SIMPACT PROJECT REPORT

Report # D1.1

COMPARATIVE REPORT ON SOCIAL INNOVATION FRAMEWORK

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social innovation
economic foundation
empowering people

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SIMPACT

SIMPACT is a research project funded under the European Commission's 7th Framework Programme from 2014-2016 and is the acronym for «Boosting the Impact of SI in Europe through Economic Underpinnings». The project consortium consists of twelve European research institutions and is led by the Institute for Work and Technology of the Westphalian University Gelsenkirchen in Germany.

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1 EXECUTIVE SUMMARY

SIMPACT investigates the economic foundation of social innovation in relation to markets, public sector and institutions with the intention of providing a dynamic framework for action at the level of individuals, organisations and networks. The economic foundation should not be interpreted as economisation of social innovation and is not limited to questions of market efficiency. Substantiating the economic dimensions of social innovation as a so far largely unexplored research field is expected to accelerate the social and economic impact of social innovation through an advanced knowledge base and tailored tools supporting policymakers, innovators, investors and intermediaries.

According to SIMPACT's understanding, social innovation refers to: ***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.*** Hence, emphasis is on social innovations addressing vulnerable and marginalised groups in society. Due to market and policy failure, these groups in society are not able to fully participate in the economic, social, political and cultural life of the society. Being marginalised is not viewed as a result of individual inadequacies, but is the result of institutional constraints. By focusing on the economic underpinnings on social innovation, SIMPACT seeks to highlight the potential for empowerment and (re)inclusion of marginalised and vulnerable groups in society. Consequently, a shift in thinking and acting from *«marginalised and vulnerable as burden of society»* towards one that values their potential within society, constitutes a cornerstone in the social debate.

As a first step towards a better understanding of the economic foundation of social innovation, a «Multidisciplinary Literature Review» has been undertaken to advance understanding within this field. The review lays the foundation for a theoretically sound and comprehensive concept to help identify the numerous factors that underlie economic and social impacts. This version of SIMPACT Working Paper Series summarises the results of the literature review to feed the discussion towards a ***multidisciplinary middle-range theory*** on the ***economic dimensions of social innovation.*** Moreover, the report elaborates a joint framework for an in-depth analysis of the economic foundation of social innovation. It affords the identification of related economic factors and concepts to achieve sustained and long-term success of social innovation in terms of social benefits and economic value. This includes developing a common understanding ***of economic principles, objectives & components related to social innovation*** as well as the analysis of social innovation based on a ***first categorisation*** of different factors and concepts affecting its trajectory. Subject to an iterative process of theorising and evidence collection, the categories are to be understood as ***hypotheses.*** As such, this paper constitutes a ***«living document»*** with frequent updates to reflect the project's ongoing theoretical and empirical research.

In order to elaborate the meaning of economic principles, components and objectives in the context of social innovation the following research questions led the literature review:

- ***Understanding the process of social innovation:*** *What aspects of the reviewed theory contribute to the explanation of the components in the SI lifecycle including needs and bottlenecks to transcend from one level to the next (micro, meso, macro)?*
- ***Understanding the economic dimensions of social innovation:*** *Which points of reference does the reviewed theory offer to underpin economic principles, objectives and components of SI?*
- ***Understanding the policy dimension of social innovation:*** *Does the reviewed theory indicate instruments and/or strategies for policy interventions at different governance levels (regional, national, European)?*

The findings can be summarised as follows:

- ***Economic components*** of social innovation comprise actors and resources as central production factors as well as institutions as primary and supporting elements. «Collective actors» are understood to represent a group of individual actors embedded in civil society and characterised by weak organisational ties. Referred to as proto- or informal organisations (e.g. mobs, social movements), these groups may be contrasted with «corporate actors» (e.g. formal organisations, NGOs, associations), that embody formal organisation structures, hereafter referred to as «organisation». Organisations that design and implement innovation processes and engage in social innovation must combine economic, political, and social resources. Economic resources, organisational competences and social capabilities constitute the basis for entrepreneurial choices and actions when engaging in social innovation. Institutions constitute the building blocks of social innovation and as such, foster the process of social innovation at micro-, meso- and macro levels. Political, electoral, social and economic institutions can be designed with the purpose of empowering targeted actors as well as providing market and non-market incentives to accelerate social change.

- Micro and meso-level ***objectives*** of social innovation refer to the goals and underlying motivations of actors or organisations to engage in social innovation. These objectives can be social in nature or cover social and economic goals. Organisations are driven by different objectives: Economic objectives relate to profit maximisation, whereas social objectives refer to empowerment, participation in society, social cohesion and equity. Welfare maximisation, inclusion, discharge of public budgets and legitimation are among the political objectives.

- ***Social innovation principles*** refer to concepts or strategies for efficient allocation of resources in reference to the set objectives, modes of efficiency and governance. Economic principles are internal as well as external. Efficiency, opportunity costs and rationality assumptions pertain to the internal aspect of organisations. In contrast, Pareto optimum conditionality pertains to the external aspect of organisations. Little information is given as to what efficiency means in the context of social innovation since business models are strategic in nature and not analytical concepts. Hence, it is proposed to start by studying trade-offs between different social innovation objectives that allow for the deduction of modes of efficiency. In analysing modes of governance in social innovation, one needs to distinguish between process and structural dimensions of governance. *Governance as process* pinpoints the various modes of coordinating the behaviour of actors, whereas *governance as structure* relates to actor constellations and institutions underlying and shaping its distinct forms. Subject to member state histories, cultures and welfare regimes, it is probable that governance across Europe ranges from hierarchical steering by state actors (i.e. public regulation not involving private actors), to co-regulation by means of private-public collaboration (e.g. co-regulation, delegation of tasks to private actors) and joint decision-making, and private self-regulation plus intermediary forms.

2 INTRODUCTION – THE BOUNDARIES OF SOCIAL INNOVATION

Without doubt, technological and economic innovations are of utmost importance in contributing to societal wellbeing through the generation of employment and economic growth. But in recent years and confronted with the effects of the economic crisis, it has become evident that technological innovations alone are not sufficient in tackling the significant social and economic challenges modern societies are facing. This is why ***social innovation*** is on the agenda of policy makers, researchers and entrepreneurs who seek to address the societal challenges of our time. These innovations are neither driven by the profit motive nor by marketability, but characterised by social objectives that activate and accelerate the innovative potential of society. In Europe, social innovations are broadly recognized as new solutions leading to improved capabilities, new forms of collaboration and a better use of societal resources that may help to empower and reengage economically deprived, vulnerable and marginalised populations in society, such as the unemployed and undereducated groups, young people, the elderly, and women.

However, several key issues need to be addressed before social innovation can be fully comprehended by European policymakers. Within this frame of analysis, we proceed to shed further light on how markets, institutions, public and private sectors operate to alleviate the burden placed on marginalised and vulnerable populations. Stronger and more coherent concepts of social innovation, including alternative business models for financing, distribution and employment, need to be further elaborated. Moreover, social actors and policymakers should become more familiar with the building blocks and mechanisms of social innovation. In addition, policy instruments and methods for measuring and evaluating social innovation's social and economic impact need to be developed and deployed by those involved at various operational and strategic levels of social transformation. It is important to note that alternative business models that rely on social impact financing and seek to promote social entrepreneurship constitute a key driver of social progress and economic prosperity.

2.1 Understanding the Economic Foundations of Social Innovation: SIMPACT's Approach

This is where SIMPACT comes into play with its overall objective of providing a better understanding of the economic foundation of social innovation, targeting the socially vulnerable and economically poor with more effective support programs. With distinctive characteristics and varying practices, the term, social innovation, refers to facilitating the activation of vulnerable and marginalised populations through empowerment to help generate greater social and economic impact.

As such, SIMPACT investigates the economic foundation of social innovation in relation to markets, public sector and institutions with the intention of providing a dynamic framework for action at the level of individuals, organisations and networks. Economic foundation should not be interpreted as economisation of social innovation and is not limited to questions of market efficiency. By substantiating the economic dimensions of social innovation, so far a largely unexplored research field, SIMPACT will accelerate the social and economic impact of social innovation through an advanced knowledge base and tailored tools supporting policymakers, innovators, investors and intermediaries. Our study will lay the ground for establishing supportive infrastructures compared with those in place for technological innovations. This is likely to help governments and citizens across Europe to better cope with the daunting economic and societal challenges they are facing.

2.2 Dimensions of Social Innovation

Social innovations do not necessarily involve a commercial motive, even though they do not preclude economic interest (Phills et al., 2008; Westley & Antadze, 2010). They are heterogeneous, transcend sectors, comprise different levels of analysis (e.g. micro, meso and macro) and represent theories as well as methods that lack a common framework. Social innovation is viewed as a complex and multi-faceted topic, amplified by a difficult epistemology that emanates from its multiple dimensions and moving boundaries. Placed within a broad canvas of scientific inquiry, social innovation cuts across a variety of disciplines raising the question of how sociology, anthropology, economics, institutional, political and urban studies can be used to assess its' sources and outcomes. Any evaluation cannot be dissociated from a careful study of market and nonmarket factors that govern, shape, and support individual and collection actions. Social innovations require an understanding of actors' behavioural patterns whose choices and actions exert a direct bearing on the evolution of economic and social organisations. Social innovation embodies the processes and outcomes of human activities within socially defined constructs. As such, social innovation moves beyond the social sphere by transforming economic relationships and reinforcing a wide array of for profit and non-profit networks. The majority of social innovations emanate from individual and collective actions at micro, meso and macro levels. Social innovation literature draws on a variety of disciplines such as sociology, business administration, economics and political sciences (Moulaert, 2009; Rüede & Lurtz, 2012; Caulier-Grice et al., 2012). Moreover, the multidisciplinary nature of social innovation contributes to a diversity of meanings and conceptual fuzziness. Social innovation focuses on the study of new ideas, initiatives and opportunities within market and nonmarket contexts. It embodies a simultaneous development of political, social, economic and cultural constructs as well as novel business practices. From new ideas changes come into life which alter resources and administrative flows and also affect social system beliefs *(*Westly & Antadze, 2010; Mumford, 2002).

Social innovation has been described as *«[...] a process of recontextualization within socially constructed norms of the public good, justice and equity»* (Nicholls & Murdock, 2012: 2). Any attempt to innovate begins with new ideas and initiatives about people whose creativity and interactions individually and collectively will determine the innovation breadth and impact. At a micro level, initiatives are driven by individual and organisational capacities plus skills to cope with increasingly complex environments, social and economic challenges as well as market failures and shortcomings.

In order to reflect upon the many facets of social innovation, SIMPACT considers the challenges European societies are facing, in particular the need to empower the vulnerable and marginalised, which is reflected in the project's working definition of social innovation.

> Social innovation refers to **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 social innovation or as a result of it.

Figure 2-1. SIMPACT's Working Definition of Social Innovation

Drawing on evolutionary theory (Nelson/Winter, 1982; Dosi, 1982), social innovation as an evolutionary process comprises the development, implementation, practical application and consolidation of such novel combinations. Hence, social innovations are characterised by an iterative process of experimentation and learning with an open end including abandonment and failure. They go beyond singular individual activities and are often the result of contradictions and tensions across fields of action. Thus, *«[…] social innovation doesn't solely concern outcomes, but process as well – and more specifically the social relations between groups»* (Defourny & Nyssens, 2013: 47).

Focus on vulnerable and marginalised. Within the above definition emphasis is placed on social innovations addressing vulnerable and marginalised groups in society. Due to market and policy failure, these groups are not able to fully participate in the economic, social, political and cultural life of the society. Consequently, being marginalised is not viewed as a result of individual inadequacies, but rather as the result of institutional obstructions.

2.3 Aim & Structure of the Report

As a first step towards a better understanding of the economic foundation of social innovation, a «Multidisciplinary Literature Review» has been undertaken to advance understanding within this field. The literature review lays the foundation for a theoretically sound and comprehensive conceptual model to help identify numerous factors that underlie economic and social impacts. This report summarises the results of the literature review in providing the foundation towards a ***multidisciplinary middle-range theory*** on the ***economic dimensions of social innovation*** and as such, provides input for a related working paper (D1.2).

Moreover, the report elaborates a joint framework for an in-depth analysis of the economic foundation of social innovation. It shall allow for identifying related economic factors and concepts to achieve the sustained and long-term success of social innovation in terms of social benefits and economic value. The framework is constituted by a shared vision and a common understanding of SIMPACT's main lines of theoretical and conceptual argumentation as guidance for subsequent work. This includes developing a common understanding ***of economic principles, objectives & components related to social innovation*** as well as the analysis of social innovation based on a ***first categorisation*** of different factors and concepts affecting its trajectory. This first categorisation will serve as a starting point and common framework of analysis for the empirical work. In order to account for the «fuzziness» of social innovation as a research field, one needs to find the optimum balance between the necessary definition of categories, their observability and relevant openness for analysis. Subject to an iterative process of theorising and evidence collection, the categories are to be understood as ***hypotheses*** and therefore subject to review in the course of SIMAPCT's theoretical and empirical findings.

The remaining report is structured as follows:

- SIMPACT focuses on social innovation initiatives that aim at facilitating the empowerment of the marginalised and vulnerable populations as a mechanism to unfold their potential as strategic assets that create social and economic value. In this sense, section 3 links social innovations' target groups to the economic underpinning of social innovation.
- Section 4 outlines the general economic framework used to assess social innovations and measure their impact, including the understanding of principles, objectives and components from a traditional economic perspective as well as a reflection on their meaning in context.
- Based on the multidisciplinary literature review, a categorisation of social innovations according to their economic principles, objectives and components is elaborated in section 5.
- Finally, a number of guiding questions is formulated (section 6), which together with the categorisation of social innovation, shall serve to structure SIMPACT's empirical work.

3 LINKING SOCIAL INNOVATION TARGET GROUPS & ECONOMIC UNDERPINNING

When thinking of someone as «marginalised» and «vulnerable» people, one often perceive of an individual left out of the job market to the point of becoming unreliable for engaging in a new job or a migrant worker who has difficulty expressing himself or a child unwilling to accept the rules and methods used in a school? The word marginalised is hardly ever used to describe a successful engineer, craftsman, teacher, or artist.

In what follows, we present SIMPACT's theoretical framework and discuss the target groups' (the marginalized and vulnerable) connection with the economic underpinnings of social innovation.

3.1 Creating Value through Social Empowerment

By emphasising the economic underpinnings, SIMPACT seeks to highlight the potential for empowerment and (re)inclusion of marginalised and vulnerable groups in society. Social innovation is believed to realise its potential contribution to smart and inclusive growth to the extent it can (re)engage these populations as untapped economic resources (Prahalad, 2010). Moreover, it is assumed that from an economic perspective unlocking this untapped potential is more efficient than continuously subsidising these groups while leaving them in their current situation. Being marginalised or vulnerable is not the result of individual inadequacies, but is the result of institutional constraints resulting in an inability of institutions to fully mobilise and develop this potential social capital. Larkin (2009), for example, distinguishes between people who are individually, uniquely and innately vulnerable and those who are vulnerable because of their circumstances, the environment or as a result of structural factors or influences. This may as well be considered as policy and market failure. One can logically conclude that a shift in thinking and acting from *«marginalised and vulnerable as burden of society»* towards one that values their potential for society, constitutes a cornerstone in the social debate. Unlocking the hidden potential through empowerment is beneficial both from a social and economic perspective as empowering individuals, groups and organisations:

- Enhances peoples' ***quality of life*** and allows them to participate in society (i.e. participation in economic, social, political and cultural life);
- ***Reduces costs*** associated with the welfare system and social safety nets;
- Helps to ***overcome the shortcomings*** in the labour (e.g. skills shortage) and resource markets;
- Strengthens ***social cohesion*** and enhances general welfare.

From a classical ***economic perspective***, social innovators may be viewed as service providers whose economic behaviour is explained by profit motive and cost minimisation (Varian, 1990). From a ***social policy perspective*** however, the overall goal of intervention is to change the behaviour of marginalised and vulnerable groups from consumers to producers or labourers. In this vein, social innovators help these target groups by creating the organisational infrastructure, improving access to finance (e.g. micro-finances, mobile financing) and personal support required to strengthen their position within the labour market, thus enabling the creation of business ventures and enhancing welfare and social integration (Mulgan, 2006; BEPA, 2011).

It is, however, evident that institutions~~,~~ responsible for the heterogeneous and diverse groups of marginalised and vulnerable, follow their own specific and narrow institutional logics rather than applying broad societal or economic approaches. Their actions are guided by general rules that often do not embrace individual assets and potentials. In this context, institutions are very heterogeneous and manifold and so are their actions which may be prejudicial, in part due to biased social and ethnic criteria: name, address, nationality, religion, gender, etc. Stigmatisation and prejudice commonly result in a vicious cycle of (self-)exclusion. The term «jobless» or «unemployed» for instance, are defined in opposition to paid jobs, that are associated with competencies, formal qualifications or certifications. Similarly, disadvantaged populations are defined by a set of individual characteristics such as income, age, family status, ethnicity, and so on. This raises the question of means by which social innovation can address a wide range of social predicaments. Hence, social innovation should aim at solutions that overcome the selectiveness and failure of institutions to cope with policy and market failure. Social innovation initiatives must seek to enhance societal and economic benefits for vulnerable populations by reconfiguring ***institutional order***, its established setting and existing practices.

Economic underpinning means more than just a new approach to cope with marginalised and vulnerable groups or societal and economic value. It refers to and provides a broad framework to study and comprehend the effectiveness of social innovation processes – from the very first idea and initiative of social innovators to the step that will ultimately lead to institutional change. This includes several aspects: Firstly, one needs to consider the process of upgrading the initial idea to a level where innovation is studied independently from the resources deployed by the social innovator in line with a new mode of organisation. Different ***modes of organisation*** comprise projects, companies, volunteer or non-profit organisations, political campaigns, clubs, and so on. Each mode has a different understanding of the goals to be achieved and means to be deployed in order to achieve efficiency and effectiveness. The nature and extent of resources may vary when social innovators decide to enter the market, request sponsorship, and ask for political support and effective lobbying. However, the key challenge is to find appropriate resources and make good use of scarce resources. The search for resources requires the use of marketing and communication techniques to address policy makers, civil society activists, citizens and consumers. This, in turn, necessitates the creation of new organisational routines and processes as well as managerial practices. In addition, network and social embeddedness theory (Granovetter, 1985) suggests, that the outcome and impact of socially innovative ventures will as much depend on social capital (Putman, 1993) than on the ability to create smart and reliable partnerships through trust. The difficulty is to find the right balance between the multiple constraints and requirements of social innovation in order to effectively manage multiple social and economic trade-offs.

It should be noted that social innovation requires distinct entrepreneurial and organisational capabilities in coping with environmental changes. ***Dynamic capabilities*** refer to distinct capacities to *«[...] integrate, reconfigure, renew and recreate its resources and capabilities and, [...] upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage»* (Wang & Ahmed, 2007: 35) and *«[...] the capability of an organization to perform a coordinated set of tasks utilizing organizational resources, for the purpose of achieving a particular result»* (Helfat & Peteraf, 2003: 999). Dynamic capabilities comprise skills, procedures, organisational structures and decision rules that firms employ to create value. As such, their purposeful use is necessary when firms attempt to integrate, build, and reconfigure internal and external competencies to cope with rapidly changing business environments (Eisenhardt & Martin, 2000; Teece et al., 1997; Helfat et al., 2007; Teece, 2007; Teece, Pisano, & Shuen, 1997; Nelson & Winter, 1982). The dynamic capabilities view (DCV) in strategic management extends the resource-based view (RBV) by considering the evolutionary nature of resources and capabilities. Socially innovative ventures require the use of organisational and entrepreneurial capabilities to:

- ***Sense opportunities:*** the process involves scanning, searching and exploring close relationships with customers and suppliers;
- ***Seize opportunities:*** the process involves redeploying and reconfiguring existing and emerging capabilities.

Figure 3-1 portrays the process of social innovation that crosses public, private, non-profit and informal sectors of the economy and encompasses social actors who collaborate, co-create across multiple sectors.

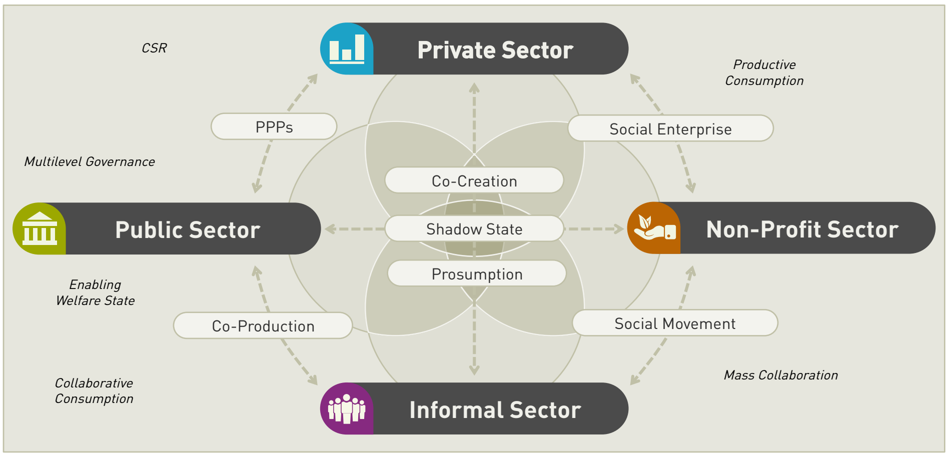

Figure 3-1. Social Innovation Actors

Different cooperative forms and models of partnerships may emerge within different social, economic, political, cultural, technological and environmental contexts. Despite differences in nature and scope of social links, most social models are characterised by ***open, embedded or cyclic*** dimensions of social innovation, highlighting the importance of networks in triggering and sustaining institutional change (Berkhout et al. 2007; Chesbrough, 2006; Hafkesbrink & Schroll, 2011; van de Vrande, Vanhaverbeke, & Gassmann, 2010). In order to survive organisations must establish close relationships with their stakeholders across and beyond their own boundaries. Or as POWELL and GRODAL (2006: 59) put it, *«[...] no single firm has all the necessary skills to stay on top of all areas of progress and bring significant innovations to market»,* albeit cross-sector collaboration always poses important managerial challenges. Business partners are required to work together despite differences in organisational structures, objectives, value propositions, business models and philosophies. Increased interactivity leads to novel forms of collaboration for accessing, exploring and exploiting, sharing and diffusing knowledge (Reichwald & Piller, 2009). This in turn, leads to cross-organisational learning, collaboration and value co-creation. Social innovation constitutes a form of

collective learning that enables the emergence of local institutions to achieve societal needs through the endorsement of social, environmental and institutional capital (Hillier et al., 2004: 142).

3.2 Social Innovation as a Source of Shared & Collaborative Value Creation

Social relations across organisations, networks and societies equally affect social innovation. The ***relational view (RV)*** in strategic management builds on and extends resource-based view according to which heterogeneous knowledge bases, capabilities and networks are the key ingredients of value creation and innovation (Dyer & Singh, 1998). The RV approach highlights the importance of relation-specific assets that generate relational rents through the combination, exchange and co-development of alliances (Dyer & Singh, 1998; Lavie, 2006; Dyer & Kale, 2007). Figure 3-2 provides an overview of the main sources of relational rents that take place through (social) innovation cycles. The multiple links between investment, knowledge, resources and government structures determine the level of capacities, synergies and complementarities achieved through collaborative nodes and relations.

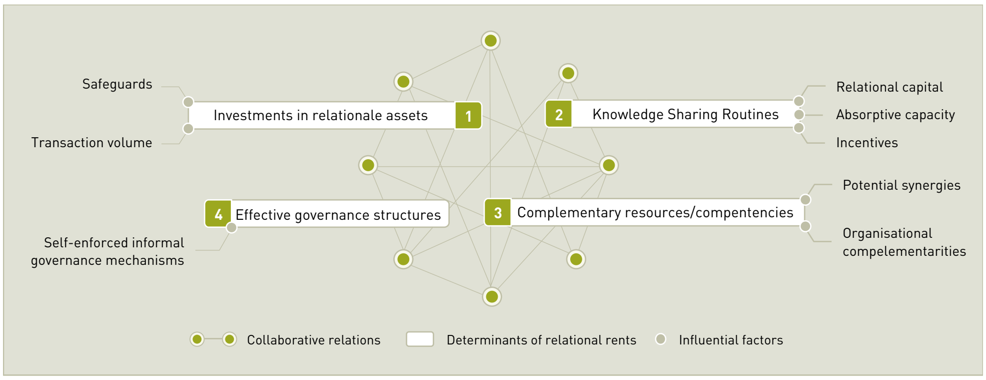

Figure 3-2. Sources of Relational Rents

Potential sources of ***relational rents*** can be summarised as follows (Dyer & Kale, 2007: 67; Dyer & Singh, 1998: 662.; Gaitanides, 2007: 289.; Lavie, 2006: 645):

- ***Investments in relation-specific assets,*** that allow for optimised inter-organisational (business) processes through co-specialisation that in turn, lower the transaction costs along the value chain; offering greater product/service differentiation and shorter development cycles. The ability to generate relational rents is determined by effective safeguards against opportunistic behaviour and scale and scope of transaction volumes.

- 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 regular patterns of inter-firm interactions that permit the transfer, recombination, or creation of specialised knowledge (Grant, 1996). Inter-organisational innovation capacity stems from unique mechanisms of knowledge transfer, generation and recombination. In addition, relational capital, defined as *«[…] mutual trust, respect and friendship that resides at the individual level between alliance partners […]»* (Kale, Singh, & Perlmutter, 2000: 220), accelerates learning processes. Mutual trust, integrity and reliability among partners promote open-end knowledge exchange mechanisms (Capello & Faggian, 2005; Liu, Ghauri, & Sinkovics, 2010: 238).
- ***Complementary resources and capabilities*** constitute a potential source for generating relational rents within the network. Resource exploitation is conditioned by alliance partners' organisational, cultural and cognitive proximity. *Organisational proximity* refers to the extent by which actors share the same space of relations, i.e. the way interaction and coordination between actors is organised (Boschma, 2005: 63). *Cognitive proximity* refers to the way actors perceive, interpret, understand and evaluate the world (Nooteboom, 2000) thus facilitating effective communication among partners. *Cultural proximity* reflects shared patterns of thoughts, feeling, behaviours and symbols that facilitate coordinated action among partners (Dyer & Singh, 1998: 668; Kale et al., 2000: 224).
- ***Effective governance structures*** play a decisive role in the creation of relational rents throughout the value creation process (Dyer & Singh, 1998: 669; Gaitanides, 2007: 291). Good governance is necessary in order to avoid opportunistic behaviour and minimise transaction cost. Formal and informal safeguards through third party monitoring enhance trust and reinforce governance structures.

Collaborative value creation is based on a number of social attributes and relationships that are implied in socially innovative ventures. In a similar analysis, PORTER and KRAMER (2011) discard the narrow definition of economic value and propose instead to focus on how modern firms should reconceive their services and products, redesign their value chains and reinforce social connection within local clusters in order to safeguard societal imperatives while encouraging socially responsible and economically viable ventures. Defined as *«[...] transitory and enduring benefits relative to the costs that* *are generated due to the interaction of collaborators, [...] and that accrue to organizations, individuals, and society [...]»* (Austin & Seitanidi, 2012: 729) ***collaborative value creation*** requires:

- Resource and organisational compatibility among social innovation partners;
- Mobilisation and leverage of distinct resources such as organisational knowledge and capabilities;
- Reciprocal exchange of intermingling complementary resources that lead to the development of innovative solutions that neither partner could have created in isolation;
- Linked interests, in the sense that partners perceive their self-interest as linked to the value created for the partnership and for the larger good plus perceived fairness in sharing value.

Combining the above value sources results in the following different types of value:

- ***«Associational value»*** as benefit derived simply from partnering with other social innovation actors;
- ***«Transferred resource value»*** as value resulting from receiving resources from other partners (e.g., skills, knowledge);
- ***«Interaction value»*** as intangibles that derive from the processes of partners working together (e.g. trust, reputation, accountability);
- ***«Synergistic value»*** resulting from bundling and combining partners' resources.

The bundling of complementary sources of knowledge and competencies during different social innovation cycles brings forward innovative ideas and reduces risks associated with social innovation development cycles. However, the spread and growth of social innovation pose new challenges when one attempts to encompass a wider geographic area. There are times when *«[…] social innovators struggle to identify which conventional networks to align with, as social innovations often span boundaries and do not neatly fit into a single category»* (Lettice & Parekh, 2010: 150).

By building and reinforcing relational capital, social innovators can scale up the process of social innovation. Scaling up requires a wider pool of social actors, supporters, followers and imitators, but also rule breakers and competitors. Scaling up also means acting efficiently at the intersections of socially innovative ventures through individual and collective actions. Social innovation efficiency is determined as much by actors' objectives and cooperation strategies as their ability to design novel models of governance based on coopetition and co-creation. Institutional change is a requisite for setting new rules, providing incentives for good governance and supporting processes and providing resources that would lead to higher social impact and enhanced economic performance.

4 ECONOMIC FRAMEWORK OF SOCIAL INNOVATION

In order to elaborate the meaning of economic principles, components and objectives in the context of social innovation, we begin from the traditional economic perspective. The underlying questions are: What is meant by economic principles, objectives and components from the economic perspective? And how is it to be understood in the context of social innovation? Are there any counterparts in the field of social innovation and is a transfer possible? If yes, what has to be taken into account? If not, do we need to consider completely different approaches and what form might they take?

4.1 Market as Coordination Mechanism

Traditional economics states that markets as coordination mechanisms lead to better results than bureaucratic control. From an economic perspective, ***markets*** are viewed as exchange processes arising from different combinations of supply and demand brought about by suppliers and consumers as economic agents and social actors. These ***actors*** can be individuals but also organisations such as private households and firms. Market processes take place because they allow actors to better realise their goals through specialisation and exchange than might otherwise be the case. Market processes may not be limited to the economic sphere.

PENDING QUESTIONS

What about social innovation? Does a social innovation market exist? There are social demands and there are social innovation actors as suppliers – but as suppliers of what? And are social innovations always the answer to a specific demand or may they occur even without that demand? Can social innovation be sustainable in the absence of a specific social or economic demand? What about the supply of social innovation? How could the supply of social innovators be described and accounted for?

Markets are the locus of competition for scarce resources and goods. ***Scarcity*** emanates from the restrictive nature of resources that, in turn, is reflected by the price mechanism and exchange of different bundles of goods. The price of a good is an indication of resource scarcity and its market demand. Economic markets use objective criteria to determine the quantity of resources that are needed to produce a certain product/service considering a given state of technology and time frame.

PENDING QUESTIONS

What is the role of price mechanisms in the context of social innovation? If they play a role, then in what way? Is there another exchange mechanism for social innovation? Since it is generally believed that, innovations find their way to the market what about the marketability of social innovation? Is there any competition in the field of social innovation? What is the meaning of scarcity related to social innovation? Are scarce resources a trigger for social innovation?

The market ***dynamics*** stem from resource scarcity and the competition for efficient production of goods and services. Scarcity and allocative efficiency constitute the main pillars of the market economy within which a wide array of organisations (co)evolve. Market coordination occurs through what ADAM SMITH described as the «invisible hand», thus eliminating the need for any centralised coordinating entity. HAYEK's view on competition as a spontaneous discovery process stresses the dynamic character of market processes (Fritsch et al., 2003). VEBLEN's (1898) description of the evolutionary nature of economics stands in sharp contrast with the neoclassical school of thought that ascribes market imperfections merely to economic engineering and policy options. This has led to a growing criticism of neoclassical economic theories as well as management practices that have been at the origin of market and managerial failures (Ghoshal, 2005). STIGLITZ (2014) believes that government policies are needed to accelerate the learning process through institutional development as well as targeted actions to cross-fertilise interactions of social and economic actors. Knowledge, skills and know-how empower individuals and communities who operate within public and private sectors.

PENDING QUESTIONS

What about the dynamic character of social innovation and its processes? What does dynamism mean within social innovation? What are the incentives in the context of social innovation? What about their relevance?

In the following sections, we will attempt to further elaborate the meaning of economic principles, objectives and components when addressing social innovation challenges.

The polysemic nature of social innovation and its shifting boundaries require an understanding of the economic laws and principles that operate within both market and non-market sectors. Not all social innovation initiatives follow the economic principles laid out by mainstream economic theories. Often, the dominant logic of social innovators does not obey the short-run law of return but instead focuses on the long-run social impact.

4.2 Economic Principles

Placed within a traditional (mainstream) economic perspective, MANKIW's (1999) economic principles provide a framework for assessing the challenges, trade-offs and incentives provided by the market. Table 4-1 summarises the author's ten economic principles followed by comments and explanations related to social innovation.

I. How people make decisions
Principle 1. People face trade-offs
Principle 2. The cost of something is what you give up to acquire it
Principle 3. Rational people think at the margin
Principle 4. People respond to incentives
II. How people interact with each other
Principle 5. Trade can make everyone better off
Principle 6. Markets are usually a good way to organize economic activity
Principle 7. Governments can sometimes improve market outcomes
III. The forces and trends that affect the economy
Principle 8. A country's standard of living depends on its ability to produce goods and services
Principle 9. Prices rise when the government prints too much money
Principle 10. Society faces a short-run trade-off between inflation and unemployment

Table 4-1. MANKIW's 10 Principles of Economics Source: Mankiw, 1999: 3ff

MANKIW firstly explains four principles of ***decision-making***. He emphasises the trade-off between ***efficiency***, defined as the property of society getting the maximum benefits from its scarce resources and ***equity***, defined as the property of distributing economic prosperity fairly among the members of society. He illustrates how far the cost for increased equity can reduce the efficient use of our resources. The guns and butter trade-off exemplifies the idea that the more spent on national defense (guns), the less can be spent on consumer goods (butter) to raise the standard of living.

Economic choices must be analysed within a cost-benefit framework. The costs and benefits of alternative actions need to be compared before making decisions at the margin. ***Opportunity costs*** are the costs of foregoing something in order to obtain something else. Economists assume that people act rationally while ***rationality*** is defined as systematically and purposefully doing the best you can to achieve your objectives. ***Rational people*** think at the margin; they often make decisions by comparing marginal benefits and marginal costs so that marginal costs do not exceed marginal benefits. Decisions are made at the margin in response to ***incentives***. This is what induces rational actions. Individuals and organisations respond to a wide array of market and nonmarket incentives. Opportunities and rewards being offered to individuals and organisations determine their decision-making heuristics. The perceived mismatch between optimal versus potential outcomes is likely to affect the decision-making judgment and pattern of social actors and entrepreneurs locally and globally at micro, meso and macro levels (Shaver & Scott, 1991; Bernardo & Welch 2001).

PENDING QUESTIONS

What about decision making in the context of social innovation, does it differ from decision making within traditional economics and if yes how and to what extent? What are the underlying principles of decision making in the context of social innovation? What do efficiency and equity mean when discussing social innovation? How should one calculate the opportunity costs incurred when referring to social innovation? What does rationality mean when addressing social innovation? Are incentives of any relevance for social innovation, if yes, what form might they take?

MANKIW goes on to describe three principles on ***interactions***. The first is that «***trade*** *can make everyone better off*» because it allows for specialisation. Markets are seen as a good way to organise economic activity, where market economy is understood as an economy that allocates resources through the decentralised decisions of many firms and households as they interact in markets for goods and services. Sometimes, however, «***governments*** *can improve market outcomes*». For example in the case of ***market failure***, *«characterising a situation in which a market left on its own fails to allocate resources* *efficiently»*, ***externalities*** are to be accounted for. An externality is an effect of a decision by one set of parties on others who do not have a choice and whose interests are not taken into account. This effect can have a positive or negative impact on others. An example of a negative externality is pollution. ***Market power*** can also be an indication for market failure. It is defined as the ability of a single economic actor (or small group of actors) to have a substantial influence on market prices. One example is a monopoly (Mankiw, 1999: 9ff).

PENDING QUESTIONS

What is the role of trade within social innovation? What are the differences between the market economy and the social economy or the shared economy? Are there any similarities or commonalities? What role does market failure play in the context of social innovation? Is market failure in combination with government failure a catalyst for social innovation? Do social innovations arise without market and/or government failure? Which role do governments play when addressing social demands that result from market failures? Which role do externalities play within social innovation? What are positive and negative externalities arising through social innovation processes? Which role does market power and decision power in general play in the context of social innovation?

MANKIW's last three economic principles are related to the ***forces and trends that effect how the economy as a whole works***. *«A country's standard of living depends on its ability to produce goods and services».* Differences in living standards are explained by differences in productivity. ***Productivity*** is defined as quantity of goods and services produced from each hour of a worker's time. Prices rise when the government puts too much money into circulation. Inflation is an increase in the overall level of prices in the economy' or in other words, one gets less for the same amount of money. Society faces a ***short-run trade-off between inflation and unemployment***. Most economists believe that a short-run effect of monetary injection leads to lower unemployment and higher prices. The short-run trade-off between inflation and unemployment plays a crucial role in analysing business cycles. Business cycles are defined as fluctuations in economic activity, such as employment and production. Policymakers can exploit this trade-off by using various policy instruments, but the extent and desirability of these interventions is a subject of continuing debate (Mankiw, 1999: 13).

SIMPACT focuses primarily on the ***micro*** and ***meso levels*** of social innovation, in comparison with the macro level investigations carried out by TEPSIE, SI-DRIVE and TRANS-

IT. Placed within a micro-macro context, the following questions are of utmost importance when addressing the economic underpinnings of social innovation.

PENDING QUESTIONS

What role do productivity and prices play within the field of social innovation? Are they relevant for marketable services? Is there a distinctive form of productivity when measuring intangibles and would other exchange ratios have any relevance in the context of social innovation? Are monetary prices relevant when applied to social innovation? What is relevant for non-marketable social innovation? What are other relevant markets when assessing social innovation? What would be the specificities of social innovation when operating in what may be regarded as cooperative economy?

HYPOTHESIS ON SOCIAL INNOVATION-RELATED ECONOMIC PRINCIPLES

Principles comprise modes of efficiency and governance. The former refers to resource allocation as subject to the set objectives. In contrast, (new) modes of governance are related to policy-making, self-regulation and co-regulation of private and public actors as well as delegation of tasks to regulatory agencies. In order to realise their objectives, actors have to optimise their resources and face trade-offs. On the organisational level this includes strategic aspects to be taken into account as well as rules of interaction (governance) on the micro-, meso- and macro-level. SIMPACT provides a comprehensive framework to focus primarily on micro- and meso-levels.

4.3 Economic Components

Economists depict an economy comprised of ***actors*** *(«players of the game»)* such as consumers, firms, markets and governments who are interact with each other in pursuit of their goals. From the perspective of New Keynesian Economics, actors behave rationally in the long term and are subjected to bounded rationality in the short term due to imperfect information. «Survival of the fittest» bolsters three pillars of neoclassical economics: Actors' decision making is led by (1) maximisation of self-interest (2) concern for public goods, and (3) market optimisation. Actors are assumed to use resources in pursuit of their goals and benefits. According to classical economics, ***economic resources*** comprise factors of production, namely land, labour and capital. Entrepreneurs need resources for creating social and economic value. CANTILLON (1755), SMITH (1776) and SAY (1803) were among the first to provide a detailed description of entrepreneurial dynamics when analysing the production and exchange mechanisms in economy. RICARDO (1817) clearly distinguished farmers and labourers on the one hand and entrepreneurs regarded as rent-seeking capitalists on the other. RICARDO (1821: 39) defined ***rent*** as *«[...] the portion of the produce of the earth, which is paid to the landlord for the use of the original and indestructible powers of the soil. It is often, however, confounded with the interest and profit of capital»*. He also provided a definition for ***economic value:***

> *«[...] value, then, essentially differs from riches, for value depends not on abundance, but on the difficulty or facility of production, [...] by the invention of machinery, by improvements in skill, by a better division of labour, or by the discovery of new markets, where more advantageous exchanges may be made, a million of men may produce double, or treble the amount of riches, [...]; for everything rises or falls in value, in proportion to the facility or difficulty of producing it, or, in other words, in proportion to the quantity of labour employed on its production» (1817, Chapter XX).*

JOHN STUART MILL (1885) noted that those who seek an indemnity for risk are to be considered as entrepreneurs rather than capitalists. KNIGHT (1921) went further by emphasising that a Walrassian perfectly competitive equilibrium could not hold if one had to assume that entrepreneurs are only willing to take risks when facing market uncertainty as far as they can expect a sufficient reward (Alijani, 2013). KNIGHT's insight is particularly interesting when considering the role of social innovators, many of whom do not view risk and reward merely in financial terms (see WP3 for social innovation case studies). Numerous are social innovators for whom environmental and natural concerns as well as social and human capital development play a pivotal role in assessing the amount and use of resources.

PENDING QUESTIONS

Who are the key actors and what is their role in the social innovation process as well as in the multi-level governance system? What are the key resources that impact social innovation? What are the underlying mechanisms for resource allocation when studying and comparing social innovation initiatives?

Actors as well as resources are embedded in specific institutional contexts. Following NORTH (1994: 360), ***institutions*** as *«rules of the game»* are made up of formal constraints (e.g. laws, rules, constitutions) and informal constraints (e.g. norms of behaviour, conventions, codes of conduct). In this vein, ***New Institutional Economics*** extends neoclassical reasoning by incorporating a theory of institutions into economics. Neoinstitutionalists theory posits that organisations' survival depends on the degree of compliance with social norms, routines and rules. Since organisations search for legitimacy and justification for their acts, they feel bounded by isomorphic attitude and are less constrained to act rationally. Consequently, mimetic and opportunistic attitude, rather than efficacious and responsible behaviour would characterise not only the structure, but also the output of organisations that operate under conditions of uncertainty (DiMaggio & Powell, 1983). In so far as organisations are concerned, neoinstitutionalists argue that organisational behaviour is socially driven and institutionally bounded. A central argument raised by POLANYI (1944) is that trade relations based on reciprocity are embedded in relations that involve trust and confidence between actors. Hence, it is assumed that non-economic institutions influence market behaviour and that market relations are socially and institutionally constructed (Hess, 2004; Vidal & Peck, 2012). While social innovation tends to break up the institutional rules that dominate the society at a given point of time, their long-term sustainability requires an understanding of the institutional order and the multilevel governance that direct institutions.

Multi-level governance theory focuses on the nature of decision-making in the public sphere both at a system-wide and a policy-specific level. It implies a spatial reorganisation of the state in terms of policy responsibilities, resources and instruments at local, urban and also regional levels. Multi-level governance theory contributes to a better understanding of the relationship between social innovation and modes of governance by taking into account the different origins of social innovation, its path-dependency and societal challenges facing its evolution. Moreover, the approach helps to explain inefficiencies of central government in terms of resources and allocative efficiency and offers instruments and strategies for policy intervention at different governance levels. In a multi-layered system characterised by multi-level forms of governance, non-state, market and civil society actors can play a pivotal role in fostering alternative economic models (Brenner, 2004; Kazepov, 2010). PORTER and SHAW (2013) have examined, in the context of cities, the urban regeneration processes at the neighbourhood and city scale where market actors, civil-society groups and city authorities cooperate and develop new business models for providing services, new forms of financial arrangements and decision-making processes. The multi-level governance perspective can be contrasted with the deliberative governance approach that makes an explicit link between efficiency and democratic legitimacy (Oosterlynck et al., 2013).

Efficiency and legitimacy encompass a variety of distinct areas and require as discussed by PRADEL ET AL. (2013):

- Empowerment of citizens, fostering community participation, organise community and beyond community networks;
- Promotion of the «sense of place»;
- Legitimation of new actors;
- Improvement of accountability and transparency of institutional action and policy processes;
- Redefinition of social needs;
- Transformation of informal norms and practices;
- Promotion of socially innovative actors.

EIZAGUIRRE ET AL. (2012) suggest a method of combining channels of participation for producing social innovation under a multi-level governance framework. Bottom-linked methods and practices make visible how social innovation stemming from local initiatives can contribute to a better redistribution with the support of public administration.

PENDING QUESTIONS

Which institutions are of particular relevance for social innovation and how do they shape actors´ behaviour? What are the links between social innovation and political decision-making within a multilevel governance system? What institutions are necessary to shape favourable conditions to unlock social innovation's social and economic impact?

HYPOTHESIS ON SOCIAL INNOVATION RELATED ECONOMIC COMPONENTS

Components comprise actors, resource allocation and institutions. Social innovations are developed and implemented by (collective) actors, herein referred to as «organisations». These are embedded in an institutional setting that defines the rules of the game (resources, modes of interaction, access etc.).

4.4 Economic Objectives

Neoclassical theory posits that actors' objectives differ due to their preferences and choices. Whereas consumers strive to maximise utility, firms' objectives are led by profit motives, and governments seek to maximise welfare. The theory of consumer behaviour emphasises the law of «diminishing marginal utility» to explain how consumers allocate their income to different bundles of goods. Faced with budget constraints, consumers are assumed to act rationally and thus maximise their benefits in accordance with the utility maximisation rule [$MU_x/P_x = MU_y/P_y$]. According to neoclassical theory, a perfectly competitive firm is presumed to produce the quantity of output that maximises its economic profit – the difference between total revenue and total costs. In reality, firms' economic objectives cannot be dissociated from numerous societal and environmental constraints imposed by governments through an array of regulatory agencies. While profit and utility maximisation rules constitute the central assumption of neoclassical economic theory, welfare economics strive to reach maximum social welfare, defined as the sum of individual utilities. While utility and profit maximisation address micro objectives (firm-level), welfare maximisation focuses on macro objectives (systemic-level).

While acknowledging the importance of the market in offering value creation and entrepreneurial opportunities, SCHUMPETER makes a significant contribution to economic theory by underlining entrepreneurship as a mechanism for social change. Schumpeterian view of ***entrepreneurship*** emphasises the importance of creativity, uncertainty and risk in creating opportunities for the entire economy (Schumpeter, 1942; Kirzner, 1973). Most entrepreneurial initiatives thrive on the fringe before being adopted by many. Unlike rational management that relies on formalized planning and managerial tools to reduce and offset entrepreneurial risks, ***social entrepreneurship*** responds to civil society's needs and social resources. In a similar way, social innovation responds to societal needs and resources while paying particular attention to the role of key social actors (e.g. networks, social supporters, social-impact investors) in achieving societal objectives. From a strategic perspective, unlike the design, planning and positioning schools, the entrepreneurial school necessitates a broader social perspective grounded in intuition but also care for societal and environmental challenges (Mintzberg & Lampel, 1999, Porter & Kramer, 2011).

PENDING QUESTIONS

What are social innovation actors' objectives? To what extent would these objectives be influenced by the organisational structure? What «business models» are utilised to achieve the envisaged objectives?

HYPOTHESIS ON SOCIAL INNOVATION RELATED ECONOMIC OBJECTIVES

It is argued that social innovation actors' primary **strategic objective** is to generate social and economic impact, knowing that a trade-off between social and economic objectives may exist. Furthermore, one may argue that social innovation actors' objectives are subject to the distinct types of organisation. Taking into account the dynamics of social innovation, it is further assumed that actors' objectives may change during the innovation process. For example, a social enterprise (SE) can become a for-profit company or retain its status as SE. Objectives which are subject to dynamic changes are herein referred to as **«dynamic objectives»**. The latter can be studied at different levels, micro-organisational level and/or macro-institutional level.

5 TOWARDS A SOCIAL INNOVATION TYPOLOGY

Referring to the economic framework outlined in the previous section, substantiating the economic dimensions by specifying social innovation components, objectives and principles is an initial step towards a typology of social innovation. Such a typology is expected to advance our understanding of the economic dimensions of social innovation.

In the first section components of social innovation comprised of actors, resources and institutions are outlined and related categories elaborated. Social innovators objectives, i.e. their goals and motivations, are picked up in section 5.2. Finally principles of social innovation and broad issues pertaining to governance and efficiency are discussed.

5.1 Categorising Social Innovation Components

Components comprise actors and resources as central production factors as well as institutions as primary and supporting elements.

5.1.1 Actors

As outlined in section 4.4, from a traditional economic perspective firms, households and the government constitute key economic actors. However, these categories prove to be too narrow when considering the components of social innovation. Notably, civil society and institutional actors are not fully reflected in the study of social innovation sources, processes and outcomes.

A comprehensive study of actors and an ***actor-centred institutionalism approach*** are necessary to understand the economic foundation of social innovation. When considering the complexity and diversity of social innovation initiatives, the pivotal role of actors has to be considered which are categorised as follows:

(1) ***Aggregated actors*** are social constructs (similar to social classes in an economy) that act as a heterogeneous collective group. While civil society in its totality is considered as the seedbed for social innovation, the marginalised and vulnerable constitute the main target group in view of social innovation dynamics and change trajectories.

(2) The definition of collective and corporate actors focuses on political processes that leverage and accelerate change within different social, economic and political contexts. We propose to define ***«collective actors»*** as a group of individual actors embedded in civil society and characterised by weak organisational ties. Referred to as proto- or informal organisations (e.g. mobs, social movements), these groups may be contrasted with ***«corporate actors»*** (e.g. formal organisations, NGOs, associations) that embody formal organisation structures, hereafter referred to as «organisation».

(3) In traditional economics actors are viewed as individual units whose relations are driven by competition. This view significantly changed during the last decades. Concepts such as corporative economy or network economy emphasise a new balance between competition and corporation within economy. It is assumed that social innovation has a different balance too where bargaining is an important mode of governance. The notion of competition is discussed in more detail when presenting dynamic interactions between organisations and the process of scaling social innovation.

As for different modes of organisation and roles in the social innovation process, we begin by differentiating actors operating within the *civil society, the economic field* and *the political field.* ***Actors from civil society*** can be viewed from two different perspectives: as social innovators and as a target group for social innovations. ***Actors from*** the ***economic field*** facilitate social innovation by

- developing products/services addressing specific societal challenges,
- adapting internal processes and business models to social innovation-related issues, and
- promoting social innovation outside their core business in a philanthropic or altruistic way or through sponsoring.

Actors from the ***political field*** can set and change institutional rules and ideally support social innovation with the potential to impact the problem solving capacity of society.

The focus on social, economic, and cultural organisations as actors has several methodological implications: The question of resource allocation and allocative efficiency, for example, implies the consideration of organisations as not only social and human constructs but also economic entities that use different combinatorial schemes to expand their influence, reinforce their legitimacy and ensure greater social impact. Organisations are affected by individual as well as group and network dynamics resulting from their targeted actions to support different designated goals and missions. The study of ***actor-network theory*** (ANT) helps to better understand the presumptions, motivations and strategies behind planned, collaborative and coordinated processes. Placed within the broad field of social theory, ANT provides an approach to monitor, collect, and comprehend social phenomena (Latour, 1987, 1996). More specifically, the use of ANT involves the flattening-out of the field of social study, resisting a selectively pre-constructed classification of elements, and allowing for ever changing «groups» plus a balancing of all actors regardless of power, level, or scale. Hence, ANT brings to close scrutiny many hidden variables in addition to micro-collaborative and reactive strategies (Latour, 2005: 50). Given the multiplicity of actors in social innovation, ANT can be viewed as a methodology that facilitates the construction of comprehensive and detailed narratives within specific social, economic, cultural, political, local, territorial and other contexts for understanding social innovation. It has been demonstrated that ANT can be an effective empirical tool when utilised in conjunction with other theoretical approaches, such as behavioural theory (Simon, 1947, 1982), institutional theory (Williamson, 1975), entrepreneurship theory (Knight, 1921; Von Mises, 1949; Kirzner, 1973), social entrepreneurship (Battle Anderson & Dees, 2006; Nicholls & Choi, 2008; Nicholls, 2010), stakeholder theory (Parmar et al., 2010; Freeman,1984) and grounded theory (Glaser, 1992; Strauss, 1987). Table 5-1 provides a typology of actors who are brought to (co-)operate in a variety of ways within civil, economic and political fields. The nature and extent of the collaborative schemes and their social impact has a direct bearing on the path determinacy of social innovation within a field, sector, and territory.

Actors operating in		
Civil Society	**Economic Field**	**Political Field**
(I) Informal Actors - Crowds - Mobs - Encounter Groups - Social Movements - Citizens' Initiatives - Projects - Foundations	- Social Entrepreneurs - Shareholder-oriented companies - Stakeholder-oriented companies - Public enterprises - PPPs	- Political decision makers at: - Local level - Regional level - National level - European level - Global level

Actors operating in		
Civil Society	**Economic Field**	**Political Field**
(II) Formal Actors - Associations - NGOs - Political Parties - Welfare Organisations		

Table 5-1. Typology of Social Innovation Actors

Actors' motivations and expectations have a direct bearing on the process of social innovation. As stated earlier, individuals' actions and decisions are carried out within specific social contexts, which in turn, shape their trajectories and outcomes. The ***behavioural theory of the firm*** focuses on the theory of human decision-making under uncertainty and asymmetrical information grounded in individuals' bounded rationality (Simon, 1947, 1982). Actors' cognitive framework can be used to explicate a variety of market and nonmarket contexts and behavioural patterns of individuals, entrepreneurs and organisations. Social innovation may stem from a variety of changes and situations in organisations when dealing with issues such as workplace innovation, gender, equal opportunities, collaboration and open innovation. Social innovators spawn the seeds of social and economic change in reaction to a wide array of issues ranging from market imperfections to social injustice, from political rights to rent seeking and bureaucratic practices, from ethical to societal and environmental concerns regarding use of resources, income distribution and value creation. The role of local and federal governments in supporting socially innovative initiatives is of paramount importance. This is the case of support programs in favour of social economy, solidarity among social groups and social entrepreneurs who engage in high impact social activities (Casson, 1982; Dees, 2001; Nicholls, 2010;).

The tenet of ***public choice theory*** posits that rent seeking practices result from bureaucratic practices of local and federal governments and prove to be detrimental to the economy (Krueger, 1974; Tullock, 1967). Known as «*Tullock Paradox*», rent seeking refers to the monopolistic position of big firms that lobby politicians in order to promote legislation in their favour. The government is not viewed as an omniscient planner (as often seen by the neoclassical economists), but rather as a collection of institutions, subject to pressures exerted by its constituencies. SCHELLING (1978: 23) refers to the complexity of market forces that emanate from *«[...] individualistic rather than group values, thus failing to protect people against their own shortsightedness and self-indulgence»*. Under such conditions, one should be warned against asymmetrical relationships among social actors creating a bias in market coordination and harmonisation mechanisms. When assessing the role of actors and their impact on social outcomes, public choice theory provides further insights as to how social actors may bridge the gap between self-serving motivations and group-serving actions. While it may not be easy to measure social return that results from the conjoint efforts of individuals and groups, public choice theory highlights the complex relationship between market and nonmarket forces.

Social innovations' development paths are determined by the nature and extent of relationships among and between multiple actors and stakeholders. Social actors who operate in public and private sectors pursue various objectives and as such, are brought to engage in collective decision-making. The ***multi-level governance theory*** (MGT) focuses on the nature of decision-making in the public sphere both at system-wide and policy-specific levels. It implies a spatial reorganisation of the state in terms of policy responsibilities, resources and instruments at local, urban, regional levels. MGT provides a better understanding of the relationship between social innovation and governance by prioritising, not only the origin of social innovation but the path dependency, governance structure, and the challenges faced throughout the social innovations' life cycle. In addition, MGT can be used to explain why federal and local governments may find it difficult to offer services at local and regional level and provide instruments and strategies for policy interventions at different governance levels.

5.1.2 Resources

In economics, land, capital, and labour resources are referred to as factors of production (see section 4.3). Innovation theories consider human capital, knowledge and social capital as complementary resources to factors of production. Taken together, these resources widen the debate on economic outcome by accounting for social dimensions' embeddedness in economic activities. Due to the interdisciplinary nature of social innovation, the study of economic underpinnings requires particular emphasis to be placed on the combinatory nature or economic, social and political resources.

The following assumptions can be made as to the role and impact of resources:

- Organisations that design and implement innovation processes and engage in social innovation must combine economic, political, and social resources.
- The mobility of resources across sectors needs to be investigated. The question is whether or not resources can be transferred from one sector to another, at

what cost, and under which conditions. Most business models of the new economy, for example, tend to focus on the transfer of social resources such as network members and participants as economic resources. The massive data stored and retrieved from marketing, advertising, social media databases (big data) show the growing importance of intangible resources.

- Likewise, social resources are of crucial importance when dealing with collective, interdisciplinary and cross-sectorial nature of social innovation. In this respect, the capacity to make use of benefits accrued through inter- and intra-organisational cooperation and coopetition are to be considered. The relational and dynamic capability view in strategic management (see section 3.2) emphasises the necessity for investments in human relational assets, knowledge sharing routines, complementary resources and capabilities, and effective governance structures. This view is closely linked to concepts such as open, embedded and cyclical innovation. In this regard, cooperation or non-competitive interaction between organisations creates value that can be seen as an additional resource.

Social innovation is affected by the nature and extent of resources mobilised throughout different cycles of innovation. The success of a socially innovative venture is closely associated with its economic viability over time. Social innovators tend to focus on a strategy from the «inside-out» by identifying and creating resources that are valuable, rare, durable and non-substitutable, as highlighted by the resource-based view (RBV) of the firm (Barney, 1991). This stands in sharp contrast to the competitive forces analysis that views innovation from an «outside-in» perspective, also referred to as market-based view (Porter, 1996). Social innovators may adopt a RBV approach that relies on creating distinct capabilities within the organisation (Wernerfelt, 1984). The knowledge-based view of the firm (KBV) extends the RBV by emphasising the importance of knowledge exploration, integration, and exploitation in building and sustaining innovation capacities (Teece et al., 1997; Augier & Teece, 2006).

Economic resources, organisational competences and social capabilities constitute the basis for entrepreneurial choices and actions when engaging in social innovation. BOURDIEU (1986) delineates three types of capital: economic, cultural and social, with the latter defined as a scope of actual or potential resources derived from belonging to some networks, associations and communities. According to COLEMAN (1990, 1996) ***social capital*** can be viewed as entities that facilitate individual actions in different organised structures. PUTNAM (1993) regards social capital as an attribute of a community and defines it as features of social life such as networks, norms, and trust that enable participants to act together more effectively and provides impetus to the pursuit of objectives shared by all members of that group. As informal rules and norms, including trust, cooperation and reciprocity, the development of social capital is commensurate with economic prosperity and democracy in the society (Fukuyama, 1995).

Drawing on and expanding COLEMAN (1988), one may specify the role of social capital as a basis for collective actions in socially driven initiatives. One should distinguish between:

- Obligations and expectations which depend on the trustworthiness of the social environment;
- Information capacity that flows through existing social structures as a basis for innovation and innovative action;
- Norms accompanied by effective sanctions that push towards behaviour based on collective interest as opposed to self-interest.

Table 5-2 provides a typology of key economic, political and social resources. As an economic resource, knowledge plays an increasingly pivotal role through entrepreneurs seizing opportunities. Knowledge may be viewed as common the use and diffusion of which needs to be determined by the laws that govern traditional pooled resources (Ostrom, 1990; Hess & Ostrom, 2007). Many socially driven enterprises and initiatives have been observed to follow the principles that govern common-pooled resource institutions, in particular, clearly defined boundaries, rules that match local needs but can be modified by participants who accept a system for self-monitoring members' behaviour (Hess & Ostrom, 2007, see also social innovation case studies and biographies in WP3).

Social innovation schemes cannot be disconnected from ideological judgements and preferences of social actors. In particular, knowledge cannot escape from legal, technological and social arrangements that are devised by human societies. This explains the existing linkage between economic, political and social resources. The use of an economic resource cannot be dissociated from the way other resources are used and replicated. Political, social and human rights have a direct bearing on the way economic resources are mobilised and used. Similarly, human and social capital, education level and quality of professional training affect organisations and their leadership when making strategic decisions concerning activities and resources.

Economic Resources	Political resources	Personal/Social Resources
- Labour - Capital - Land - Knowledge	- Right to vote - Right to build coalitions & associations - Social and human rights - Ideologies	- Education & professional qualification - Means of violence & protest - Leadership - Social/relational capital

Table 5-2. Typology of Social Innovation Resources

5.1.3 Institutions

Institutions constitute the building blocks of social innovation and as such, foster the process of social innovation at micro-, meso- and macro levels. Political, electoral, social and economic institutions can be designed with the purpose of empowering targeted actors as well as providing market and non-market incentives to accelerate social change. As discussed in section 4.3, institutions shape actors' behaviour and are crucially important with respect to actors' interactions. They lower (or increase) transaction costs and ease (or impede) the generation of cooperation benefits, as they enhance the predictability of potential cooperation partners' behaviour. With respect to social innovation, it is assumed that organisations are embedded in specific institutional contexts. Social economics and innovation studies provide an understanding of different approaches to ***social embeddedness*** (Granovetter, 1985). One may refer to the specific modes of embeddedness of innovation systems at sectorial, regional, national levels, the milieus and ecosystems, the concepts of path dependency, and governance modes. Our analysis of social innovation, targeting marginalised and vulnerable groups of the society, brings to the fore the pivotal role of institutions within the welfare state.

The role of institutions in dealing with social innovation initiatives and measures is of paramount importance due to the following reasons:

- Broad applications and boundaries within the polysemic and complex field of social innovation.
- While human sciences are interested in the question of how institutions behave, institutional economic theory emphasises that organisations' survival depends on the degree of compliance with social norms, rules and routines. Therefore, we cannot understand the way a social field is structured without considering its governing institutions.
- It is generally agreed that social innovation occurs in a social field which is structured by existing institutions. However, social innovation is about changing

> institutions by moving on new paths outside the given institutional context. Forasmuch institutions are important as points of reference to identify social innovations. They cannot overcome the limits of dominant and traditional institutions.

In order to understand the Janus-headed paradox of institutions, one needs to place institutional development and change within a historical perspective. On the one hand, institutions reduce uncertainty by providing norms and rules and the necessary information to decision makers. They enable actors to deal with potential conflicts, provide incentives and organisational support to organisations and actors by channelling resources and reconfiguring decision processes. Economic institutions can enhance allocative efficiency by ensuring ownership and distribution rights. Economic markets use legal criteria to measure the level of property rights as a precondition for production and exchange (North, 1981, 1991). While market competition is likely to reduce transaction costs, the development of a judicial system enforces economic agreements enhancing allocative efficiency and innovation dynamics. Under conditions of market uncertainty, the cost of enforcing social contracts tends to be higher than those that take place within economic markets (Coase, 1937, 1960). Moreover, institutions can provide equal opportunities to the economically poor and socially deprived populations through distribution of wealth and social justice (Rawls, 1982; Sen, 2000). It is noteworthy that economic development and social progress can be sustained by building effective and sustainable political, social and economic institutions.

Social innovation development represents an ongoing process of institutionalisation, whereby social innovators tend to gain social legitimacy and credibility by becoming progressively embedded in the society (Colyvas & Powell, 2006). DIMAGGIO and POWELL (1983: 148f) provide a detailed account of the structure of an organisational field, the degree of connectedness and structural equivalence as well as different types of isomorphism. Most institutions represent competitive isomorphism, as they become subjected to market competition and fitness measures. Institutions compete for resources and legitimacy as well as political and economic power. ***Legitimacy*** is gained through conformity to a system of norms, values and beliefs generated by institutional order (Suchman, 1995; Thornton, Ocasio & Lounsbury, 2012). Each new order seeks to come closer to a model of universally accepted norms and values. Accordingly, social innovation could lose some of its specificities through mimetic behaviour and by adopting practices that fail to meet new economic and social demands. The intentional efforts by social innovators to promote, create, maintain and disrupt social practices are likely to affect both intangible and tangible components of institutions, namely the social rules and norms as well as social system components such as identity and network development (Lawrence & Suddaby, 2006). In a study on NGO's collaboration strategy, LAWRENCE ET AL. (2002: 281) have identified the creation of ***proto-institutions*** defined as *«[…] practices, technologies and rules that are narrowly diffused and only weakly entrenched but have the potential to become widely institutionalized»*. In order to diffuse a proto-institution, collaborative schemes must rely on a high level of involvement and deep interactions among participants, partnership arrangements and bilateral information flows. Institutional embeddedness results from multidirectional information flows and interactions among third parties.

DIMAGGIO and POWELL (1983) illustrate how ***change mechanisms*** brought about by coercive, mimetic or normative isomorphic pressures can affect institutions. Social, cultural and economic changes have a direct bearing on institutional processes and their diffusion dynamics (Meyer & Rowan, 1977; Greenwood & Suddaby, 2006; Greenwood et al., 2008; Dunn & Jones, 2010). Social phenomena are inherently complex since they are grounded in human interactions and undergirded by the behavioural characteristics of social actors and economic agents. Actors' reasoning, mood and anticipation increase market uncertainty, thus making any effort to explicate the causal or functional links to social action as a daunting exercise.

Social innovation generates a social capacity to reproduce values, activities and dispositions of distinct social groups that embody their social structures. By reproducing and reinforcing ***power relationships*** among targeted social and professional groups, social innovators resemble a habitus, i.e. a culture manifested by beliefs and practices of individuals, groups and societies (Bourdieu, 1977; Mauss, 1922). Such habitus may be exemplified through a variety of social, cultural, sport and funding activities. It goes without saying that sponsorship and funding programs for socially valuable projects strengthen institutional ties and reproduce cooperative schemes among donors, recipients and benefactors.

Studying the sources and processes of ***innovation systems*** allows an understanding of processes of institutional change that unfold as a result of social change and innovation. For example, «jobless» and «disadvantaged» groups may be regarded as social constructs that are defined by labour market, healthcare and social laws as exemplified by the guidelines provided by the UN Human Development Report as well as European statistical sources. In this regard, the French notion of *«economy de convention»* places a strong emphasis on rules and norms established by institutions when measuring labour market and welfare systems.

Taken together the outlined arguments lead to the following typology of institutions:

Economic Institutions	Political Institutions	Social Institutions	Welfare Institutions
- Market - Sectorial rules - Milieus	- General laws and political cultures in particular: - Participation rights & rules - Coalition building rights & rules - Human rights	- Culture - Conventions - Traditions - Legitimacy	- Education system - Welfare system - Labour market system

Table 5-3. Institutions and their Application Fields in Social Innovation

5.2 Categorising Social Innovation Objectives

Micro and meso-level objectives refer to the goals and underlying motivations of actors or organisations to engage in social innovation. These objectives can be social in nature or cover social and economic goals. Organisations are driven by different objectives.

As discussed in section 4.4, consumers are driven by utility maximisation, firms by profit maximisation, and governments by welfare maximisation. ***Public Choice Theory*** offers a differentiated picture by positing that social and economic agents are primarily driven by self-interest and guided by individual motivations:

- Firstly, votes and voters drive policy makers' behaviour (Kingdon, 1995).
- Secondly, it is incontestable that government is not a coherent actor but rather a collection of institutions, subject to pressure exerted by different constituencies. The logic of collective action illustrates that especially lobbying and bargaining power of small groups impose the danger of externalities that affect actors across political fields. Likewise, the multilevel governance approach points out that the public sector is not a single strategic actor, but assembles different (regional and functional) sub-units of administration.
- Thirdly, public choice theory emphasises the importance of individual motivations and preferences as well as personal and group interests. The theory provides a yardstick to measure bureaucratic practices of organisations that lead to rent-seeking behaviour of social actors (Arrow, 1963; Black, 1958; Buchanan & Tullock, 1962; Tullock, 1965, 1970; Krueger, 1974; Rowley et al., 1989).

The motivational aspect of objectives is further discussed in ***Behavioural Theory***, which highlights and explicates the differences in behaviour between various economic actors, such as entrepreneurs and social activists. Whereas economic actors implement innovation strategies in order to sustain their competitive advantage, social innovation actors' motivation is often driven by mobilising capabilities and fostering commitment and cooperation. Both, social and economic actors seek to bring stakeholders together and provide a bridge between stakeholders' opposing views and expectations. In doing so, social innovation outcomes will depend on the ability to engage in new forms of social and organisational relationships. Other concerns consist in overcoming resistance to change and increasing the capacity to embrace new social models and practices.

Social innovation objectives need to be contextualised within different life cycles. It is assumed that different social, political and economic options carry different trade-offs.

Economic Objectives	Social Objectives	Political Objectives
- Profit maximisation - Pareto optimum	- Empowerment - Participation in society - Social cohesion - Equity	- Welfare maximisation - Inclusion - Discharge of public budget - Legitimation

Table 5-4. Typology of Social Innovation Objectives

5.3 Categorising Social Innovation Principles

Social innovation principles refer to concepts or strategies for efficient allocation of resources in reference to the set objectives, modes of efficiency and governance.

5.3.1 Economic Efficiency

Productivity, profitability, innovation, and competitiveness are among the main economic objectives. Different modes of resource allocation and value creation will determine the way stakeholders are rewarded:

- Economic, social and political inputs and outputs need to be considered when measuring performance.
- Social innovations' internal processes require an understanding of the underlying objectives and externalities generated by such processes. Different dimen-

sions of social and economic wellbeing constitute the core principles of corporate social responsibility. CSR may strategically be viewed as a process to foster innovation and competitiveness, to the extent that CSR principles can reduce the social and environmental problems (Übius & Alas, 2012; Gallego-Alvarez et al., 2011). First introduced by KANTER (1999), ***corporate social innovation*** (CSI) aims at implementing new business concepts that can offer sustainable solutions to societal challenges without hindering the creation of economic profits (Mahlouji & Anaraki, 2009).

- Social innovation seeks to engender commitment to specific social processes within organisations. Entrepreneurship and ***Intrapreneurship*** (Antoncic & Hisrich, 2003; De Jong et al., 2011; Stam et al., 2012) can lead to workplace innovation as a way to change organisational practice of managing and deploying human and non-human resources. That is, intrapreneurship often goes together with and/or leads to socially innovative work practices (e.g., creating voice, employee autonomy, flexibility). The phases of intrapreneurship can also help to understand how social innovation transcends within organizations from the micro level to the macro level. By empowering employees, designing self-organised teamwork and encouraging entrepreneurial behaviour organisations can achieve social sustainability. Open dialogue, knowledge sharing, experimentation and learning constitute the main drivers of efficient workplace organisation.

Social innovation principles are not static in nature and their application tends to diffuse throughout the organisation. Capacity building, adaption, learning, and stimuli to change are among the key challenges when investigating the broad array of economic underpinnings.

- Economic principles are internal as well as external.
- Efficiency, opportunity costs and rationality assumptions pertain to the internal aspect of organisations. In contrast, Pareto optimum conditionality pertains to the external aspect of organisations.
- Little information is given as to what efficiency means in the context of social innovation since business models are strategic in nature and not analytic concepts.

Hence, we start with studying trade-offs between different social innovation objectives. Employing a dilemma approach, Figure 5-1 first summarises ideas of what efficiency could mean.

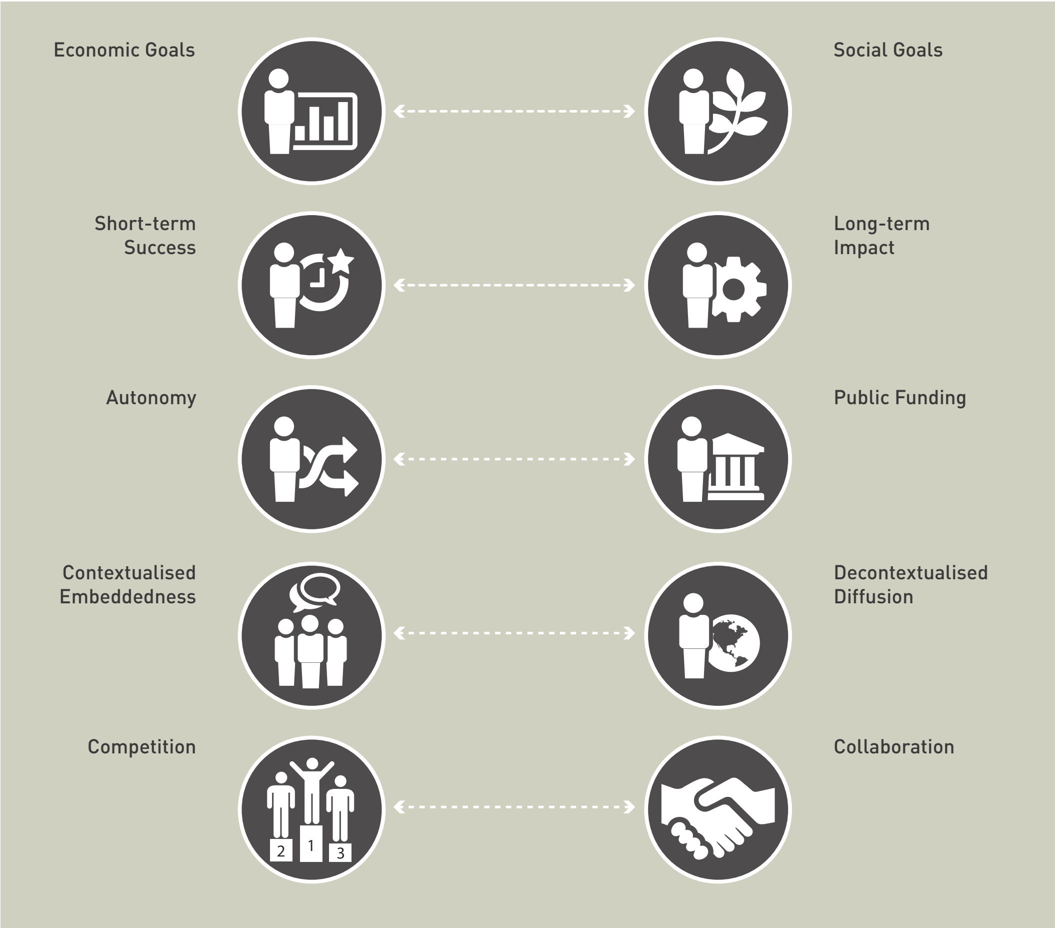

Figure 5-1. Modes of Efficiency as Dilemmas

5.3.2 Modes of Governance

Research on modes of governance in social innovation is scarce. Against this backdrop, STOKER's (1998: 18) five propositions on governance provide a first orientation concerning potential modes of governance in the context of social innovation:

- *«Governance refers to a* ***complex set of institutions and actors*** *that are drawn from but also go beyond government.»* Governance is about challenging constitutional/formal understandings of governmental systems. In practice there are many centres and links between a variety of government agencies at local, regional, national and supranational levels. This complex architecture of governmental systems is what makes governance emerge as a complex issue.

- *«Governance recognises the* ***blurring boundaries*** *and responsibilities for tackling social and economic issues.»* As such, the governance perspective not only identifies the ever-increasing complexity in the systems of government, but also draws attention to the shift in responsibilities, concerns for State's withdrawal as well as of need for accountability to private and voluntary sectors. Thus, the governance perspective calls for recognition of scale and scope of third sector voluntary organisations' and their contribution to tackling collective concerns regardless of formal resources of government.
- *«Governance identifies the* ***power dependence*** *with regard to the relationships between institutions involved in collective action.»* Power dependence implies that (a) organisations committed to collective action rely on other organisations, (b) the achievement of objectives necessitates the exchange of resources and negotiated common purpose, and (c) the outcome of exchange is not only determined by participants' resources, but also by the rules of the game and the context of exchange.
- *«Governance is about autonomous* ***self-governing networks of actors****.»* Under governance the ultimate partnership activity is the formation of self-governing networks. Such networks are related to policymakers and communities and other forms of function or issue-based groupings discussed in the policy studies literature. Governance networks, however, not only involve government policy but also a discussion of the business of government.
- *«Governance recognises the* ***capacity to get things done****, i.e. a capacity which is not based on the power of government to command or authority.»* While the government is able to use new tools and techniques to steer and guide, governance can act as «enabler», «catalytic agent» and «commissionaire» to accelerate the change process. New forms of governance and public management can enable social agents to appropriate new operating codes and organisational practices that would challenge past hierarchical modes of thinking.

Firmly rooted in institutional and network theory, ***«New Public Governance»*** (NPG; Osborne, 2006, 2010) with its focus on interorganisational relationships, processes and interactions reflects the above prepositions. When analysing modes of governance in social innovation, one needs to distinguish between the process and structural dimensions of governance. *Governance as process* pinpoints the various modes of coordinating the behaviour of actors, whereas *governance as structure* relates to actor constellations and institutions underlying and shaping its distinct forms (Börzel & Risse, 2010). That is, *governance as framework* implies that social innovation processes take place in given governance schemes. In this context the dynamics between social innovation and governance are twofold (Miguel, Cabeza & Anglada, 2013): On the one hand, governance structures influence the capacity of actors to develop innovative solutions. On the other hand, social innovation influences governance through new mechanisms of resource allocation, new actor constellations (e.g. collective actors) and their influence on formal decision-making.

Modes of governance in policy-making across Europe have changed significantly in the past 20 years resulting in both state reorganisation in multilevel systems of policy making and delivery plus opening the policy process to non-state actors such as civil society and private actors (Brenner, 2004; see also section 4.3). These transformations are giving leeway for social innovations as actors from public and private sector as well as civil society are provided more space for intervening and engaging in policy design and implementation (Miguel, Cabeza & Anglada, 2013). This aspect is further elaborated in the course of the SIMPACT project, particularly within WP6 – Public Policy Instruments.

Subject to member state histories, cultures and welfare regimes, it is probable that governance across Europe ranges from hierarchical steering by state actors (i.e. public regulation not involving private actors), to co-regulation by means of private-public collaboration (e.g. co-regulation, delegation of tasks to private actors) and joint decision-making, and private self-regulation plus intermediary forms (see Figure 5-2). ***Self-governance*** – also referred to as self-regulation and self-organisation – *«[…] as a collective process of communication, choice, and mutual adjustment of behaviour resulting in the emergence of ordered structures»* (Nederhand et al., 2014: 2), may occur inside («shadow of hierarchy») or outside the control of government.

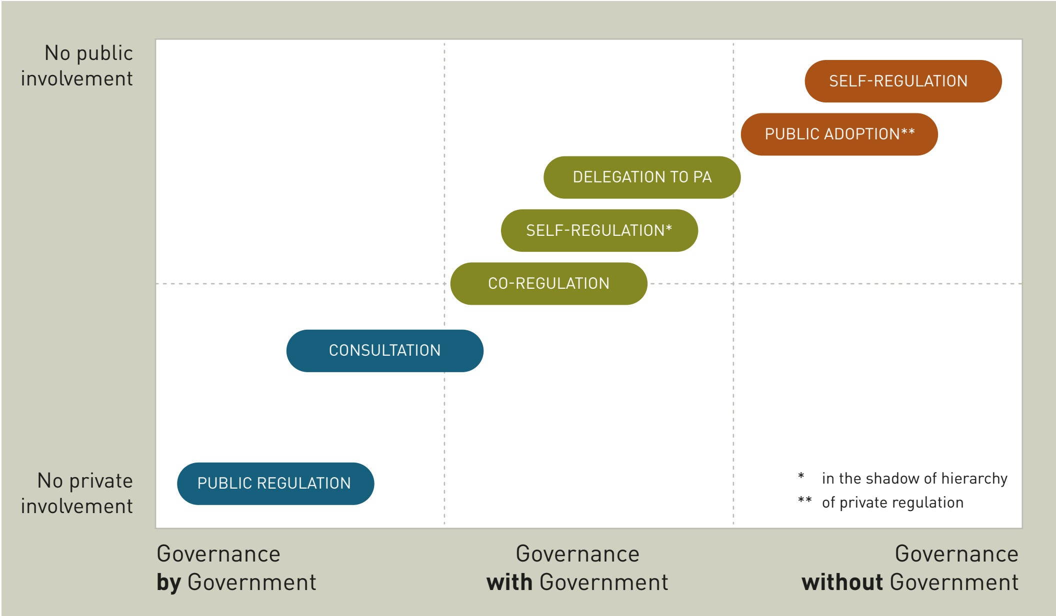

Figure 5-2. Distinct Modes of Governance Source: Adapted from Börzel & Risse (2010)

We expect the distinct modes of governance to be complementary rather than contradictory, where the government is just one of many actors in the social innovation process.

5.4 Interplay of Components, Objectives & Principles

In conclusion, it is anticipated that the interplay between each category's elements/factors and the dynamics between the categories drive social innovations' economic and social impact. For example, subject to the actors involved in the innovation process, available resources such as knowledge, social and relational capital plus finance are expected to vary, and therewith affect the scope of action. Likewise, the specific institutions actors are embedded in may fuel or hinder social innovation, while in turn – over the course of time – actors' innovations ideally result in institutional change. In addition, social innovation actors' objectives are decisively shaped by actor constellations and motivations on the one hand plus available resources on the other. Also changing objectives might call for the involvement of new or distinct actors. The allocation of resources to achieve the set goals is closely related to modes of efficiency and governance.

The following figure depicts the exemplified interplay of social innovation components, objectives and principles.

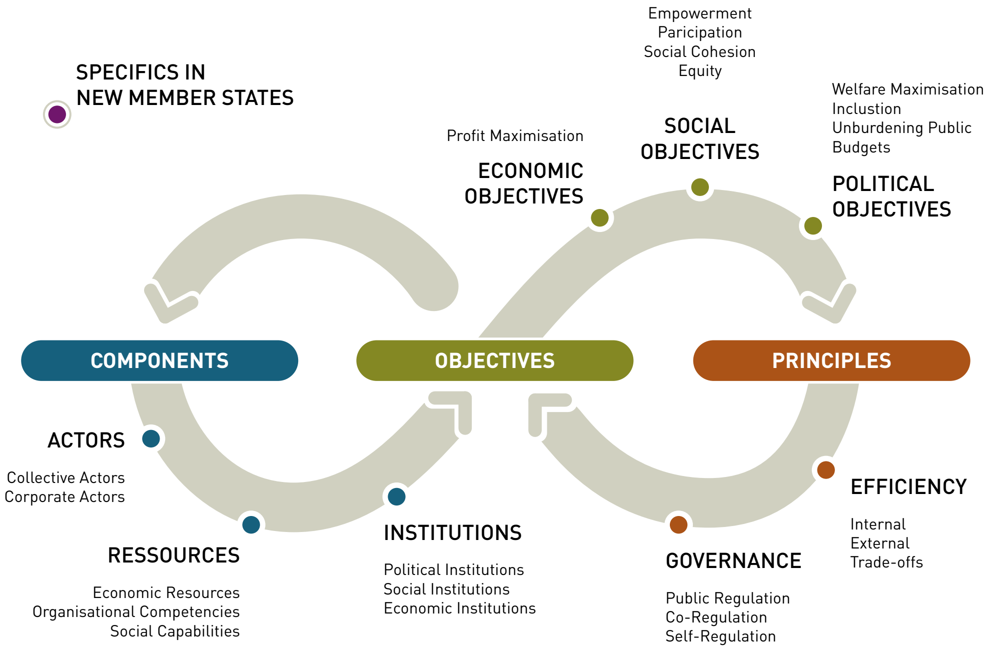

Figure 5-3. Interplay of Social Innovation's Components, Objectives & Principles

6 TOWARDS THE COLLECTION OF EVIDENCE-BASED KNOWLEDGE

In summary, the above outlined theoretical framework and related categories are just an initial, nevertheless important, step towards a middle-range theory of the economic underpinnings of social innovation. Following an iterative approach the next step is to collect evidence-based knowledge by means of meta-analysis, business case studies and social innovation biographies, which are then fed back into the theorising process.

Social innovations go beyond singular individual activities and contribute to societal added value. Based on SIMPACT's definition (see section 2.1), the focus is on cases reflecting the following aspects and dimensions of social innovation:

- Activities of organisations that aim at strengthening the quality of life of vulnerable and marginalised populations so that they gain the capacity to engage in economic, social, cultural, and political activities;
- Such solutions may directly impact the target groups through empowerment, support and provision of resources or indirect by changing the institutional frame and social and political conventions;
- Initiatives taking place outside the market-instituted and/or established institutional context.

Drawing from the rich but scattered evidence, a ***meta-analysis*** approach will enable us to summarise and integrate findings from the existing social innovation case studies, thus adding value to our knowledge base. ***Business case studies*** will provide SIMPACT with an important means of understanding the economic underpinnings and design thinking through the analysis of innovative business models within the field of social innovation. SIBs of successful and less successful initiatives are envisaged so as to deepen our understanding of development paths, knowledge trajectories and stakeholder interactions at the micro-level, i.e. the single innovation.

Economic issues pertaining to these case studies cannot be fully summarised at present. The following list, however, exemplifies issues and dimensions to be addressed when analysing existing case studies:

- Business models as a source for innovative business and employment opportunities;
- Success/failure stories/pathways for scaling and diffusion of social innovations;
- Financing models;
- Metric models to measure economic impact of social innovations;
- Innovative approaches to measure social impact and their sustainability;
- Impact of social organisation and workplace innovation on economic performance, social inclusion/empowerment and economic benefits;
- Cost savings in and across sectors (e.g. more cost-effective social assistance and healthcare initiatives in response to increasing pressure for quality improvements and to growing demands);
- Enhanced employment capacity and access to qualified jobs for targeted social groups (including ex-offenders).

These economic issues can be viewed along the three elaborated categories of «objectives», «principles» and «components». Based on these categories the following guiding questions have been formulated to structure the empirical work:

I Objectives

I.1 Challenges/Needs addressed & Framework

I.1.1	Which is the socio-economic and policy framework in which the solution was developed?
I.1.2	What particular need or demand does the SI address?
I.1.3	Why did the social welfare provisions not (and perhaps could not) save target groups from marginalization?
I.1.4	What is the nature of the SI considered? Did it develop as a response to (a) market failures or imperfections? (b) non-market failures or imperfections (and if yes, which? public sector, etc.)?
I.1.5	Who are the target groups for social innovation?
I.1.6	What novel ideas/practices do social innovations bring to the fore (new and radical vs. the advancement of existing solutions)?
I.1.7	What is the novelty of SI compared to alternative approaches?
I.1.8	What are SI actors' broad and/or specific objectives?

I.1.9	To what extent may such objectives be influenced/affected by endogenous (e.g. organisational structure, resources, capabilities, cooperation/collaboration modes) and exogenous (e.g. market evolution, competitive forces, user and customer requirements, laws, regulations and regulatory environment) factors?

I.2 Short-term effective Outcomes

I.2.1	How should one assess short-term SI outcomes?
I.2.2	Are the outcomes coherent with the SI objectives?
I.2.3	Are there unexpected outcomes? For instance, are there any negative outcomes?
I.2.4	What is the type of SI contribution: new products/services, organisations, or a new method of their provision, new skills/competences/resources/outlets?
I.2.5	What is the degree of change of SI: incremental, radical or systemic?
I.2.6	In what respect does the social innovation prove to be more effective than alternative economic solutions?
I.2.7	Does the SI have a specific geographic delimitation (community, city etc.)?
I.2.8	To which degree is the SI locally or regionally bounded?
I.2.9	Can the SI be scaled (up- and/or downscaled)?
I.2.10	To which degree is the SI bounded to a specific target group?
I.2.11	How does it affect levels other than the one at which it has been developed?
I.2.12	Is evaluation of the SI outcomes an integral part of the innovators´ strategy and activities?
I.2.13	How should the results be shared or communicated? To whom?

Questions regarding long-term impact on society have been discarded as these cannot be answered by case studies.

II Principles

II.1 Process of the Social Innovation

II.1.1	How did the SI emerge (bottom-up, top-down, triggered by endogenous and/or exogenous factors)?
II.1.2	Which *pre-existing* relationships between individuals and/or organisations were important in the SI process?
II.1.3	Which relationships between individuals and/or organisations were established or strengthened during the SI process?

II.1.4	(How) was trust and shared understanding created between partners?
II.1.5	(How) was the tacit knowledge utilised during the SI process?
II.1.6	What are SI cycles and development stages including transformation and re-orientation?
II.1.7	What obstacles and sources of resistance were encountered during the design and implementation of the SI? How were they overcome?
II.1.8	How was scaling achieved after the original solution was developed and implemented? Did it require any specific measures or resources?
II.1.9	(How) did the local context positively or negatively influence the process of SI?
II.1.10	Is the SI connected to any technological innovation?

II.2 Effectiveness & Efficiency

II.2.1	How is SI sustainability ensured?
II.2.2	How can SI future sustainability be ensured?
II.2.3	How can the SI process be accelerated?
II.2.4	What future risks can be foreseen? And how are they being anticipated?
II.2.5	How is the social and economic impact measured?
II.2.6	Did the actors agree on evaluation criteria?
II.2.7	How are conflicts regarding interpretation of hypothesis and results are avoided (ideologies, common representations)?
II.2.8	Do ex-ante expectations and the ex-post results match?

II.3 Business Models & Governance

II.3.1	Which opportunities, risks and obstacles have been identified during the commercialization stage?
II.3.2	What is the decision making process? Who is engaged?
II.3.3	Which legal form has been chosen? For what reason?
II.3.4	On which ownership principles did the SI rely?
II.3.5	What mechanisms exist for service user feedback and continuous improvement?
II.3.6	What mechanisms exist for staff feedback and continuous improvement?
II.3.7	Does evidence of single loop or double loop learning exist?
II.3.8	Are quality assurance and improvement mechanisms in place? If so how do they work?

III Components

III.1 Actors & Roles

III.1.1	What actors are involved in the field of social innovation and what is their role in different stages of the SI process?
III.1.2	What motivations drive the individuals and organisations involved in the SI (mercantile and non-mercantile determinants)?
III.1.3	How do SI actors manage to align their different objectives?
III.1.4	What characterises the individuals and organizations that initiate and promote social innovation?
III.1.5	What was the role of policymakers in (a) *Triggering SI?* - Outsourcing of services previously provided internally? - Dialogue with external stakeholders? - A review of existing provision by policymakers leading to the identification of unmet needs? - Other? (b) *Supporting SI* - Contract based on quantifiable performance targets? - Contract based on qualitative outputs? - Development grant (e.g., capacity building)? - Supporting applications to external funding sources? - Provision of premises? - Secondment of staff? - Expert advice and support? - Other? (c) *Diffusing SI*? - Formative evaluation? - Summative evaluation? - Return on investment analysis? - Replication in other geographical areas? - Replication for other target group? - Internal dissemination of key learning points? - External dissemination of key learning points? - Media coverage?
III.1.6	What is the role of target groups during SI development and implementation stages (idea provider; participation)?
III.1.7	What political units/constituencies are involved? At what level (local, regional, national, European)
III.1.8	Does the SI explicitly directly address objectives or targets identified in local or

national policy frameworks?

III.1.9	What decision-making criteria are used by political actors? - Scoring against detailed indicators? - Broad compliance with established policy guidelines? - Policy innovation? - Other?
III.1.10	Was the solution co-produced? If yes, what actors were involved?

III.2 Institutions

III.2.1	What is the relevant institutional framework when addressing welfare or labour market requirements and contingencies?
III.2.2	How do SI solutions bring changes to the existing institutional framework?
III.2.3	Does SI impact all institutional settings and frameworks? If so, how?
III.2.4	Does the SI contribute to public sector innovation in terms of the mode of policy production and implementation?
III.2.5	Do SI challenge existing institutions? If so, how?
III.2.6	Do SI trigger changes of specific policies or legislations, or vice versa?
III.2.7	How can social innovation contribute to social and economic policy development to support vulnerable groups of people?
III.2.8	How does the SI overcome institutional lock-in and path dependency?

III.3 Resources

III.3.1	How is SI funded?
III.3.2	What resources are used at different stages of the SI process?
III.3.3	How can initiators of SI get access to these resources?
III.3.4	What are the primary financing sources of SI during the development and diffusion phases?
III.3.5	How is sustainability to be secured once current funding ceases?
III.3.6	How is tacit knowledge and experience created/acquired during the SI process and sustained at the end of the current funding cycle?
III.3.7	To what extent does SI trigger the sharing and transferring of power (i.e. a shifting of power relations), and of resources, values and knowledge within the society?

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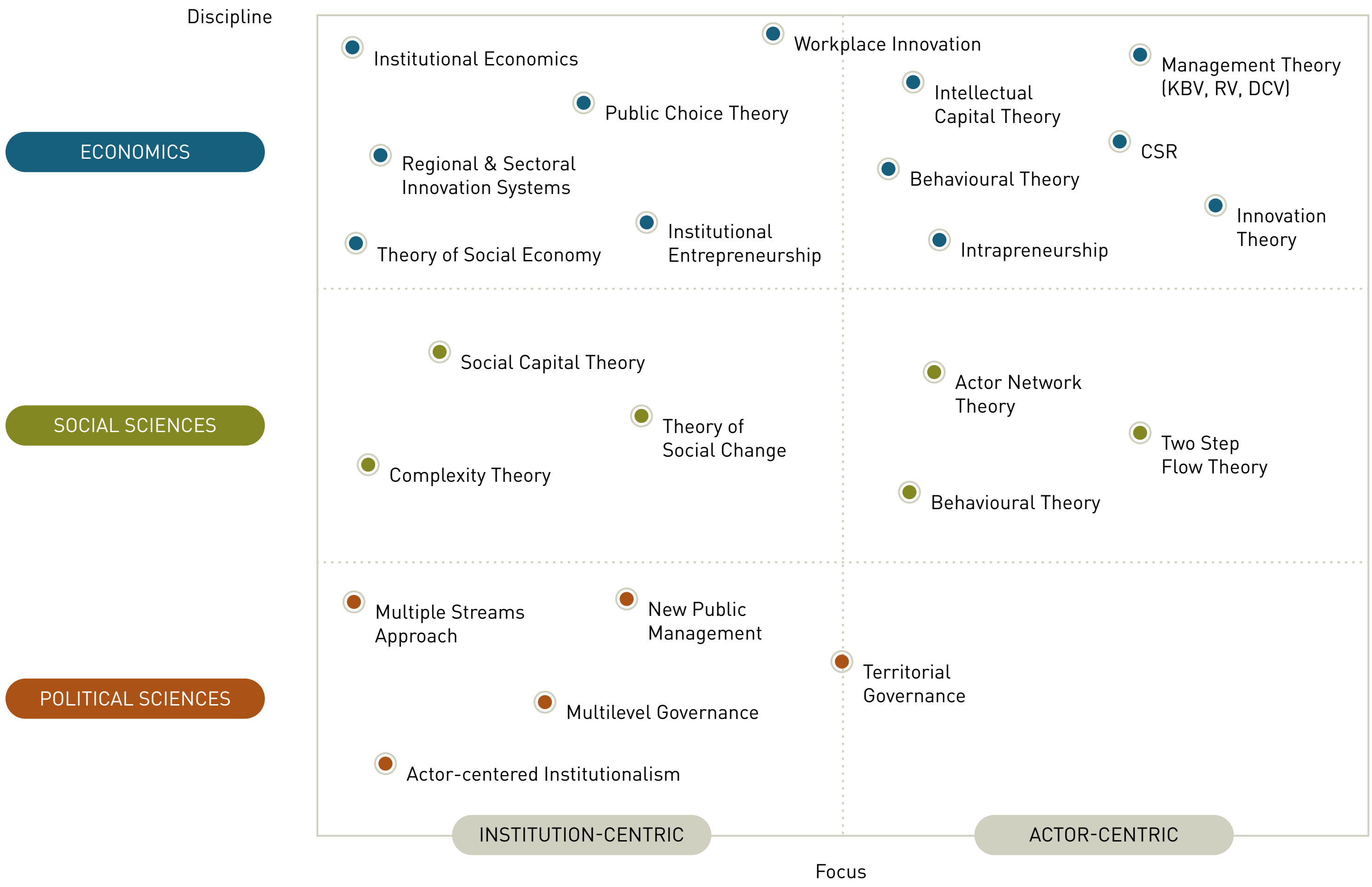
Appendix I: Reviewed Theories & Approaches



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UNU-MERIT

TNO

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NORDREGIO
Nordic Centre for Spatial Development

UNIVERSITY OF
EASTERN FINLAND