from the legal frames and funding schemes which are mostly reviewed in terms of impact targets. In the case of Granny's Finest (Terstriep et al. 2015; box 3.2 -19) it was the Dutch tax-law for charity foundations that forced the founding social innovators to set up an additional legal entity, otherwise it would not have been possible to pay salaries to the entrepreneurs. In the case of VoorleesExpress (Terstriep et al. 2015; box 3.2-5), a Dutch social innovation that aims at improving literacy, many volunteers appeared to work overtime and several part-time coordinators had signalled signs of 'burn-out'. The national platform has taken these signals very serious and developed guidelines with possible solutions and a helpdesk where people could turn to with questions, since volunteers are a key resource.

Discussion

The Resource-Based View (RBV) of the firm (Penrose, 1959), built on Schumpeter's perspective on value creation (Fagerberg, 2014), views the firm as a bundle of resources and capabilities. In this respect we could say that from a set of scarce resources we should not expect a strong business structure. However, the Resource-Based View also states that uniquely combining a set of complementary and specialized resources and capabilities (which are heterogeneous within an industry, scarce, durable, not easily traded, and difficult to imitate), is what leads to value creation (Penrose, 1959). So, the scarcity of a certain resource may be compensated by another specific resource or capability, and it is about the unique combination. The RBV fits the situation of SI quite well as stated by Rehfeld et al. (2015), but the kind of resources which are key in SI are often different from those for other types of innovation. Besides economic resources, the social resources or capabilities and political resources and capabilities are often more prominent assets, e.g. in relation to serve the needs of beneficiaries or in lobbying for public grants. A core objective for about two third (72%) of the SIMPACT cases is to empower and develop capabilities of the marginalised and vulnerable beneficiaries (Terstriep et al., 2015). According to (Santos, 2012) this empowerment of others, outside the boundaries of the organisation, is a key characteristic of social entrepreneurs.

Resource-based View

Teece and Pisano (1994) who applied this evolutionary view of the firm to innovation and extended it into the concept of "dynamic capabilities", defined as "the skills, proce-

Evolutionary View

dures, organizational structures and decision rules that firms utilize to create and capture value” (Teece 2010, p. 680). These two views are quite similar, but the main difference is that the RBV is a static approach (to the allocation of resources, and to efficiency), while the latter concept refers also to the ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. In this respect the concept is similar to that of resilience, which is often used at a systems level. So, the RBV only addresses efficiency in relation to current value creation, while dynamic capabilities refer to dynamic efficiency and the capabilities to create value in the future. This “dynamic capabilities’ concept is less well applicable to SI as a characterisation, but it seems applicable in explaining some of the barriers of SI. Social Innovators do not invest enough in developing dynamic capabilities, routines which empower them to address the uncertainties of the future; relational routines, broadened perceptions and changed awareness which makes them more resilient and capable. The lack of investments in building up dynamic capabilities is evidenced in Terstriep et al. (2015) in the form of a lack of managerial knowledge (p.51), and skills (p.48). SI should empower themselves in cooperation with their surrounding eco-system of innovation in which their main beneficiaries, as well as their partners are embedded.

Table 2.
Policy options at actor and systems level in a static (neoclassical) and a dynamic (evolutionary) theory of change

Target level of SI policy support	Aimed at closing resource Gaps re-activity, passive provision of funding or other incentive	Aimed at behavioural additionality Increase capabilities; pro-active; empowering; raise awareness, cognitive and rationality shift
Actor level of individual SInnovator	Subsidies for SI Prize for SI Tax-benefit for SI	SI Vouchers SI Management training Subsidies for capacity building Course on SI evaluation & reporting
System level for SI	Public-Private Fund for SI Subsidies for new SI collectives Eco-system incubator for SI	Network events for SI Promoting Cross-sector networking and human mobility Evaluation platform

Source: Adapted from Nauwelaers & Wintjes (2002: 209)

Policy option to support SI

Table 3 provides a selection of policy options to support social innovators towards less fragile business structures. Some options are provided along two ‘theories of change’ namely, a static one (which we could also call neoclassical, based on equilibrium thinking) and a more dynamic one (based on evolutionary and behavioural thinking). The more dynamic intervention logic fits the empowerment approach of SIMPACT and many SIs with regard to their marginalized beneficiaries (e.g. instead of the more static solutions to marginalisation of merely providing social security benefits). The policy options

in table 1 that are aimed at behavioural additionally follow the same theory of change but the subject of change in this case is the social innovator at actor level, or at system level.

2.3.8 Divergent Allocation of Cost, Use and Benefit as a Key Characteristic of SI

SOCIAL INNOVATION IS MOST OFTEN CHARACTERISED BY A DIVERGENT ALLOCATION OF COST, USE AND BENEFIT

PETRI KAHILA - UEF

The empirical studies in the SIMPACT project indicate that the management of diverse and complex income/revenue streams necessitate proper financial and managerial competences of mission-mission driven organisations. Further, the empirical research also underlines that these competences are often missing and that gaps are primarily bridged through trial-and-error knowledge creation. These problems are emphasised in many cases by an improved understanding of the typical characteristic of the operations and processes as well as assets in a context of social business making. There is a possibility for both scholars and practitioners of social business making to pick up valuable insights by examining lessons learnt from conventional business making, for instance entrepreneurial failure or identifying the processes of resource mobilisation (Dacin et al., 2010).

Introduction

The point with reference to management in general and managerial capacities of the social innovation is naturally individual. Normally these tensions appear in the first place when the social innovation entrepreneur becomes more successful and taking care of the business operations requires on-going management skills. Bygrave (1989) and Stevenson and Gumpert (1985) for instance argue that management and entrepreneurship are contrasting concepts. However, we may also argue that social entrepreneurship in making profit as well as conventional entrepreneurship involves also knowledge in business making that can only be learned through training, education and experience. Entrepreneurial passion in conventional entrepreneurship and in social innovation entrepreneurship is in many cases sufficient only to start the business activities but knowledge and interest in management is required for survival and growth of the business.

It is natural that the negotiations and networking skills are one major element in all successful businesses. Partnering with external sources is a necessity for the overall development and also for the supplementing skills of another social innovation enterprise

(Michelini, 2012). Larger businesses and organisations have capabilities and capacities to learn and develop, as smaller ones may have similar kind of possibilities through skilled staff and participating in right kind of networks (Mulgan 2006). These results confirm the empirical results of our survey that emphasize the importance of communicative and networking skills. Comparable results have also reached World Business Council for Sustainable Development (2008) in analysing inclusive businesses; they suggest that one vital element for every flourishing business is a partnering strategy with external counterparts.

The presence of social innovations has created new legislative frameworks in several countries, as we have concluded in our case studies. Intention of the national legislative frameworks has been to permit social innovation businesses to match their social mission to an economic activity. Market approach has become an important way to manage conventional normative forms of social economy in many countries. There are differences between the methods and ways, as in some countries laws have been launched to regulate a cooperative form of social innovation businesses, while in others, new legislative frameworks have been explored in order to mainstream the concept of social economy to the market economy and normal enterprise (Travaglini, 2010).

Functional differentiation in systems theory is only one aspect in the wholeness of social innovations. We have mentioned in this connection the functional differentiation in systems theory, in which a major system is divided into several sub-systems. They are limited to a specific mode of operation. Targeting our approach on this mode, it is possible to pursue the specific purpose while fading out other environmental aspects, which are not linked to the purpose. However, there is also need to pay attention to two other dimensions of systems theory in addition to functional differentiation that emphasises importance of several sub-systems in the communication with complex structures of various factors.

In order to have, a broader view of social innovations' communication with a complex structure of various actors, such as funders, donors and clients, we need to consider two other dimensions of social differentiation (e.g. Roth 2009). We need to consider also segmentary differentiation and stratified differentiation. Segmented differentiation refers to distinction between comparable entities, in which need to think over their focus and actions in relation to clients and donors. Basic questions in this context are for instance their intentions, targets, capabilities and capacities that normally may vary on the basis of operations or geographic region. Against this background, it seems that for example geographical segmentation is vital feature for social innovation to get the better of new targets group, and through which it is possible to generate more advantages. Stratified differentiation then implies distinction between heterogeneous but scalable entities that can be described by holistic approach to entrepreneurship and also to en-

trepreneurship promotion engaging economic and social activities to broader scale.

Our empirical findings have indicated that the framework of strategic planning does not, with what emerges from case studies, affect all social innovations. Especially this concerns the social innovations that have not fully succeeded in their operations. Our results demonstrate that social innovations take shape in resource-scarce environments, where social innovators exploit existing resources beyond planning, making use of creativity to cope with and to overcome constraints.

Lack of strategic
planning

Generally, we may notice that there are less studies and research on evolution and development of social innovations than on conventional commercial enterprises. The existing research tends to concentrate on the founding and starting phase growth of the social innovation related businesses. Phillips (2006) has established the increasing importance and perception of social innovations and social enterprise. Simultaneously, he also has identified that the social enterprises among with other small businesses face economic growth difficulties that decreases their possibilities for sustainable growth. He concludes that it is important to support these social innovations and social enterprises, but also warns about possible marketization of this sector, because it might be detriment to further development of this sector.

Therefore, it is important to grasp a broader perspective to connect conventional models of structural life cycles with social innovations and social enterprises (e.g. Ridley-Duff 2008). However, there is still one crucial difficulty in dealing with social innovations and social enterprises: the question is how the significance given to social enterprises as a new feature of social as well as economic policy has taken place although there is still an absence of broader agreement of its context and definition (Teasdale 2012). The rate of emergence and thereby also nature of social innovations and social enterprises is also dependent on national level institutional factors that does not solely relate to legal frameworks but also to traditions (e.g. Kerlin 2010; Defourny and Nyssens 2010). Economic environment and market demands also influence beside the social welfare system to the overall sustainability and creation of social value (Mullins et al. 2012).

Lack of specific
SI models

Considering the differences between for-profit and mission-driven organisation we can shift from an analytical to a generative frame, as it is described in the report. Michelini (2012) has argued that the traditional business model in framing the social enterprise should be adjusted through introducing new components and mechanisms. Her argumentation presented in our report starts from different definitions of business modelling mainly bound in typologies of organizations. The proposed model emerges from an attempt to find a way of describing the complex economic structures that are necessary to manage contradictory requirements in an overall framework.

Thereby, it can be realistic to think that in most market situations the creation and delivery of generated business from a social enterprise would not differ very much from a conventional profit-making business. However, it is also noticeable that the importance of social aims and the requirement to distribute social value impacts on operational practices and their management. In this context, we also may pay attention to categorization developed by Alter (2006). The first category refers to embedded one, in which the business is directed to the delivery of social value. The second category means integrated one, in which the business generates social and economic value through activities that are separate but also intersect from time to time and similarly share synergies, e.g. implement some social activities and simultaneously sell products in order to finance the social activities. The third category refers to external ones, in which the business operations are not linked to the delivery of social value. Rather, they are based on provision of funding the foundations for social value. This means that social value is developed and promoted by reinvesting the business surplus in the operations of the social enterprise or to the community, and not directed to increase the profit share of the shareholders and owners.

Conclusion

Generally, we may conclude that the social innovations and social enterprises can embrace many different forms, including integrated forms such as businesses and provident societies, as well as non-integrated forms such as associations and partnerships. Additionally, social enterprises can also be formally listed as charity organisations in countries where charitable organisations have a strong position. It is obvious that the social innovations or social enterprises need also to have proper governance structures (especially as they are organised on the legal form) that will define the administrative procedures of it. Therefore, one may not recognise a social innovation or social enterprise on the basis of legal form it has adopted. There are in various countries multifaceted regulatory frameworks that will have effect on administrative issues, depending on the sector or purposes of the social innovation or social enterprise.

3 REFERENCES

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