



# BOOSTING SI'S SOCIAL & ECONOMIC IMPACT

# IMPRINT

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# 0 INTRODUCTION

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## SECTION 0

**0.1 From Roots to Results** | 0.1.1 Theoretical Foundation | 0.1.2 Collecting Evidence  
0.1.3 Towards Stronger SI Concepts | 0.1.4 Methods, Tools & Instruments  
**0.2 What to Expect?** |

# 0

## INTRODUCTION

EU-28 in August 2016

**8.6%**

Unemployment rate

**18.6%**

Youth unemployment rate

**122.3 million**

people were at risk  
of poverty or social  
exclusion in 2014

[Source: Eurostat]

Europe is confronted with many complex and interrelated socio-economic challenges that have clearly been exacerbated by the economic crisis. These challenges include youth unemployment, migration, ageing population, poverty, and gender inequalities to name but a few. Welfare services struggle to cope with these challenges and growing segments of the population experience increasing difficulty in accessing support.

Individuals and vulnerable groups affected by these wicked problems face significant constraints notably in their ability to participate in social, economic, political and cultural life. While the key role of traditional for-profit innovation in boosting economic activity and social development is generally accepted, their impact on successfully addressing these challenges appears insufficient. Consequently, new solutions leading to improved capabilities, new forms of collaboration and a better use of societal resources are required. In this context, emerging social innovations in Europe and around the world offer a promising avenue to sustainably address the problems at hand.

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**« 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. »**

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Boosting social &  
economic impact

Several key issues need to be addressed in order to tackle social innovation challenges within the European economic sphere and its policy environment. Gaining a better understanding of the components, objectives and principles of social innovation, as well as the underlying processes and contexts of social innovations is at the core of the EU-funded FP7 project SIMPACT «Boosting the Impact of Social Innovation across Europe through Economic Underpinnings».

As a largely unexplored research field, SIMPACT focuses on the economic dimension of social innovations in an attempt to better apprehend the impact of social innovations on social and economic transformation by building and extending on an advanced knowledge base.

## From Roots to Results

**0.1**

Linking theoretical research with the collection, analysis and modelling of empirical evidence and continuous stakeholder dialogue has allowed us to develop the appropriate tools and mechanisms, including measurement and ex ante impact assessment tools, for social innovators, intermediaries and policymakers.

### Theoretical Foundation

**0.1.1**

As a first step towards a better understanding of the economic dimensions of social innovation, a «Multidisciplinary Literature Review» has been undertaken. The review provided the basis for a theoretically sound and comprehensive concept to help identify the numerous factors that underlie economic and social impacts. The research discussion was built on a multidisciplinary middle-range theory that explores the economic dimensions of social innovation (→ SECTION 1). This included developing a common understanding of social innovations' components, objectives and principles (→ SECTION 2). Following an iterative process of theorising and evidence collecting, a narrow categorisation of social innovations provided the joint framework for our empirical research.



### Collecting Evidence

**0.1.2**

In an attempt to identify how and why socially and economically successful innovations work, SIMPACT's empirical work provided detailed insights regarding the innovation process throughout different stages of the social innovation lifecycle. For this purpose, data was systematically collected and analysed by means of «Meta-Analysis», «Social Innovation Biographies» and «Business Case Studies» (→ Box 1.1).

To select cases social innovation databases were screened applying two filters: welfare regimes across Europe and field(s) of action. With regard to the latter, the following thematic areas were defined in reply to the grand societal challenges Europe is facing: (1) «Employment» which is associated with empowerment and capabilities, in particular with regard to young people; «Migration» in terms of inclusion but also literacy; «Demographic change» including both elderly people and young generations (e.g. health care, early childcare). Together with the transversal themes «Gender», «Education» and «Poverty» these fields of action

Welfare regimes & fields of action as selection criteria

constitute the unifying elements of cases across the various levels and foci of analysis. Each case is embedded in a specific context of which the welfare regime is one building block. In addition to the outlined selection criteria, a solution/initiative had to comply with the project's definition of social innovation and have some type of organisational structure (e.g. NGO, association, enterprise, and cooperative, initiative), to qualify as SIMPACT case. The problem of case selection bias was resolved through a selection of «successful» versus «less successful» or «failed» cases from a variety of SI databases.

#### Box 0.1

Levels of analysis  
& methodologies

- Scandinavian model (11)
- Liberal Anglo-Saxon model (10)
- Continental model (15)
- Central & Eastern Europe\* (10)
- Mediterranean model (14)



\* Instead of a single four distinct welfare regimes were identified for CEE countries

In order to reflect the evolutionary character of social innovations and account for their dynamics in related policy streams distinct forms and various levels of analysis have been adopted:

**Meta-analysis** was applied to systematically summarise and integrate findings from existing social innovation case studies and analyse differences in the results, thus adding value to existing knowledge while avoiding duplication of research efforts. The qualitative comparative analysis leads to the identification of the meta-components, -objectives and principles under distinct welfare regimes across Europe.

**Business Case Studies** (BCSs) provided SIMPACT with an important means of understanding the economic aspects of social innovation and of grounding design thinking. Aspects covered comprise problems addressed and idea, core solution and motivation as well as the development process and value chain. BCSs advanced the understanding of economic aspects of already described cases though deep qualitative desk research, during which information from distinct sources (e.g. scientific/non-scientific publications, websites, interviews) is collected and compared.

**Social Innovation Biographies** (SIBs) of successful and less successful social innovation initiatives have been conducted to deepen our understanding of development paths, knowledge trajectories and stakeholder interactions throughout the innovation process. SIB's allow for the reconstruction of social innovation from its first idea to its spread and diffusion identifying involved actors, processes and networks as well as their interplay by following the process with narrative interviewing methods and triangulation.



SIMPACT's evidence-based approach to social innovation placed a heavy emphasis on empirical research by underscoring the following aspects and dimensions of social innovation:

- Activities of organisations that aim at strengthening the quality of life for vulnerable and marginalised populations by empowering them to engage in economic, social, cultural, and political activities;
- Solutions that seek to impact directly targeted marginalised groups through empowerment, support and/or provision of resources, and indirectly by changing the institutional frame and social and political conventions;
- Initiatives taking place outside the market-instituted and/or established institutional context.

In line with SIMPACT's middle-range theorising process, the empirical findings were further incorporated into a social innovation simulation model in order to elaborate different behaviour scenarios (→ [SECTION 1](#)). Our findings have critically reflected the opinions of experts and intermediaries including welfare organisations, relevant public bodies and associations of marginalised and vulnerable groups through small-scale stakeholder experiments.

## Towards Stronger SI Concepts

### 0.1.3

Social innovations cannot only be observed in their evolutionary pathways or be supported at the policy level. The use of «Design Thinking» can consequently improve our understanding of social innovation as practice and experiment. This approach can help define the value proposition, highlight the business model by mapping stakeholders' channels and modes of interaction with users. This, in turn, provides a better understanding of social innovation initiatives, their effectiveness and replicability as well as reshaping and integrating objectives and forms of participation. Applying reverse engineering, categorising different types of social innovation and their economic dimensions was a first step towards exploring relevant business models. By exploring and connecting social innovation solutions to alternative economically business models we were able to design suitable tools to assess the existing forms of social innovation. Developing stronger social innovation concepts is instrumental in understanding the different forms of entrepreneurship and alternative business models of financing, wealth distribution and employment (→ [SECTION 3](#)).

**Design Thinking**  
is centred on innovating  
dynamics through SI users  
and beneficiaries

**Reverse engineering**  
refers to the exploitation of  
know-how by starting with  
the known solution and  
working backward to define  
the factors that added to its  
development.

## Methods, Tools & Instruments

### 0.1.4

At the launch event of SIMPACT, little was known about what constituted a successful social innovation and supported its economic underpinnings. Verifiable indicators and impact assessment are particularly important for developing and

implementing effective public policy instruments. The conceptualisation of social innovation, its economic, social, spatial and institutional context constitutes a significant challenge to traditional modes of policy production. Flexible policy regimes capable of supporting the spread and growth of successful examples of social innovation while accounting for local specificities and contexts as well as varying welfare regimes are of vital importance to support and sustain social innovations. Throughout different phases of the SIMPACT project, we succeeded in elaborating different methods, tools and instruments for different stakeholders confronted with budget and resource limitation and ex-ante impact assessment constraints. Among the main stakeholders one should refer to social innovators investors and a host of policymakers at regional and national levels.

#### Measuring social innovation

The economic approach to social innovation serves the purpose of assessing the impact of new ideas and practices throughout different phases of social innovation lifecycle. This in turn, supports policy makers and social innovation actors when selecting investment options and spreading and scaling of successful social innovations (→ SECTION 7).

#### Assessing social and economic impact

Ex ante impact assessment tools support policymakers to better assess the economic and social impact of SI initiatives, programmes and policies by analysing the anticipated impacts of the planned activities. Social innovation measurement seeks to optimise the design and structure of a particular policy or programme, the sequence of priorities, as well as its internal and external coherence (→ SECTION 7).

## 0.2 What to Expect?

Building on three years of research, stakeholder engagement and innovative thinking, with this brochure the SIMPACT team invites you to share its insights and practical tools developed for policymakers, social innovators, intermediaries and other stakeholders.

We begin by SIMPACT's theoretical considerations that emphasize economic efficiency and social effectiveness in the context of social innovation. It is argued that marginalised and vulnerable groups constitute a social and economic potentiality whose actions and behaviours can be analysed and built into social innovation simulation models (→ SECTION 1).

SECTION 2 introduces SIMPACT's broad concept of social innovation components, objectives and principles and provides a typology of social innovations along four distinct dimensions: user and beneficiary involvement, form of organisation, social innovation thematic field and scope of activities.

The core features of social innovation Business Models and their categorisation in support of social innovators, service design tools and Business Models are discussed in → [SECTION 3](#).

[SECTION 4](#) addresses the question of what constitutes a favourable, inspiring and productive environment for social innovation. The section elaborates on the notion of «Social Innovation Ecosystem» and proposes a model comprised of two subsystems that address issues associated with SI «enabling & supporting environment» and «problem constellation».

[SECTION 5](#) discusses the problems of mainstreaming social innovations into the economic sphere through successive stages of spread and growth and emphasizes the necessity to take social innovations from the micro- to the macro-level. Drivers and barriers as well as scaling mechanisms such as open/closed scaling up and out are discussed and further elaborated in this section.

The question of how to stimulate and sustain social innovation by envisaging different policy and governance models in addressed in → [SECTION 6](#).

[SECTION 7](#) encompasses indicators sets and relevant tools that are needed to measure social innovation and assess its ex ante impact at different social innovation phases and stages.

To successfully shape future transition processes from micro level social innovation activities to the solution of macro level socioeconomic challenges it is necessary to better harness the societal and economic potential of the many dispersed local social innovations. In this vein, → [SECTION 8](#) addresses the interplay of social innovation, welfare state and market. This includes to critically reflect and advance our welfare regimes and governing institutions with regard to social innovations' impact on institutional change. Also, it is to be acknowledged that social innovations' contribution to inclusive growth is essentially based on open innovation models characterised by distinct forms of interactions which, in turn, require behavioural shifts at the level civil society, public and private sectors.





# THE ECONOMIC DIMENSION OF SOCIAL INNOVATION

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## SECTION 1

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1.1 Social Integration, Welfare & Economic Growth | 1.2 Focus on Institutional Change  
1.3 The Meaning of « Economic Foundation » | 1.4 Economic versus Social Innovation  
1.5 SIMPACT's Economic Model & Simulation Approach

# 1

## THE ECONOMIC DIMENSION OF SOCIAL INNOVATION

Social innovation will realise its potential contribution to inclusive growth to the extent it can unfold its social and economic impact for vulnerable and marginalised populations as well as for society as a whole. Moreover, in view of the European vision of «Open Innovation, Open Science, Open to the World», applying an open approach to social innovation means making better use of the many, rather small, and locally embedded social innovation activities across Europe. Boosting the impact of social innovation through an advanced understanding of its economic dimensions and elaborating tailored tools supporting policymakers, innovators, investors, and intermediaries, was thus at the core of SIMPACT.

### Valuing the potential of vulnerable groups

SIMPACT's emphasis on the need to support vulnerable and marginalised populations came as a response to a provision for economic efficiency in order to better serve the economically poor and socially underserved populations rather than subsidising them. It is argued that empowering vulnerable groups helps overcome the daunting problem of resource shortcomings by enhancing peoples' quality of life through enhanced engagement in society thus strengthening integration, welfare, and social cohesion in the long-term. In this sense, exclusion is not viewed as individual inadequacy, but is imputable to institutional blockings and shortcomings, market failures, public sector silo thinking and growing fragmentation of the civil society. One can logically conclude that a shift from viewing vulnerable groups as «burden to society» to one that values individual potential and their contribution to society constitutes a cornerstone in the social debate.

### Efficiency & effectiveness

SIMPACT places a particular emphasis on balancing economic, social and political efficiency and tailoring political intervention as a means to achieve economic balance and social cohesion as a requisite for societal change. Equally important is SIMPACT's focus on the micro- and meso-level of social innovation and the broad set of mechanisms that allow to bridge micro and macro levels. Whereas «**micro**» refers to social innovation activities, «**meso**» covers the broad policy field in which social innovations take place. Micro and meso levels of social innovation highlight the importance of allocative efficiency and social effectiveness. SIMPACT makes a distinction between efficiency and effectiveness when addressing the origin,

process and outcome of social innovation. Efficiency can be viewed in terms of best possible or optimal way (i.e. allocation of resources). In contrast, effectiveness points to adequacy of purpose and degree of accomplishment and producing the intended result.

## Social Integration, Welfare & Economic Growth

### 1.1

Social innovations aim to accelerate the process of social integration by capturing novel ideas and instigating innovative collaborative schemes to empower and (re)engage the economically poor, socially vulnerable and spatially segregated groups. Social achievements and capabilities cannot come to full fruition in the absence of purposeful and value-driven initiatives, engagement, and collective action. By (re)engaging citizens and bringing together entrepreneurs, firms and policy makers, social innovators spawn the seeds of trust, reinforce social ties and foster social capital. As a driver for social transformation, social innovators rely primarily on human capital for identifying, creating and sharing value. As such, social innovations enhance social, organisational and entrepreneurial capabilities and exert a mutually beneficial impact on the society and the economy. Social innovations seek to overcome institutional and spatial barriers to economic development by downplaying the inherent risks and uncertainties of entrepreneurial initiatives and resource shortages as well as human, organizational and political resistance to change. The temporal and spatial dimensions of social innovation shed further light on social innovation path dependency, community and neighbourhood development and socially and culturally creative strategies.

Why social innovation matters.

In order to overcome social and economic challenges that emanate from economic deprivation, spatial segregation and social discrimination one should re-examine the «economic foundations» of social innovation, in particular how markets, actors and institutions operate within a market-instituted context and how a dynamic framework for action at the level of individuals, organisations and networks should be designed and implemented. It is important to investigate the pressing social, economic, ecological and technological challenges, shortcomings and failures with a view on how to reinforce welfare and accelerate inclusive growth. The socio-spatial and institutional contexts in which social innovations burgeon highlight the importance of welfare regime in supporting social transformation. Our research has identified a number of economic, social and institutional obstacles to economic growth, including but not limited to unemployment, migration, demographic change, gentrification, poverty and inequality. The link between resources and capabilities can shed further light on the pivotal role of welfare in bolstering social transformations.

The importance of open social innovation along with innovations in social services and the associated business model of the organisation in response to social challenges points to the need for an open-end process of innovation and

Open Innovation & Social Innovation

value sharing dynamics to respond to unfulfilled social demands. Open social innovation sets the stage for a sustainable resource management, one that is likely to create behavioural changes as a necessary step toward a sustainable and inclusive economic growth. As observed in our evidence-based research, social innovators' primary objective consists of rebuilding social ties and strengthening the process of social integration both in their ends and in their means. By transforming social relationships and by seeking to enhance economic welfare, wellbeing and social justice social innovations seek to build better institutions, foster purposeful ideas, support public goods all of which constitute the necessary components of an economically efficient and socially rewarding society that can better serve unfulfilled human aspirations and needs.

## 1.2 Focus on Institutional Change

Public institutions are increasingly under pressure to deliver new services while at the same time are being urged to reconsider and restructure the existing services by achieving higher levels of efficiency and effectiveness. Despite a continuous effort to improve their functioning and performance, the adoption of the private sector's business models and practices have not resulted in more effective solutions. In many instances, privatisation has failed to bring about the accessible, qualified and diversified offering it had promised. The situation is further aggravated by the fact that (public) institutions operating in the social arena tend to follow their own institutional logic rather than adopting novel and transformational approaches. Due to their manifold missions and heterogeneity, public institutions' actions are guided by regulatory and legal considerations with little resources allocated to individual actions and potentials. In contrast, social innovations tend to respond to inadequacies and shortcomings. It is therefore not surprising that social innovators tend to bypass the prevailing institutional practices and norms and impact their evolution. By applying innovative business models, social innovators challenge the existing practices and the established welfare and market institutions. As such, social innovators emerge as «rule breakers» in opposition to institutions as «rule makers». That is why social innovation starts with new ways of thinking, covers new instruments of welfare politics and fosters the change of regulative systems. This is likely to lead to institutional changes that result from the empowerment and (re)inclusion of vulnerable and marginalised populations.

Social innovators  
as rule breakers

At the meso level, institutional changes imply a new division of labour in the economic and political spheres susceptible to create the conditions for inclusive growth. The mobilisation of the untapped potentials of vulnerable and marginalised groups can only succeed when it is embedded in a new balanced growth strategy to achieve economic and social objectives simultaneously. A positive role for the state in stimulating, sourcing and sustaining social innovation means to move beyond traditional ways of designing and delivering public policies (→ SECTION 6).

A new division of labour



European welfare regimes are as much shaped by economic and social contexts as the distinct institutional arrangements that govern them. Consequently, the institutional context in a given welfare regime is viewed as one of the building blocks of the social innovation ecosystem (→ [SECTION 4](#)).

#### **Box 1.1**

##### **Middle Range Theorising**

SIMPACT project was neither the place to redefine social and economic theories nor to surrender to the temptation of designing new theoretical approaches to social phenomena. Instead SIMPACT followed an established way of linking theoretical and empirical research by using the concept of middle range theorising (MRT).

Introduced by Merton (1994) middle range theorising is not about general theory, but focuses on empirical research by accounting for spatial and temporal dimensions and social objectives and explanations. The SIMPACT project focused on Europe following the 2007-2008 global financial crisis and economic meltdown. A particular emphasis was placed on the economic and political consequences of social engagement and the societal impact of social innovation. By reflecting on the need for political innovation, the SIMPACT project recognized the necessity to accelerate the process of social innovations for greater societal impact.

In doing so, we identified a broad set of social mechanisms which can bridge the micro- and macro-level following the MRT postulates. Rather than focusing on the societal transition, SIMPACT has a specific and clearly delineated topic: institutional and related political change. The unit of analysis is the social innovation that addresses the challenge of dealing with vulnerable and marginalised populations. The level of analysis lies at the micro-level and meso levels with the latter being associated with policy fields.

Middle-range theorising within SIMPACT is concerned with mechanisms bridging transferring micro- and meso-level. More recently, bridging mechanism from the micro- to the macro-level increasingly apply evolutionary thinking, mechanisms bridging micro- and meso-level call for a strong social and policy approach.

### 1.3 The Meaning of « Economic Foundation »

SIMPACT's focus on the economic underpinning of social innovation shows how the gap between large scale societal challenges and small-scale social innovation activities can be reduced. More specifically, the economic dimension of social innovation highlights:

- How social activities can be supported by higher degrees of efficiency while establishing a balance between social, economic and political objectives;
- How a comprehensive social innovation ecosystem that facilitates social innovation activities can be designed and sustained;
- How open innovation can promote access to tacit knowledge for social entrepreneurs, actors, beneficiaries and civil society involved in the public welfare system.

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.

Components,  
Objectives & Principles of  
Social Innovation

The economic foundation of social innovation hinges upon the proper identification of social innovations' economic principles (e.g. modes of efficiency and governance), objectives (e.g. social and economic value) and components (e.g. institutions, resources, actors; (→ SECTION 2). The study of components, objectives and principles of social innovation has enabled us to explore the potential levers and mechanisms that accelerate social and economic transformation, develop improved business models (→ SECTION 3), and elaborate public policies that support and/or enable social innovation processes (→ SECTION 6). The study of economic foundation of social innovation provides a broad framework to comprehend the effectiveness of social innovation processes – from initial idea to the implementation stage followed by its spread and diffusion leading to institutional change. This process includes several aspects:

From ideas to solutions

**First**, one needs to consider the process of upgrading the initial idea to a solution including new modes of organisation (e.g. projects, campaigns, volunteer or not-for-profit organisations). Each mode has a different understanding of the goals to be achieved and the means to be deployed to achieve the goals efficiently and effectively. Although the nature and extent of resources tend to vary, the key challenge for social innovators is to have access to scarce resources. This, in turn, necessitates the creation of new organisational routines and processes as well as novel managerial practices (→ SECTION 3). In addition, socially innovative ventures require organisational and entrepreneurial capabilities in order to:

- **Sense opportunities:** this includes scanning and monitoring changes in the environment, assessing beneficiaries' needs and demands, capturing ideas and identifying new relationships with multiple beneficiaries and actors;
- **Seize opportunities:** this includes tackling social needs or societal challenges in order to simultaneously create social and economic value and redeploying and reconfiguring existing and emerging capabilities.

**Second,** new modes of cooperation and distinct forms of partnerships emerge within different social, political, cultural, technological and environmental contexts. Despite differences in nature and scope of social links, most models are characterised by an open and embedded approach to social innovation that can, in turn, trigger and sustain institutional change. Social innovation initiatives must establish close collaborations beyond their own boundaries and across sectors to access, explore, exploit, share and diffuse knowledge, facilitating cross-organisational learning, collaboration and value co-creation. Social innovation constitutes a process of collective learning supported by different cooperative and collaborative schemes.

New forms  
of collaboration

Collaborative value creation, in turn, requires:

- Distinct organisational and managerial capabilities among social innovation partners;
- Mobilisation and leverage of distinct resources such as human knowledge and capabilities;
- Reciprocity and complementary resources to develop innovative solutions that could have otherwise not been created;
- Common and linked interests meaning that partners perceive their self-interest as associated with the group, common good, fairness, and the creation of shared value.

Collaborative  
value creation

In addition, social innovators can spread and diffuse social solutions and scale the process of social innovation thus reinforcing social capital. As outlined in → **SECTION 5**, scaling requires a wider pool of social actors, supporters, followers and imitators, but also rule breakers and opponents. Moreover, scaling necessitates effective actions and socially innovative activities through individual and collective actions. In this regard, social innovations efficiency is as much determined by actors' objectives and cooperative schemes and strategies as affected by their ability to design novel modes of governance based on coopetition and co-creation.

Scaling  
social innovations

## 1.4 Economic versus Social Innovation

Taking components, objectives and principles as point of origin, the following table summarises central factors distinguishing social from economic innovation. Social innovations are driven by a large group of actors as well as variety of resources and institutions that go beyond economic innovations. While social objectives tend to prevail when one considers social innovation outcomes, economic objectives are not clearly recognized. Social innovation principles differ from those of economic innovations in so far as internal modes of governance are concerned. As for external modes of governance, social innovations are characterized by bargaining, cooperation and conflict as opposed to competition and cooperation in the case of economic innovation.

**Table 1.1**  
Social vs. Economic  
Innovation

		SOCIAL INNOVATION	ECONOMIC INNOVATION
COMPONENTS	Actors	Social entrepreneurs, initiatives, movements, foundations Beneficiaries Public sector, intermediaries	Companies Households Public sector Research
	Resources	Economic and social capital, premises, participation, political resources (vote, protest)	Capital, labour, land, knowledge
	Institutions	Market, welfare regime, local or regional governance	Market
OBJECTIVES	Social	Prevailing	Partially addressed by CSR, sponsoring etc.
	Economic	Often neglected or subordinated	Prevailing
PRINCIPLES/PRINCIPLES	Efficiency	Balance of social and economic objectives with clear priority on social ones	Balance different economic objectives (e.g. long vs. short-term, shareholder vs. stakeholder-driven)
	Governance	Internal: participative External: complex mode of regulations, bargaining, cooperation and conflict	Internal: hierarchical with different degrees of participation External: competition and cooperation

Strengthening the economic foundation of social innovation requires the development of mutual and collective learning that challenge existing practices and institutions.

Collective learning & change management

By focusing on the economic underpinning of social innovation, one can observe the evolutionary process of innovation and its complex nature as reflected by examples provided by open innovation. In an open innovation context, entrepreneurs are no longer «lonesome riders», but embedded in networks that promote values, norms as well as trust and reciprocity to facilitate cooperation and co-creation among users, customers and intermediaries.

By placing emphasis on the economic underpinnings of social innovation, SIMPACT points to the pivotal role of social innovation as a lever for individual wellbeing, collective welfare and social justice and effectiveness. This can be achieved by building the type of institutions that can support economically efficient and socially effective solutions in response to numerous human aspirations, needs and desires.

## SIMPACT's Economic Model & Simulation Approach

### 1.5

In order to gain further insights as how social innovation path and trajectory are sustained, SIMPACT has developed an economic model that takes into account individual preferences driven by risk, intrinsic utility, bureaucratic barriers, uncertainty, demand and supply shocks.

While economics research has relied frequently on modelling methods to understand how things work in reality, the implementation of theoretical economic model and simulation methods in the context of social innovation is rather new and innovative. Despite its limitations as being a simplification of reality and imposed assumptions to reach an analytical solution, the modelling approach allows to theoretically conceptualise and capture certain aspects of the social innovation by taking into account economic, social and behavioural elements that have empirical relevance in the social innovation context. From a theoretical point of view, once the analytical solution is found through quantitative methods, the model is used to simulate various scenarios by assigning different parameter values and suggesting different pathways, drivers, and barriers to the social innovation process.

A **model** is a set of assumptions and equations describing, in general, behaviour of an actor (agent) or a set of actors (agents) under given circumstances.

The value added of a theoretical modelling and simulation approach comes primarily from its complementary nature to other methods – such as sociological approach, case study analysis, and other approaches with stakeholder involvement – its flexibility and simplicity for empirical validation. It should be noted that simulation method gives an ex ante idea on what kind of situations could be expected when certain parameters are modified.

Modelling and simulation as complementary approach

In a nutshell, the simulation approach takes into account the preferences and characteristics of agents (i.e. users and innovators) by integrating a wide array of contextual variables and drivers such as cost of innovation, enabling factors such as state capacity, intermediaries, and social trust within a utility maximization framework.

As a common method to modelling individual behaviour, agents can be assumed rational who make decisions after weighting the costs and benefits of their actions. In particular, utility maximizing actors decide whether to innovate or not, given their preferences over the number of users, risk attitudes, and intrinsic utility. The intrinsic utility captures the idea that the more individuals care about others and their unfulfilled social demands, the greater the likelihood to act as social innovators. It is argued that the utility of social innovators is boosted with the size of the population who benefits from social innovations brought about by network effects.

The baseline model takes a parsimonious approach for analytical tractability and still allows to capture a reasonable number of patterns of social innovation. The feedback from internal SIMPACT discussions coupled with «reality checks» during the stakeholder workshops have been instrumental in elaborating our proposed model with the objective of better reflecting the multi-faceted nature of social innovations.

Risk aversion, enabling environment & social capital

Accordingly, some of the model predictions suggest that the level of social innovation is negatively associated with the risk-aversion of the innovator as well as the higher social and economic costs. Efficiency indicators such as social innovation ecosystem as well as other facilitating factors such as social capital are positively associated with the occurrence of social innovation.

Uncertainty & barriers to success

In an extended version of the model, we have integrated the case of uncertainty. Uncertainty in the context of social innovations can be related to the success rate of the innovative solution and can be associated with such factors as disasters, resource scarcity, and low take-up of solutions by the targeted groups, lack of interest or information by marginalized groups and so on. The model indicates the volatility in the predicted level of social innovation when uncertainty caused by managerial barriers and bureaucracy are introduced. Uncertainty affects social innovation scalability and diffusion. Keeping all the remaining elements of the model constant, it appears that managerial or bureaucratic burden affects social capabilities that inversely affect the pace of social innovations.

Stakeholder workshops and feedbacks from the participants show the relevance of the key predictions of the economic underpinnings of social innovation.

SIMPACT's theoretical model builds on the following ingredients:

- **Actors:** social innovators who come up with an innovative idea (either by finding new ideas or by creating new combinations using the existing ideas) and the beneficiaries (individuals and groups). As explained in the working paper in detail,  $x$  can be interpreted as the number of social innovations.
- **Intrinsic utility** (ranked): The intrinsic utility is the part of the preferences reflecting nonpecuniary aspects, such as social values (e.g. more «altruistic» people will get higher utility of helping the others than «selfish» people)  
 $(r(x, \sigma) = 1 - x^{\frac{1}{\sigma}})$
- **Risk preferences:** The overall utility function includes a relative risk aversion parameter as suggested by Arrow-de Finetti ( $\sigma$ )
- **Utility** is the utility driven from social innovation. The utility function reflects the number of beneficiaries ( $z$ )
- **Efficiency:** this parameter captures the smoothness for the social innovation to take its desired effects on the target groups; possible interpretations include social trust, cohesion, ease of adaptation to change, social capital etc. ( $\beta$ )
- **Network effects:** individuals incur an explicit benefit through networks. Network effects is dependent on the number of beneficiaries from SI and is entered in a multiplicative way to reflect network effects
- **Costs:** it takes effort, time, and possibly other material elements to initiate and sustain a social innovation ( $\gamma$ )

By taking into account the above parameters and assuming a smooth functional form, we develop a utility function that is maximised under given constraints. The utility maximisation of a rational agent is achieved by satisfying a non-negativity condition for the utility function. It follows that the degree of social innovation could be calculated as an analytical function as follows:

$$x = \left[ 1 - \frac{\gamma}{(1 - \exp(-\beta z))} \right]^{\sigma}$$

**Box 1.2**  
 SIMPACT's Economic Model  
 for Social Innovation  
 & Simulation

Once the predictive equation of social innovation level is obtained, one can conduct comparative statics exercise to run simulations on a range of parameter values. In this context, a simulation is a quantitative result of the model once the model is fed with empirical or artificial data. Using quantitative techniques, we simulate different simulations of the same model by changing cost, risk aversion, efficiency, uncertainty or bureaucracy parameters, which then reflect different realities and

circumstances. Simulations should be interpreted as hypothetical scenarios when a parameter is modified while holding all other parameters constant.

Increasing risk aversion  
lowers likelihood of social  
innovation

According to this model, one can predict that when the risk aversion of social innovator increases *ceteris paribus*, less social innovations will be observed. This is illustrated in the following figures based on the baseline model without taking into account uncertainty. The continuous lines in both figures show the level of social innovation observed (y-axis) as a function of the number of beneficiaries (x-axis). For a given set of parameters, the level of risk aversion of the potential social innovator is increased as shown in the right-hand side figure. As the curve reaches lower values on the left-hand side, one may observe a lowering in the level of social innovation for the same number of beneficiaries. The maximum level of social innovation predicted (the flatter part of the curve) is consequently lower in the case with higher risk aversion as seen in the right-hand side figure. This result is in line with empirical observation that when individuals are less willing to take risk, the number of social innovations tends to decrease.

**Figure 1.1**  
Risk aversion &  
social innovation



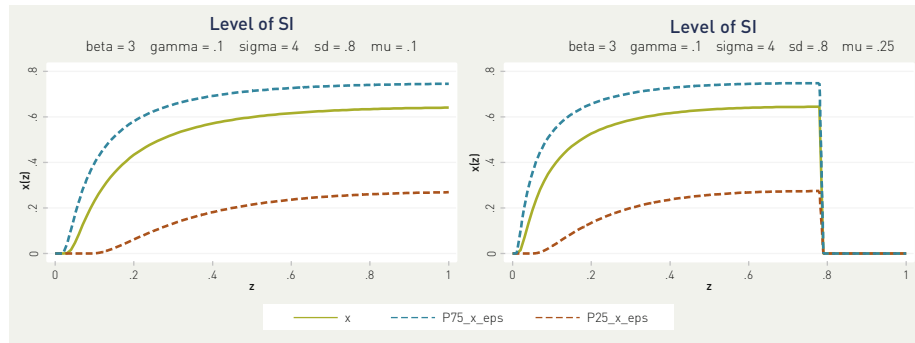
Bureaucratic burden  
negatively impact social  
innovation

The model also suggests that bureaucratic barriers have a negative impact on the scaling processes. This is illustrated in the figures below. The left-hand side shows the predicted level of social innovation (the continuous line) incorporating the model ingredients as described earlier and with a relatively lower value for the parameter representing bureaucratic/managerial burden. The right-hand side graph illustrates the relationship between the level of social innovation and number of bureaucratic barriers considering that all other variables are held constant. The dashed lines in both figures correspond to the 25<sup>th</sup> and 75<sup>th</sup> percentiles of social innovation level distribution when the uncertainty factor is added in the extended simulation model. This suggests that the bureaucratic burden can impact the level of social innovation pushing it toward «zero» (see the threshold value for number of users,  $z$ , on the xaxis; → Figure 1.1).

The results obtained by using the simulation model show that the larger the number of individuals who can benefit from social innovations tend to be, the higher would be the intrinsic utility of innovation. Potential innovators are drawn



into social innovation as the number of social innovation beneficiaries tend to increase. Social innovations may come to a halt when bureaucratic barriers outweigh the benefits entailed by social innovation beneficiaries (→ [Figure 1.2 below](#)).



**Figure 1.2**  
Bureaucratic burden  
& social innovation



# 2 TOWARDS A TYPOLOGY OF SOCIAL INNOVATION INITIATIVES

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## SECTION 2

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2.1 Components, Objectives and Principles | 2.2 Balancing Social Innovation Components, Objectives and Principles | 2.3 Balancing Social and Economic Objectives  
2.4 How Does the COP Framework Apply to the Requirements of the New Member States?

# 2

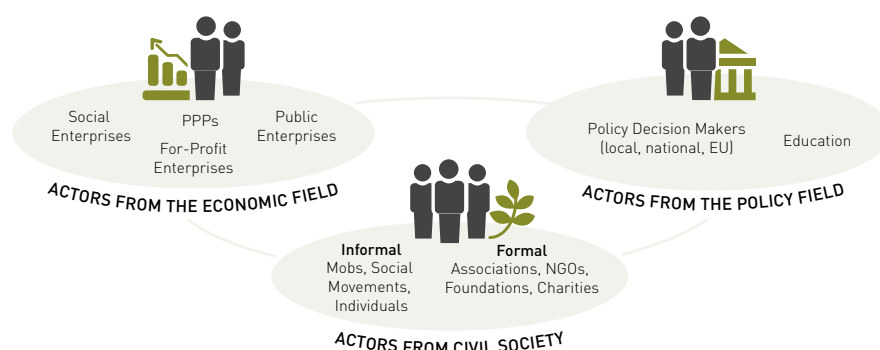
## TOWARDS A TYPOLOGY OF SOCIAL INNOVATION INITIATIVES

Social innovation is often criticised as a fuzzy concept. There are various definitions and understandings of social innovation with respect to the country and policy system within Europe – the regional focus of SIMPACT. In Anglo-Saxon countries for instance, social innovations are strongly associated with the shared economy and social enterprises which work independently from the state, whereas in the Northern and Western Europe the focus is on a strong commitment of civil society in strengthening the welfare system and common goods. In this context, SIMPACT concentrates on both the commitment of civil society to the market and to the welfare system and makes its contribution to advance the understanding of the economic dimension of social innovation.

### 2.1 Components, Objectives & Principles

The various understandings of social innovation result from different shapes of societal challenges, traditions in political cultures, motivations of civil society, complexity of the welfare system and all about division of labour between public policy, economy and civil society in different European countries. With reference to these varying factors, three key categories developed by analysing existing economic innovation studies are elaborated in order to create a method to evaluate the differences and similarities of social innovation in Europe: Components; Objectives; and Principles. This register is a stocktaking of elementary factors and helps in the understanding of the economic dimension of social innovation.

**Components** comprise actors and resources as active production factors and institutions as given context factors. As outlined below, actors from civil society, the economic field and policy field are key actors from economic perspective. Actors involved from civil society are grouped in informal actors implying social innovators and beneficiaries and formal actors implying supporters having a legal structure. Actors from the economic field facilitate social innovation in developing products and services and promote the social innovation initiative outside its core business (e.g. sponsoring). Whereas, actors from the policy field are representatives for defining and changing institutions as well supporting social innovation that demonstrate the potential to impact societal challenges as a whole.



**Figure 2.1**  
Actors from Civil Society,  
Economic & Policy Field

Basically, economic resources such as labour, capital and space are of utmost importance to implement the initial idea of a social innovator. Political and social resources emerge as equally important factors which comprises several rights and laws as well as social trust and relational capital. What we can learn from this enumeration is that no category stands on its own. Organisations seeking to design and implement SI combine economic, political, and personal or social resources.

ECONOMIC RESOURCES	POLITICAL RESOURCES	SOCIAL RESOURCES
<ul style="list-style-type: none"> <li>• Labour</li> <li>• Capital</li> <li>• Land/Space</li> <li>• Material</li> <li>• Knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Right to vote</li> <li>• Right to build coalitions &amp; associations</li> <li>• Social rights</li> <li>• Ideologies</li> </ul>	<ul style="list-style-type: none"> <li>• Trust</li> <li>• Education</li> <li>• Relational capital</li> </ul>

**Table 2.1**  
Economic, Political &  
Social Resources

Moreover, institutions pertain to the category of components and constitute a building block of social innovation. Political, welfare, social and economic institutions can be designed with the purpose of empowering social and economic actors as well as to foster the process of social innovation at the micro-, meso- and macro level. It is assumed that organisations are embedded in specific institutional contexts where actors' behaviour and interaction are shaped.

ECONOMIC INSTITUTIONS	POLITICAL INSTITUTIONS	SOCIAL INSTITUTIONS	WELFARE INSTITUTIONS
<ul style="list-style-type: none"> <li>• Market</li> <li>• Sectorial rules</li> <li>• Milieus</li> </ul>	<ul style="list-style-type: none"> <li>• General laws</li> <li>• Political cultures</li> <li>• Rules</li> </ul>	<ul style="list-style-type: none"> <li>• Cultures</li> <li>• Conventions</li> <li>• Traditions</li> <li>• Legitimacy</li> </ul>	<ul style="list-style-type: none"> <li>• Education system</li> <li>• Welfare system</li> <li>• Labour market system</li> </ul>

**Table 2.2**  
Economic, Political, Social &  
Welfare Institutions

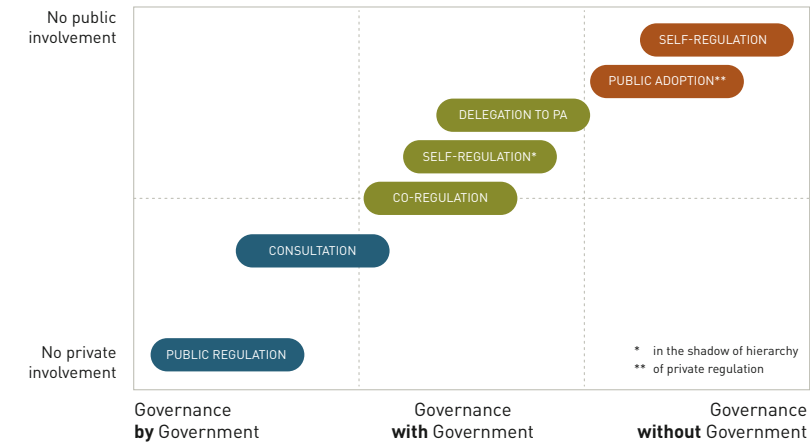
**Objectives** comprise goals and motivations of actors to engage in a social innovation, which could either be economical or socially driven or a combination of these. In general, consumers are driven by utility maximisation (e.g. quality of life), firms are directed by profit maximisation and governments are aiming welfare maximisation. It becomes obvious that economic actors mostly implement business strategies in order to sustain a competitive advantage, whereas social actors’ motivation can be assumed to base on commitment and cooperation.

**Table 2.3**  
Economic & Social  
Objectives

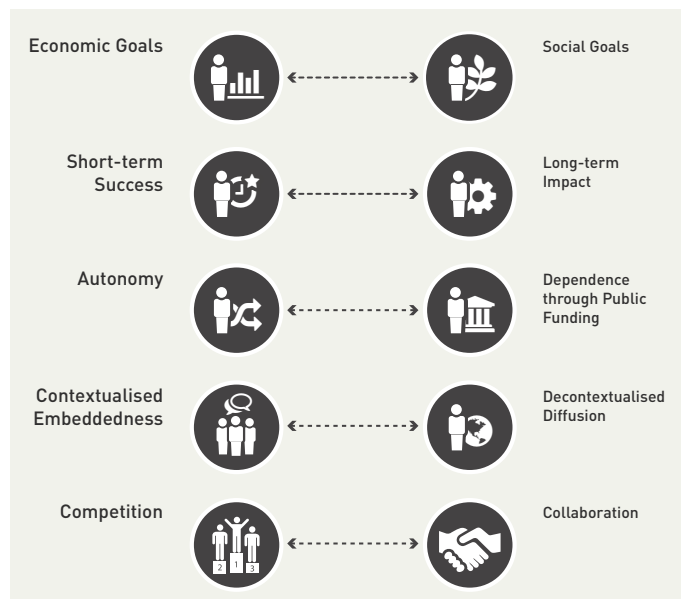
ECONOMIC OBJECTIVES		SOCIAL OBJECTIVES	
<ul style="list-style-type: none"><li>• Profit maximisation</li><li>• Pareto optimum</li><li>• Increasing Employability</li><li>• Cost reduction</li></ul>	<ul style="list-style-type: none"><li>• Welfare maximisation</li><li>• Inclusion</li><li>• Discharge of public budget</li><li>• Legitimation</li></ul>	<ul style="list-style-type: none"><li>• Empowerment</li><li>• Social cohesion</li><li>• Equity</li><li>• Solidarity</li><li>• Environmental</li></ul>	<ul style="list-style-type: none"><li>• Participation in Society</li><li>• Quality of life</li><li>• Social impact</li></ul>

**Principles** refer to concepts or strategies of efficient allocation of resources in reference to the underlying objectives (→ Figure 2.2) of the involved actors and modes of governance. At the organisational level this includes strategic aspects to be taken into account as well as rules of internal interaction (governance) on the micro-, meso-, and in terms of external interaction, at the macro-level. Modes of governance describe how decision-making, leadership and ownership are managed in SI, primarily at the micro- and meso-levels in which SIMPACT’s investigation is being conducted. SIMPACT’s aim is then to investigate (new) modes of governance at higher levels, related to policy-making, self-regulation and co-regulation of private and public actors as well as delegation of tasks to regulatory agencies.

**Figure 2.2**  
Distinct Modes of  
Governance



Productivity, profitability, innovation, and competitiveness are among the main economic objectives. Moreover, economic, social and political inputs and outputs need to be considered when measuring performance of innovations. So, different modes of resource allocation and value creation will determine the efficiency of innovations and in this case it is also true for social innovation. However, little experience is given so far what efficiency means in the context of social innovation. Therefore, we propose to describe the different ways to deal with trade-offs between objectives as dilemma approach (→ Figure 2.3). For instance, the dilemma approach concentrates on the contradictions between economic and social goals, short-term success and long-term sustainability as well as between competition and collaboration etc.



**Figure 2.3**  
Modes of Efficiency  
as Dilemma

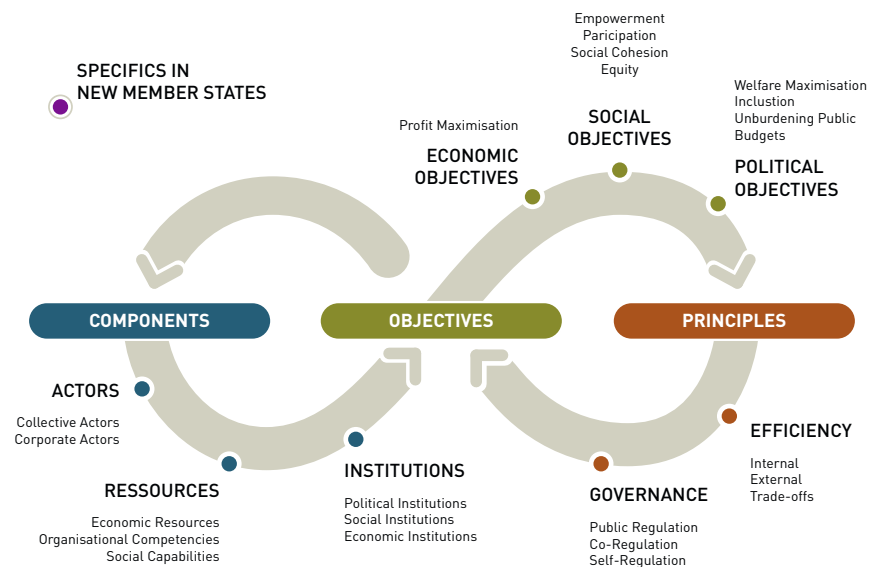
## Balancing Social Innovation Components, Objectives & Principles

## 2.2

In conclusion, the described factors become mutually dependent in the social innovation process and form a loop of components, objectives and principals in a theoretical model. The model anticipates that the interplay between each category/element/factor 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 embedded may fuel or hinder social innovation, while in turn – over the course of time – actors' innovations ideally result in institutional change. Moreover, SI actors' objectives are shaped by actor constellations and motivations on the one hand and available resources on the

other. Changing objectives might call for the involvement of new or distinct actors, whereas the allocation of resources to achieve the set of goals is closely related to modes of efficiency and governance.

**Figure 2.4**  
Balancing Components,  
Objectives & Principles



The following typology aims at positioning single social innovation activities in the overall context of social innovation by allocating them to the three societal levels (micro, meso, macro) and with respect to the balance between economic and social objectives. The first column describes actors at the micro level which initiate or actively support social innovations. There is a longstanding tradition of established business models for associations, cooperatives or mutual and fast growing social enterprises that have a specific legal form in several countries. The centre column concentrate on actors that balance economic and social objectives at the meso level including actors from policy field and social economy which traditionally are responsible for institutional change. Actors at the macro level comprise global economic and social influence in a geographical point of view and social change in a societal point of view, but independent of the locality.



	ACTORS WITH FOCUS ON THE MICRO-LEVEL (SINGLE IMPACT)	ACTORS WITH FOCUS ON THE MESO-LEVEL (INSTITUTIONAL CHANGE)	ACTORS WITH FOCUS ON THE MACRO-LEVEL (SOCIAL CHANGE)
FOCUS ON ECONOMIC OBJECTIVES	<ul style="list-style-type: none"> <li>• Selective use of specific competencies</li> <li>• CSR</li> <li>• Workplace innovators</li> </ul>	<ul style="list-style-type: none"> <li>• Business Associations,</li> <li>• Lobbyist</li> <li>• Regulative Boards</li> </ul>	<ul style="list-style-type: none"> <li>• Think tanks</li> <li>• OECD</li> <li>• IMF</li> </ul>
BALANCED ECONOMIC & SOCIAL OBJECTIVES	<ul style="list-style-type: none"> <li>• Social enterprises</li> <li>• Charities</li> <li>• Mutuels</li> <li>• Associations</li> <li>• Cooperatives</li> </ul>	<ul style="list-style-type: none"> <li>• Associations</li> <li>• Foundations with a specific focus</li> <li>• Policy</li> </ul>	<ul style="list-style-type: none"> <li>• Business Organisations</li> <li>• Central Office for Charitable Organisations ZEW</li> </ul>
FOCUS ON SOCIAL OBJECTIVES	<ul style="list-style-type: none"> <li>• Broad range of actors with hybrid business models</li> </ul>	<ul style="list-style-type: none"> <li>• Platforms</li> <li>• Fora</li> <li>• Imitation</li> <li>• Community building</li> </ul>	<ul style="list-style-type: none"> <li>• World Social Forum</li> <li>• NGOs</li> </ul>

**Table 2.4**  
Balancing Social &  
Economic Objectives at  
Micro, Meso &  
Macro Level

This table summarises the actors that showed to be driving forces in SIMPACTs case studies (→ [SECTION 0](#)) and which are constantly under pressure to sustainably balance economic and social objectives.

Traditional companies and companies initiated by individuals (e.g. user-driven companies) at the micro level have a clear focus on economic objectives, but there are recently also a growing number of companies which are interested in considering social objectives. Corporate social responsibility strategies, for example, recommend to make use of the very specific competencies of people (e.g. autistic people in software-development) and participative approaches in work place innovation. However, following this strategy several obstacles arise, e.g. that social objectives are not linked with the core business and are currently addressed by external foundations.

Micro level  
perspective on actors

At the meso level, traditional companies as well as companies from the social economy are organised in associations and foundations with a specific focus which are members of policy round-tables or networks in the related policy fields (health, youth, labour policy etc.), in regulation or expert boards. The involvement of hybrid social innovation actors (platforms, fora etc.) is less committed to a specific policy field, but is more heterogeneous in terms of its members and their organisational form.

Meso level  
perspective on actors

The **communication** at this level is informal, but creates successful mechanisms of cooperation: Interaction that leads to imitation and adaption in other regions; Platforms, and fora that result in community building. The analysed social innovation cases in SIMPACT give evidence that capacity building becomes more attractive for meso level actors.

**Capacity building** includes new cooperation models between different social services, combinations of information activities, strengthening of professional structure of public services, training for local government employees and training and coaching for teachers. Likewise, networking activities which pave the way for knowledge sharing, the combination of project and web platforms as well as community building are special features of examined social innovation cases. Program-innovation containing the introduction of the legal status for social enterprises makes a successful progress in several European countries at the meso level. Finally, implementation mechanisms aiming at the integration of inclusion policy and cluster policy such as the ESF-project support social innovation at the meso level.

Macro level  
perspective on actors

The specificities and influences of the macro level actors are not part of the SIMPACT project, but it seemed to be very useful to integrate some aspects of the global context in our analysis, e.g. the geographic scope and the macroeconomic shocks and trends.

## 2.3 Balancing Social & Economic Objectives

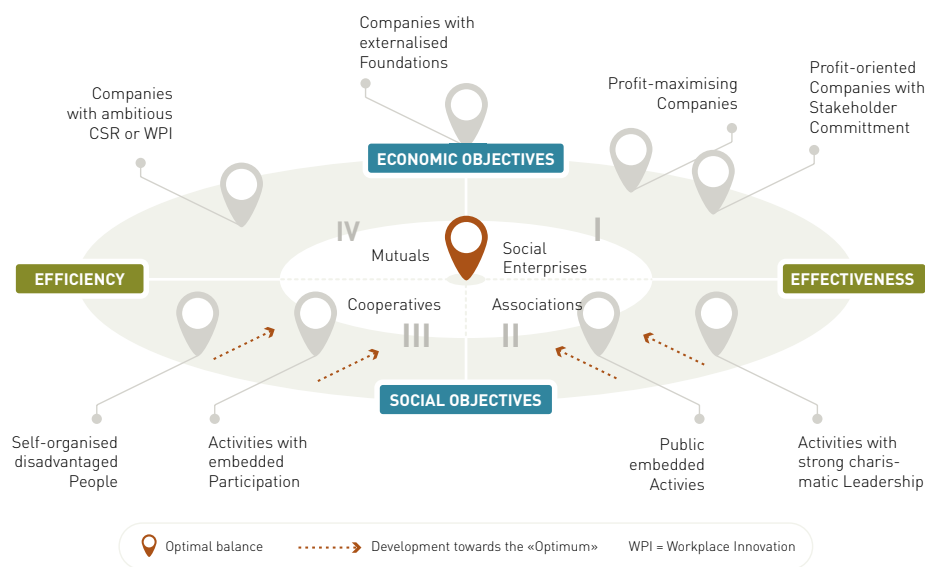
From single social  
innovation activities to  
institutional change

The approach of SIMPACT further concentrates on the transfer from micro to meso level under consideration of allocated actors. The question is on how to support the hybrid social innovation activities/cases (micro level) to a sustainable and effective balance between social and economic objectives in order to reform or change the institutional frame (meso level). Dealing with this question, we take into account the actors at the micro level as given units with distinctive objectives which could be combined or balanced in a divergent or sometimes contrasting way.

Opposite objectives &  
trade-offs as underlying  
rational

Figure 2.5 is structured along the dimensions of social and economic objectives on one hand, and efficiency and effectiveness (→ SECTION 1) on the other hand. Taking efficiency and effectiveness as two opposing poles does not pose them as two extremes on a continuum, but bases on the assumption that there is a trade-off of between efficiency and effectiveness in social innovation processes. SIMPACT's empirical findings show that the preference to reach both efficiency and effectivity result in, for example, bricolage attitudes (→ SECTION 3) which could endanger the survival of the organisation itself. In this vein, bricolage is a consequence of a dominant focus on results (effectiveness) and the need to acquire more and more resource instead of improving the process of balancing efficiency and effectivity. In contrast, especially in the case of self-organisations or organisation with a strong

involvement of beneficiaries, the process of participation and empowerment is dominating (efficiency) and the results are almost neglected. However, at best, effectiveness and efficiency constitute equilibrium. Moreover, the interplay of economic objectives and social objectives are traditionally characterised by a trade-off. The equilibrium in the centre of the coordination system also depicts a balance between economic and social objectives as well as locates important actors involved in social innovations at the micro level (→ Figure 2.5 & Table 2.4).



**Figure 2.5**  
Balancing Economic  
& Social Objective,  
Effectiveness & Efficiency

Analysing the paths of the four dimensions (efficiency, effectiveness, social and economic objectives), relating to four ideal quarter circles (I-IV). We argue that in general, traditional companies focus on economic objectives and little on efficiency or on a socially sustainable process, because cost cuttings and time saving dominates the business strategies of companies. These companies are mostly not interested in initiating social innovations. Nevertheless, it could be of high interest to raise their awareness for the economic potential resulting from engaging in social issues and in cooperating with social actors.

A priority for economic objectives and a strong focus on social aspects could be found in the area of economic-driven companies, namely social enterprises («economic-effective»). Moreover, CSR and workplace innovation are the most spread tools to integrate aspects of social efficiency, whereby efficiency is more than cost calculation («economic-efficient»).

The lower two quarter circle shapes, i.e., «efficient-social» and «effective-social» emphasise a strong focus on social objectives, for which cooperatives and associations are good examples. While cooperatives focus on output («social-

Profit-maximising  
Companies

Social Enterprises &  
Companies with CSR/WPI  
activities

Cooperatives &  
Associations

efficiency»), associations tend to emphasise outcomes («social-effectiveness»). Forasmuch, it is recommended to manage associations and cooperatives with a focus on social objectives towards a central balanced position including the aim of effectiveness and efficiency in order to reach long-term sustainability. This is particularly the case for self-organised groups of disadvantaged people, activities which engage the beneficiaries (i.e., embedded participation) as well as public embedded activities and activities with strong charismatic leadership.

This typology is a first step towards a deeper understanding of different types of social innovation. Further typologies need a broader empirical base than given in SIMPACT. Aiming at a more systematic view of economic underpinnings in further research should try to create a typology of social innovation activities, which indicates: 1) involvement of beneficiaries, 2) form of organisation, 3) thematic field, 4) scope of activities.

## 2.4 How Does the COP Framework Apply to the Requirements of the New Member States?

In the EU, characteristics associated with the social fabric of the New Member States (NMS) affect the economic underpinnings of the social innovation in terms of both supply of and demand for SIs in a complex manner. These characteristics stem from the historical background in Central and Eastern Europe, where the socio-economic influence of communism up until the end of 80s and transition to free market economy as of the start of 90s can be noted. Importantly, social welfare regimes in this region (which are not necessarily similar across NMSs) usually bear mixed characteristics of various classical welfare regimes, influencing the demand for social innovation, and social capital level are mostly different from that of Old Member States (OMS), influencing the supply of social innovation. Furthermore, access to financial resources being more limited, which even intensifies the reliance of those SIs based on social capital dimensions like volunteerism and altruism.

Moving from micro to meso level objectives

Referring to → Table 2.4 our case studies on social innovation initiatives across the NMSs has implied that within these countries, moving from the aim to address social objectives at the micro level to social objectives at the meso level (reforming the institutional frame for policy) is more feasible and more achievable to be able to move to a situation in which social and economic objectives are balanced. They still largely rely on EU funding, subsidies and grants and have a lack of (or ineffective) supportive legislation regarding social enterprises. When we want to move them from the socially driven objectives to a balance of social and economic objectives, the social initiatives simply fail as they cannot survive in the market (e.g. USE-REUSE, a social innovation case from Slovenia), except in that case they are lucky enough to find a market for their products / services in the OMS (e.g. LUDE, a social innovation case from Latvia) or in case they win grants provided

by the – mostly western – foundations (e.g. Artemisszió, social innovation case from Hungary). While we can already learn from cases like A-GIGA SIB in Czech Republic, Bars not Barriers from Croatia, Village Life from Romania and LUDE from Latvia that moving towards social objectives at the micro level to social objectives at the meso level (reforming the institutional frame) is being discussed intensively.

That is why the contextual specifics of these countries – notably access to financial resources, supportive framework conditions, evaluation culture – shape the dominant directions from micro to meso level within the framework of economic underpinning. That is, moving towards reforming the institutional frame, which due to the ongoing transformation of the welfare regimes in the NMSs is not a surprise. Nevertheless, it must be noted that welfare regimes, social capital characteristics and levels are quite different to define across the NMSs. Different levels of similarity to the patterns of social innovation behaviour in the OMSs apply to the NMSs. For instance, relatively higher level of overall social capital, social expenditure and also financial resources availability in the Central European countries – like the Czech Republic and Slovenia – can imply a better chance to move also towards a balance between social and economic objectives in these countries.

Transformation of the  
institutional frame

As in NMSs the evaluation of social innovation activities is an exception, the challenge of pushing social innovations towards more balanced economic objectives («social-effectiveness», → Figure 2.5) is less relevant, as the effectiveness itself is not much assessed and proved in the first place. Social innovation cases like Solve and Coagulate from Estonia and USE-REUSE from Slovenia are illustrative examples. While the effectiveness had not been assessed, efforts were focused on increasing their efficiency (improving the process in terms of taking more inputs – target individuals – to go through the system's process), and this way improving the presumed economic viability of the initiative.

Evaluation is an  
exception

Again, due to contextual specifics of these countries, some directions in the economic view are more dominant. In particular moving towards the «efficiency-economic» quarter circle is more common than a development in the direction of «economic-effectiveness», which due to the larger size of marginalized strata within the NMSs' societies, comes as no surprise. For these countries focusing on effectiveness is rather expensive and resource-intensive. But a distinction can be made between some of the NMSs – such as the Czech Republic and Slovenia – which have low inequality ratio (based on GINI index) in comparison to others, implying that the cost-effectiveness of translating social innovations to social investment programmes through upscaling would be more. This is due to the fact that in such countries, relatively lower size of marginalized social strata makes the investment on social innovations more cost-effective in terms of piloting actions for addressing social challenges of disadvantaged groups.

Dominant economic  
trajectories

### Impact assessment is at the rise

Nevertheless, a growing attention to the issue of impact assessment can be seen – based on the public sector's growing concern regarding the effectiveness of public embedded activities, and also based on more attention from the private funders to the evaluation aspect. This fact, which is not unrelated to the growing concerns about the rising costs of welfare state across the NMSs – like the rest of EU – means that, very likely, the economic-effectiveness of the SIs will increasingly attract attention of actors and institutions (components) of the SI ecosystem in these countries. The recent heightened attention of the Czech Ministry of Labour and Social Affairs to the evaluation of its SI support programme is a clear example of this trend.

#### Read more

- Moghadam Saman, S. & Kaderabkova, A. (2015): Social Innovation in New Member States. Part I – Theoretical Investigation on Economic Underpinnings. *SIMPACT Working Paper*, 2015(2). Gelsenkirchen: Institute for Work and Technology.
- Moghadam Saman, S. & Kaderabkova, A. (2015): Social Innovation in New Member States. Part II – Survey of Expert Panel. *SIMPACT Working Paper*, 2015(2). Gelsenkirchen: Institute for Work and Technology.
- Rehfeld, D., Terstriep, J., Welschhoff, J. & Alijani, S. (2015). *Comparative Report on Social Innovation Framework*. Deliverable D1.1 of the project «Boosting the Impact of Social Innovation in Europe through Economic Underpinnings» (SIMPACT), European Commission – 7th Framework Programme, Brussels: European Commission, DG Research and Innovation.
- Terstriep, J., Kleverbeck, M., Deserti, A. & Rizzo, F. (2015): *Comparative Report on Social Innovation across Europe*. Deliverable D3.2 of the project «Boosting the Impact of SI in Europe through Economic Underpinnings» (SIMPACT), European Commission – 7th Framework Programme, Brussels: European Commission, DG Research & Innovation.



# **TOWARDS SUSTAINABLE SOCIAL INNOVATION BUSINESS MODELS: COMBINING SOCIAL AND ECONOMIC ENDS**

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## **SECTION 3**

**3.1 Features of Social Innovation Business Models | 3.2 A Typology of Social Innovation Business Models | 3.2.1 SI Business Model I «Beneficiary as Actor» | 3.2.2 SI Business Model II «Beneficiary as Customer» | 3.2.3 SI Business Model III «Beneficiary as User» | 3.2.4 SI Business Model IV «Community Asset Based» | 3.3 Service Design Tools to build Sustainable SI Business Models | 3.4 Final remarks for the users of the toolbox**

# 3

## TOWARDS SUSTAINABLE SOCIAL INNOVATION BUSINESS MODELS: COMBINING SOCIAL AND ECONOMIC ENDS

Social innovations are characterised by business models that are driven by creating, delivering and capturing social value. They are structured as multi-actor models, crafting multiple value propositions for various target groups of users, beneficiaries and paying customers and rely heavily on vast networks of supporters to reduce costs. Due to resource limitations, most social innovations are run under a bricolage approach and are often created as frugal solutions. Social innovations' sustainability has to be implemented together with the solution. SIMPACT's toolbox supports the design of social innovations' sustainability.

What is a  
business model?

According to one of the most popular and broadest definitions, **a business model is the rationale that stands behind the capacity of an organisation to create, deliver and capture value.** It does so by converting choices about value propositions, markets and customers into value and accompanying those choices with an organisational structure that can then capture/monetize the value created. The core function of a business model is hence threefold: to create, deliver and capture value.

How to  
understand «value»?

As «value» is a fairly wide concept, we can combine social and economic ends and recognise that value is created not only when we have sheer economic results, but also when we produce other benefits. In this sense, the concept of a business model is applicable also to non-profits and third-sector organisations, and potentially even to public bodies. Nonetheless, its application introduces quite a few challenges as current knowledge has been largely built around the business sector and as quite a few dilemmas, contradictions and antagonistic features may arise when social and economic ends are put together.

Social innovations are presented as «alternative» and «responsible» models for creating and sustaining wealth, wellbeing and welfare in the context of economic



crisis, fiscal austerity and growing social demands (→ [SECTION 1](#)). Yet little is known about the micro and macroeconomic conditions that stimulate social innovations, their organisational design and business models as well as outcomes and impacts. Few studies have focused on the economic aspects of social innovation, and the existing business model frameworks are bound to for-profit businesses and do not address the specificities of social innovations, their origin, processes, multiple dimensions and boundaries.

Drawing evidence from a fairly large pool of case studies, narratives and biographies that have been conducted on the economic underpinnings of social innovation, we investigated the original characteristics of social innovation business models, uncovering the components, objectives and principles of social innovation (→ [SECTION 2](#)).

In our research, we used a process of **reverse engineering** – applying tools and processes meant to create new business ventures in the analysis of existing ones – to uncover the business models behind the cases. This approach has enabled us to identify the characteristics and dimensions of different business models and provide a typology of social innovation business models.

Reverse engineering  
means reconstructing a  
business model

## Features of Social Innovation Business Models

### 3.1

The main SIMPACT findings, resulting from the reverse engineering process, can be seen in the following distinguishing characteristics of SI business models. SI business models are:

- configured around finding complementarity between antagonistic assets and seemingly conflicting logics;
- often structured around a divergence in the allocation of cost, use and benefit leading to multiple value propositions;
- modelled on multi-actor/multi-sided business strategies;
- developed as frugal solutions and through actions of bricolage.

The large majority of the cases in our empirical research demonstrated a need to find sources of earned income and thus to create a business model in response to inputs coming from the external environment (i.e. fiscal austerity, a changing resource landscape, policy changes, etc.). Hybridity (i.e. creating a commercial offer from the social mission) is emerging as a consequence of a need for new sources of revenue. SI business models are in fact complex as they seek to create a system in which the transactions for economic and social value are complementary. Moreover, the hybridity of SIs is rooted in their use of antagonistic assets, or rather resource combinations that a priori make the commercialization or marketing of a product or service more difficult (e.g., employing the disadvantaged workforce). Hence, the challenge of SIs lies in finding a way to generate revenues and reach

Complementarity  
between antagonistic  
assets & logics

sustainability from the given assets, rather than acquiring the right resources to generate the most profit. **SI business models are thus constructed on the social mission and on finding complementarity to unlock the value stored in these untapped resources.**

Divergence in the allocation of cost, use & benefit

Secondly and contrary to other forms of innovation, SIs are often characterized by a divergence in allocation of cost, use and benefit. Where typically the subject who pays for the innovation, uses it and benefits from it, in SIs, this is often not the case as those who pay for it (welfare systems, donors, customers) may not use it and may not benefit from it (or at least not directly). Value propositions in social innovations thus target each in the aim of producing and capturing social and economic value: for beneficiaries (to produce social value and at times capture economic value), for customers (to provide social value and capture economic value) and for donors/funders (to provide/produce social value and gain financial support).

Multi-actor/multi-sided business strategies

SIs often have multiple customer targets and thus multiple value propositions, quite similar to multi-sided business models. Tailored value propositions for each customer segment are thus crafted with the intent of finding the best model to create, capture and deliver value. As in multi-sided businesses, value, however, is not necessarily captured/monetised from the direct use and benefit of the service by the end users. Instead, value is often captured through a derivative currency that drives the paying customer's core value proposition, which in cases like Facebook and Google is user attention. Likewise, in SIs, economic value is captured through a derivative currency, i.e. social value. Financial solutions like social bonds are in our perspective particularly interesting in this perspective, as they recognise and make use of this derivative currency. Unlike traditional business models, social value is created not only by satisfying customer demand but also in the process and delivery of value (e.g. what kind of resources are used, how they deliver their services, etc.). The case of work integration social enterprises (WISEs) is paradigmatic in showing this. Social value is the cornerstone of the value proposition for financing supporters (i.e. paying customers, donors, investors) and in-kind supporters (i.e. partners, volunteers, etc.). In other words, the social value is what allows the social innovation to create a unique offer and differentiate itself from its competitors. If, however, social and environmental values become mainstreamed, SIs will have to find ways to create competitive advantage to differentiate themselves on the market for features that go beyond the social mission. SI business models are also typically multi-actor, which is another feature that drives their complexity, as they create value for multiple targets and deliver value thanks to embedded networks of partners and supporters. Mission-driven organisations thus need to create win-win business models in which both the generation of social value and commercial value (or economic sustainability) are mutually relevant in order to be successful.

Scarcity of resources deeply affects the ways in which SIs take shape. The concept of **bricolage** well explains the attitude of social innovators – particularly in the early phases of developing new solutions – of making use of the resources and capacities that are at hand, refusing to be constrained by resource limitations.

Bricolage

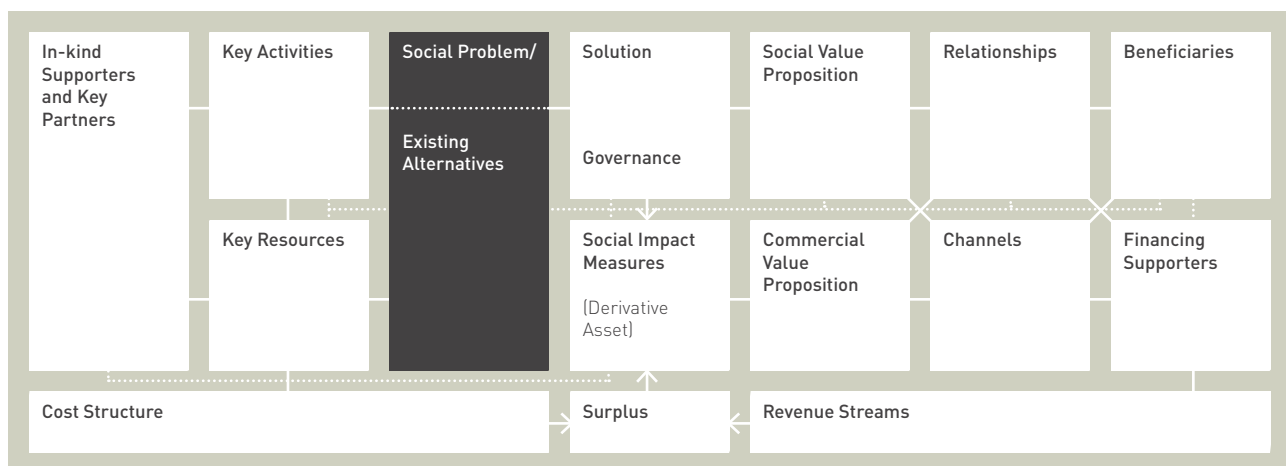
Social innovators look at their outcomes as concrete and meaningful responses to pressing social problems and are hence strongly motivated to deliver their services. In order to get the job done, they are in fact ready to overcome difficulties, gaps and lack of resources, even more than for profit businesses. While the **bricoleur** attitude of social innovators allows them to bootstrap and react quickly to changing environments, it does present some dangerous qualities as less attention is paid towards constructing a sustainability strategy in the long-term. Resources are often tied to the sacrifice of personal savings and time, third party altruism (donations, volunteers, use of community assets, etc.) or are time-limited (public funds, seed funds, etc.). Furthermore, in order to invest in their mission, social innovators tend to keep overhead costs low and eventual surplus is often invested in the social mission rather than on structural investments. These factors are in line with their organisational values but could also deter the SI from becoming stable, as investment in structural and enterprise development remains low.

## A Typology of Social Innovation Business Models

### 3.2

To interpret the economic aspects of the analysed cases, we proposed a modified version of Osterwalder and Pigneur's business model canvas (2010), combining it with Maurya's lean canvas (2012) to capture the core characteristics of social enterprises and hybrid organisations → **Figure 3.1**. The framework gives not only the opportunity to analyse existing organisations, but also to introduce a set of tools meant to support the construction of each «building block» of the business model. This provides social innovators with an effective implementation process to generate new solutions that combine social ends and economic sustainability.

**Figure 3.1**  
Adopted SI Business  
Model Canvas



#### Social value at the core

The SI business model canvas that we are proposing takes into account the results of our empirical research, and is centred on the creation of social value, which is produced on both sides of the canvas. We got to this configuration after analysing the very few already existing business model frameworks for social innovation and the variations of the original canvas by Osterwalder and Pigneur. We have added boxes to concentrate on the social problem that the innovator is facing, the found solution compared to existing alternatives and the governance structure that frames it. As most SIs present a divergence in allocation of cost, use and benefit and hence multiple value propositions, we separated the social value proposition from the commercial one as well as split the customer segment into beneficiaries and financing supporters (i.e. investors, funders, donors, paying customers, etc.). Lastly, we emphasized the role of in-kind supporters as key promoters and source of resources.

#### Balancing financial support & cost reduction

To be sustainable, social innovation business models have to find the right mix between acquiring financing supporters and reducing costs through in-kind supporters; both of whom are acquired through the «sale» of the social value generated. In other words, the supporters may gain intangible goods (e.g. linking their brand to the social values of the organisation) or tangible goods (e.g. the products or services offered by the organisation) or a mixture of both by supporting the organisation through donations or payments. On the one hand, financing supporters pay for the innovation, which allows the social innovation to capture value through direct monetization: fees, sales, grants, donations or investments. The state can also be a customer of SIs in exchange for more effective and efficient services for unsolved, and often pressing, social needs (i.e. public commissioning). In these SIs, state subsidies for commissioned services may form the entire revenue base of the organisation. In-kind supporters, on the other hand, work on the other side of the canvas, or rather on the delivery of the created value through in-kind donations: resources, labour, know-how, etc. which allow for cost reduction and more efficient and effective social value delivery. In-kind supporters are key to social innovations, allowing them to cut down on costs and leverage inputs to maximize social value. In-kind supporters also embed the solution in the local community, creating an enlarged activity, actor and resource network that goes beyond the borders of the organisation itself, accruing relational value that in turn allows them to better serve their mission.

In our research, we observed that most social innovations excelled in creating networks of in-kind supporters but not in creating a customer base and a suitable value proposition. Thus, the current challenge for mission-driven organisations is to understand how to monetize social value: a question that is framing the innovation need in social innovation business models today. It was also observed that as most social innovations are able to find sustainability thanks to heavy in-kind support, replicating and scaling these innovations could prove trickier as sustainability is based on the social capital, know-how and resources found in the local context.

In conclusion to our analysis, we have observed the below clusters of characteristics that lead towards typologies of SI business models. SIs that:

- Employ or engage the beneficiary in the production of commercial value;
- Sell at (often) subsidized prices goods/services to the beneficiary;
- Provide a service for beneficiaries that is completely financed by third parties;
- Engage the community in the creation of the solution.

It must be noted, however, that SIs can fall into more than one cluster and that the below typologies are meant to serve as initial observations for further study.

As producing social value is the key driver of SI Business Models, the beneficiary becomes the focal point upon which to identify what kind of business model it is: Is the beneficiary an active part of the solution? Is the beneficiary a paying customer? Is the beneficiary a user? Or is the beneficiary the community? In response to these questions we have outlined models that highlight the key features of each. Even though we're still using the term «beneficiary», in many cases the proactive role of individuals, groups and communities configure SIs as collaborative services where it is fairly difficult to still discuss about beneficiaries or target groups. This is pretty much in line with SIMPACT's initial assumptions, describing social innovation primarily as a process of involvement and empowerment of vulnerable people, as untapped resources that can be exploited.

Towards a typology of  
SI Business Models

## SI Business Model I «Beneficiary as Actor»

### 3.2.1

Social innovations that seek to empower the beneficiary often adopt what we have termed the Beneficiary as Actor SI Business Model. In these SIs the beneficiary is a part of the solution itself, taking part in the governance of the organisation and act as key resources. These types of SIs focus on providing beneficiaries with concrete tools that empower them to be more autonomous and independent. Prime examples of these types of SIs are WISEs and social cooperatives. In the latter, specific normative frameworks usually support the inclusion of disadvantaged people as part of the workforce.

An example from our SI business case studies can be seen (among others) in Progetto QUID that serves the needs of its beneficiaries through employment, giving them an active role in the delivery of the commercial value proposition. These models hence reach their social mission thanks to a successful identification of market demand, to which they add their social value.

**Box 3.1**  
Example of  
«Beneficiary as Actor»

### 3.2.2 SI Business Model II «Beneficiary as Customer»

Social innovations that instead of including beneficiaries in the solution target them as paying customers adopt the Beneficiary as Customer SI Business Model. In these social innovations, the beneficiary pays for the service or good at a below-market price. Services and goods can be offered at lower prices because part of the costs are covered through other income generating mechanisms, e.g. donations, sponsorships, additional services/goods at market prices or a bit above, etc.

**Box 3.2**  
Example of  
«Beneficiary as Customer»

Locality, for example, a network of community-led organisations promoting a «local by default» approach to community development, is able to offer its members consulting services at subsidized prices thanks to the input of donations, grants and public funding. Thus in these models the beneficiaries contribute as financing supporters, even if further support is often needed from third parties.

### 3.2.3 SI Business Model III «Beneficiary as User»

In the Beneficiary as User model, beneficiaries remain beneficiaries in its strictest sense. In other words, they purely benefit from the solution that is paid for by others. Unlike the previous examples, they do not act as customers or resources in the solution but instead as users who are provided a service free of cost.

These models, which in our research have proven to be the most fragile, depend entirely on the financing of supporters. While these models can be very effective for beneficiaries, unless they are able to find stable financial support, be it through a value proposition for paying customers or through guaranteed financial support, they will prove to be less economically viable. Unlike the Beneficiary as Actor Model, this model doesn't satisfy beneficiaries by working to address a market demand but are rather attempts to wield the market to support the marginalized: hence the solution remains more vulnerable to risks.

Another example of note of this typology are social innovations that substitute or complement public actors in providing services that, for any number of reasons, they are unable to provide themselves. Financial support is normally granted in exchange for services that solve social problems that would be difficult to solve else ways. As these mission-driven organisations are supported through public funds, the problem of establishing clear cost-benefit evaluations is more relevant than in other situations. These solutions must prove that public expenditure goes in the right direction, and their funding should take into account the costs and

benefits of alternative solutions, included the cost of doing nothing. However, due to fiscal austerity and consequent budget cuts, public resources are shrinking, which threatens the stability of these BMs. This too has fostered a progressive shift from fully grant-dependent models to partially self-sustained models. The economic downturn and the shrinking state are not only reducing public support to these kinds of businesses, but also creating unprecedented competition among non-profits for the same limited amount of available financial resources. This has in fact led to growing competition among non-profits, which has led others to adopt more entrepreneurial practices.

### SI Business Model IV «Community Asset Based»

#### 3.2.4

In the case of community asset-based social innovation business models, the beneficiary is the community at large. Citizens can contribute to community development by revitalizing community assets ranging from empty lots, to vacant or abandoned buildings, to recreation and green spaces.

Community asset-based social innovation business models tend to be complex as they combine a variety of factors that affect actors and networks coevolution. In certain contexts, actors are part of the solution and act as co-organizers and co-creators. In other contexts, actors interact with networks, contribute through in-kind donations and step in as users and paying customers.

The typologies of SI business models are primarily useful in identifying how SIs generate social value, but they also throw light on how they may become economically sustainable.

Locality, for example, a network of community-led organisations promoting a «local by default» approach to community development, is able to offer its members consulting services at subsidized prices thanks to the input of donations, grants and public funding. Thus in these models the beneficiaries contribute as financing supporters, even if further support is often needed from third parties.

**Box 3.3**  
Example of  
«Community Asset Based»

Table 3.1 provides a brief summary of different social innovation business models and the process through which social value is generated and sustained, providing examples from the SIMPACT collection of case studies.

**Table 3.1**  
SIMPACT case studies  
by social value generation

SI BUSINESS MODEL	DESCRIPTION	EXAMPLES
Beneficiary as Actor	Social value is generated through the active use of beneficiaries in the production of a commercial value proposition.	Broodfondsen; Catering Solidario; Aspire; Cooks without Homes; Dialogue Social Enterprise; Discovering Hands GuG; Coopaname; De Kringwinkel Antwerpen; Specialisterne; Place de Bleu; SMart
Beneficiary as Customer	Social value is generated through goods or services that are sold to beneficiaries at below market rates subsidized by financing supporters.	Locality; RODA; Action Acton; Snailday
Beneficiary as User	Social value is generated through goods or services that are delivered to beneficiaries through the support of financing supporters.	ROMA Kids; Beat Bullying; Crossics; Konnekttid; Vielfalter; Seniornett; SIEL Bleu
Community Asset	Social value is generated through the active use of all assets in the community to create mutual benefit supported by the actors themselves.	Libera Terra; DORV Zentrum; Urban Mediaspace Aarhus – Dokk1

3.3 Service Design Tools to build Sustainable SI Business Models

«Design Thinking» is about understanding customers' unmet needs and work with them to find the most desired solution

Design Thinking recently emerged as the most suitable methodological approach to sustain the development of SIs with particular reference to its growing adoption by intermediaries operating in this field. As social innovators are frequently not prepared to cope with the development of robust and economically sustainable solutions, the adoption of design tools (specifically service design tools) comes into play to help them set up, assess and refine solutions. Service design tools possess a set of features that make them particularly suitable to this purpose:



- they are frequently conceived within participatory design processes;
- their use does not call for relevant (economic) resources;
- they can be recombined and adapted to different development processes;
- they are (or seem) accessible to non-experts.

Within SIMPACT's framework, the construction of a business model is connected to the use of a set of tools meant to sustain the development of each of its building blocks.

The tools primarily come from the field of service design, and are integrated with business tools. Tools are specifically connected to the building blocks of the SI Business Model Canvas, and their use is meant to provide a clear answer to the core question that each block poses to the innovators. Unlike other toolboxes for SI, the business model canvas is not simply one of the tools that can be used to support the generation of innovative solutions or the improvement of existing ones, but also the interface to access the whole toolset.

Service design as point of reference

The assembly of the building blocks and the construction of an overall coherent business model is the core objective of the SIMPACT toolbox. With the adoption of this toolbox, some of the major shortcomings that we observed in the process of SI can be tackled and overcome.

SIMPACT's SI Business Toolbox

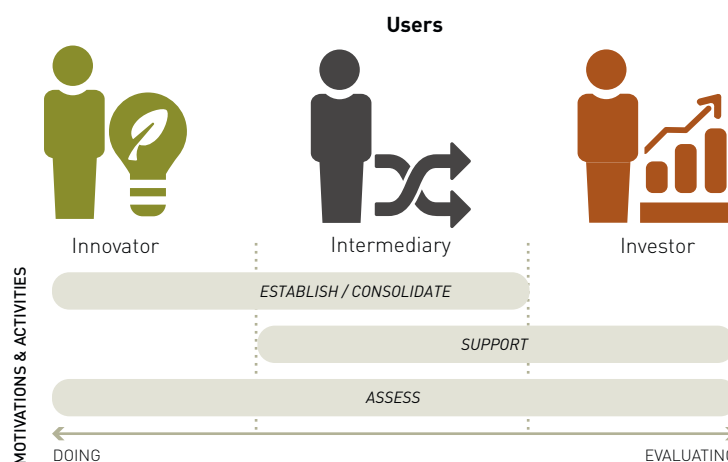
The sustainability of the SI can be implemented, assessed and refined together with the solution, rather than attached ex-post. In our framework, the solution and its business model are not conceived as two separate entities that will be subsequently brought together, but as pieces of the same overall picture.

SIMPACT's toolbox aims to support three main typologies of users (→ Figure 3.2):

Who is it for?

- Social Innovators: individuals or groups who have found solutions to the mounting social challenges facing our societies today.
- Intermediaries: organisations or experts who support the development of social innovations through consulting and incubation services and network facilitation;
- Investors: public institutions, organisations, banks, foundations who support the development of SI through funds, donations and investments.

**Figure 3.2**  
Toolbox User &  
Main Objectives



Innovators can use the toolbox to start and/or consolidate their SIs, and to self-assess their solutions: the value they can bring and the impact they can create. Intermediaries can use the toolbox to support the establishment of new solutions or the improvement and the assessment of existing ones.

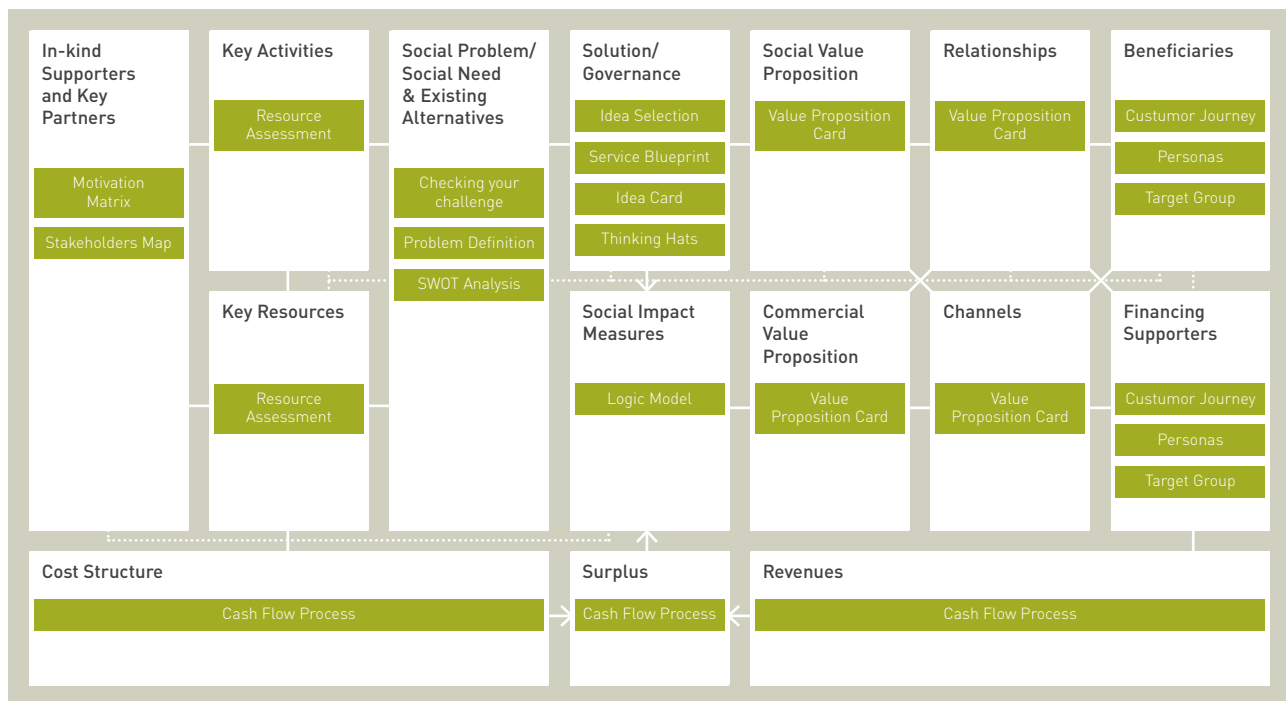
Investors can use the toolbox to assess the value of proposals (ex-ante assessment) and the impact of existing solutions (ex-post assessment).

The toolbox thus combines a twofold perspective: a generative one, where it supports the creation of innovations; and an analytical one, where it supports the assessment of existing solutions. In the second case the same tools meant to generate new solutions are used to analyse and assess the features of existing ones.

#### How is it organised?

The single tools have been selected with two core objectives in mind: (i) their effectiveness in providing an answer to the core question that each building block of the canvas business model raises; and (ii) the necessity to avoid resource-intensive processes. Below (→ [Figure 3.3](#)) is an overview of the tools sorted according to the adapted SI business model canvas (→ [Figure 3.1](#)).

**Figure 3.3**  
SIMPACT SI Business Toolbox  
Overview



The SI Business Toolbox is designed to facilitate developing and/or improving SI business models. That is why we have designed the toolbox within the framework of our social innovation business model canvas:

What is the process?

### 1. Preliminary Phase: Idea Drafting

A limited set of very simple and non-resource intensive tools, meant to support innovators in the idea drafting phase.

### 2. Development and Startup

A larger set of more complex tools, meant to provide intermediaries with instruments to support the development of social initiatives.

## Final Remarks for the Users of the Toolbox

### 3.4

The Business Toolbox was developed from the insights gained from the SIMPACT business case studies. What emerged from the case studies was that in social innovations, the target groups' problems and needs are well established instead of being latent, as in other forms of innovation. Social problems are often chronic yet the need to intervene may sometimes be urgent, as actors currently in charge may be incapable of producing an effective solution due to structural or cyclical

Social problems & needs are apparent

phenomena. This brings us back to the idea that SI primarily occupies a void left by both state and market failure. The recent migration crisis affecting the EU is just one of the many possible examples of such a situation.

#### Focus on the beneficiary

Furthermore, users of the SI Business Toolbox should adopt a «user centred» approach, focusing on the end beneficiary. Proper adoption of this approach may in fact retire the term «beneficiary» as they become more and more involved in the creation and provision of the service itself. Toolbox users would do well to keep in mind that SI Business models are driven by the creation of social value and the modes through which this is generated; economic sustainability is built around this and ideally in conjunction. As we saw above, social value can be generated both in the delivery and the creation of value. The majority of SIs in the SIMPACT collection have adopted a Beneficiary as Actor Model, integrating vulnerable as key resources in the solution itself. Once again, we can see here that while benefitting from the employment, the «beneficiaries» are actually employed in the provision of the service or the production of the goods. It is possible that in the attempts to retire the word «beneficiary» by activating the target group, more and more solutions will be created that take advantage of possible synergies. There is plenty of room for creativity to be used in coming up with more SIs in the other modes of producing social value, particularly engaging beneficiaries as customers or in managing a community asset, where the full potential empowerment and asset activation can be found.

#### Tackling unmet needs under resource scarcity

Lastly, while other forms of innovation are not only exploring needs, but also proactively building them to create space for new value propositions and business opportunities, this is not the case in SI. The point then is not to capture emerging needs as the ideal models of SI suggest, but rather understanding how clearly visible, long-standing and unmet needs can be tackled within a frame of resource scarcity.

In our toolbox we thus propose to replace the exploration of needs with the exploration of constraints, to come out with unprecedented but effective solutions, also through the use of creativity in convergent thinking.

# A CONDUCTIVE ENVIRONMENT FOR SOCIAL INNOVATION

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## SECTION 4

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**4.1 Regional Social Innovation Ecosystems** | 4.1.1 Conditions to establish Regional Social Ecosystems  
4.1.2 Preliminary Considerations | 4.1.3 Context – Actor Constellation | 4.1.4 Regional Vulnerabilities  
4.1.5 Interactions between and beyond the Subsystems | 4.1.6 Intermediaries as «Gatekeepers»

**4.2 Interplay of Welfare Regimes, Political Economy & Social Innovation**

4.2.1 Political Economy & Welfare Regimes | 4.2.2 Welfare Regimes & Social Innovation

# 4

## A CONDUCTIVE ENVIRONMENT FOR SOCIAL INNOVATION

For social innovations to flourish an inspiring environment that provides support and enables mutual learning is essential. In due consideration of social innovations' local embeddedness, the region is a promising space to design such Social Innovation Ecosystem.

Networks as bridging & bonding measure

Social innovation activities are locally embedded, they are characterised by bricolage and improvisation, they have to deal with resource scarcity, they aim at great outputs with limited inputs (hyper-efficiency), and they often miss professional processes (→ SECTION 3). To overcome these strategic and operational shortcomings, networking and collaboration emerge as a common pattern in social innovation.

**Figure 4.1**  
«Tausche Bildung für Wohnen» - extended network



Figure 4.1 illustrates the extended network of the social innovation initiative «Tausche Bildung für Wohnen» (Exchange Education for Living) in Duisburg, Germany. It entails a small operative inner core, i.e. the initiative itself and the board of trustees, several supporters such as schools and research institutes, and a broad range of promoters including providers of resources (e.g., knowledge, financial resources, technical support, urban facilities, promotion and marketing, etc.).

Although the composition of such networks varies largely across social innovations, trust, reciprocity and social capital are common characteristics. They often develop through a combination of chance and investments in the search of appropriate partners. Moreover, it appears that network ties are local and regional rather than national or international. Forasmuch, in support of social innovation the region looks like a promising space for action. This raises the question whether and how to establish a Regional Social Innovation Ecosystem that provides a reliable and sustainable frame for different social innovation activities.

Social innovation  
networks – common  
characteristics

## Regional Social Innovation Ecosystems

### 4.1

While research on regional innovation systems is well-established in economics and innovation research, the idea of regional social innovation is rather new. A major difference between **Regional (economic) Innovation Systems** on the one hand and **Regional Social Innovation Ecosystems** on the other hand is the region as point of reference: Silicon Valley, Third Italy, and Baden-Württemberg functioned as «holy trinity» of regional innovation studies. In the course of the following years a lot of regional case studies with further good practices (Eindhoven, Tampere, Grenoble etc.) signified the value of regional innovation systems. Social innovation lacks such commonly accepted reference points.

An «**Ecosystem**» is a system of interconnected individuals (actors) and organisations formed by relations, interactions and structures between them.

Forasmuch, SIMPACT's social innovation case studies have been taken as starting point for elaborating a framework for regional social innovation systems, while accounting for what can be learned from economic regional innovation systems. From an analytical perspective such framework is necessary to allow comparing the conditions for social innovation across distinct institutional contexts, i.e. various regions. In strategic terms a regional social innovation system provides orientation of what could be done to establish a fertile environment in support of social innovation activities.

Analytic & strategic  
dimension

### Conditions to establish Regional Social Innovation Ecosystems

#### 4.1.1

According to our empirical results a well-established regional social innovation system has to meet four requirements:

1. Provision of an open and enabling environment that functions as seedbed for a broad range of distinct social innovation activities and that is open for change.
2. Supporters and promoters facilitating social innovation activities and help ensuring a fertile balance between economic and social objectives are present.
3. The ecosystem is equipped with regional governance capacity that makes use of social innovation in a broader frame of problem solving and future shaping of integrated regional projects such as smart, sustainable or healthy city.
4. It incorporates local/regional nodes and pipelines beyond the region that allow for an accelerated circulation of knowledge and linking knowledge in the system with the external environment, especially with the related policy fields and its institutions.

#### 4.1.2 Preliminary Considerations

Societal conditions as constituting element

In elaborating a Regional Social Innovation Ecosystem, one needs to account for the more general differences between social and economic innovation (→ SECTION 1). Although not neglecting regional lead markets as an important innovation driver, economic innovations mostly target global markets, whereas social innovators are not generally interested in spreading their idea beyond the actual context. In addition, social innovative solutions are often co-created with the beneficiaries and as such are locally embedded. Consequently, the societal conditions of a region (including the challenges it faces), i.e. **regional vulnerability**, builds a core element of the Regional Social Innovation Ecosystem.

Regional vulnerability

In this context, the regional vulnerability covers the living conditions and the capacities of disadvantaged populations to overcome their constraint situation. In a broader sense, vulnerability refers to an inadequate response to potentially high-impact problems (social, economic, environmental, institutional). Hence, vulnerabilities are potential drivers of social innovation in a specific institutional context. Forasmuch, regional vulnerability is closely linked to institutional change (→ SECTION 1) at the regional level. Accounting for the above the proposed regional social innovation system builds on the interplay of two main pillars: the **challenges** driving social innovation (i.e. regional vulnerability) and the **context** of social innovation activities.

The interplay of context & regional vulnerabilities

The context of social innovation activities entails social innovators and the enabling and supporting environment (e.g. supporter, promoter, intermediaries; → SECTION 2). The challenges driving social innovation are structured by the social situation with respect to the vulnerability of the region. Mechanisms and instruments (e.g. governance, co-creation) define the interplay between regional challenges and the context of social innovation.



Distinguishing «challenges» from «context» is crucial: At a first glance, one could assume that the higher the degree of regional vulnerability, the higher is probability of unsolved problems and posing challenges, and the higher is the likelihood of social innovations to emerge. Accounting for the preconditions for socially innovative activities (e.g. inventive capacities, social capital, engagement, awareness), this impact chain, however, is not an automatism. On the contrary, regional vulnerabilities question the compliance with the conditions necessary to facilitate social innovation. Finally, it has to be considered that regional ecosystems are linked with and shaped by the external environment in different ways and to different degrees. **Figure 4.2** presents the key elements, framework conditions and processes of a Regional Social Innovation Ecosystem.



**Figure 4.2**  
Regional Social  
Innovation System

## Context – Actor Constellation

### 4.1.3

The inner circle covers the context of social innovation that bases on a civil society characterised by a culture of responsibility and solidarity. It centres on the drivers of the social innovation activities, the **social innovator**. The group of innovators is heterogeneous including but not limited to social entrepreneurs, interest groups, cooperatives, coordinators of publicly funded initiatives, affected individuals or groups, and individuals sensitive to socio-economic problems.

Social innovators bring together ideas, resources, instruments for finding practical solutions to socio-economic problems.

#### Supporters & Promoters

**Supporters** are crucially important for the implementation of socially innovative activities. Teachers, social workers, volunteers that provide knowledge, financiers and suppliers of further resources, researchers or consultancies who help to work out project schemes and applications for funding, or legal advice are examples for promoting actors. **Promoters** comprising public and private as well as non-profit organisations, in particular foundations, become important when the activity grows and spreads (→ SECTION 5).

Two groups of actors are of special importance: Actors from public policy function both as promoters and supporters of social innovation. Their key function, however, is to secure legitimacy and to include social innovation actors into the regional networks and governance systems.

Actors from the local or regional departments of the social welfare system are important as they are the implementing unit. On the one hand they hold the power to obstruct social innovation activities, while on the other hand they dispose leeway for interpretation in favour of social innovation.

### 4.1.4 Regional Vulnerabilities

The outer circle focuses on regional vulnerabilities and their interplay, rather than on singular problems as the challenges regions are facing multifaceted and interrelated, and responding social innovations pursue multiple objectives. For example, the integration of unemployed in the labour market is much more promising when it goes hand in hand with workplace innovation including alternative employment opportunities.

### 4.1.5 Interactions between and beyond the Subsystems

So far the conceptualisation of the Regional Social Innovation Ecosystem has been conceptualised on basis of actors, their environment and the related problem constellation (vulnerability). But an ecosystem means more, it is about learning and capacity building, about change and improvement. Covering various aspects, interactions are, therefore, crucial for the development of the ecosystem.

#### Interactions between innovators and target groups

First of all, it is about the interaction between social innovation actors and beneficiaries. Compared to service innovation the development of new solutions to social problems to a larger degree necessitates the active involvement of the beneficiaries/users, as social needs are best perceived by the citizens affect by the problem being address. Moreover, beneficiaries' specific expectations, the innovation-relevant knowledge they own, as well as their acceptance and use of the new solution strongly supports this argument.

Second, interaction is about linking social innovation activities and the social situation; it is about designing social innovation in a strategic way. Being governed by formal and informal institutions, as pointed out in greater detail in (→ [SECTION 2](#)), the range of actors and the modes of interaction are much more complex than in the economic field that is governed by the market.

Interactions at the intersection of innovation activities and social situation

Third, interaction is about capacity building. Social innovation activities initially emerge as isolated activities, but they only can unfold their potential when they become part of a broader local or regional strategy to improve citizens' quality of life. Such strategies need new modes of participation and cooperation at the political level. To this end, interaction is about policy innovation (→ [SECTION 6](#)).

Interactions as capacity building mechanism

Despite of the strong local embeddedness of social innovation activities the local is always linked with the global context. Social innovation actors often build fora and platforms, and interact with the European as well as the global social innovation community. With a few exceptions, laws and regulations in the policy fields (e.g., employment, education, environment, energy policies) and welfare regimes are defined at European and national level. They limit, hinder or give leeway for experimentation and innovation at the regional level.

Interactions with the external environment

## Intermediaries as «Gatekeepers»

### 4.1.6

Having a facilitating and «bridging» role, intermediaries are crucial social innovation actors. Being located at the intersection of distinct social innovation actors, intermediaries as gatekeepers enable and secure an open flow of knowledge within the region and with the external environment, i.e. intermediaries as «knowledge broker». In that sense, intermediaries also have the potential to bridge inequalities by helping beneficiaries to become aware and gain access to socially innovative solutions.

Finally, they ideally connect the local and the global field of social innovation and function as «idea broker» by connecting distinct socially inventive ideas. Intermediaries can be established physically in form of social innovation labs, research institutes, special interest organisations or start-up centres. They can be virtual, for example, fora, social networks, communities, or exchange platforms. Equally important, they can take a temporary form such as summer schools, conferences, workshops, or fairs. What these distinct manifestations have in common is that they link social innovation actors and contribute to a broad and open use of locally produced knowledge enriched by inflows of external knowledge and ideas.

## 4.2 Interplay of Welfare Regimes, Political Economy & Social Innovation

Social innovation ecosystems are majorly focused on the improvement of welfare and quality of life conditions of social groups, communities, individuals and citizens. The macroeconomic environments of states and the management of their social, economic, cultural and political resources affect not only the type of welfare regime, but also the extent to which populations exposed to the risk of vulnerability or the benefit of social protection. Being subject to continuous change, the dynamics of welfare regimes are most pronounced in EU New Member States (NMS). Forasmuch, the interplay of welfare regimes, political economy and social innovation is exemplified for NMS in the following.

### 4.2.1 Political Economy & Welfare Regimes

The states' **political economy** is eager to understand how the welfare regime manages and covers social policy needs (Moghadam Saman & Kaderabkova, 2015: 9). According to Gamble (1995: 3): «**Central to political economy has always been the appraisal of politico-economic systems and analysis of their relative advantages and disadvantages, and recommendation of the most appropriate institutions and structures for the development of policy goals, in particular in relation to welfare, distribution, prosperity and growth**».

Regulations, welfare regimes  
& social innovation

Regulations and legislations in key policy fields are on the one hand embedded in a welfare regime affecting national approaches to social innovations, and thus, hinder or limit the capacity of regions to experiment and implement social innovations. On the other hand, the rates of populations' vulnerability depend on the strength and capacities of Welfare regimes to tackle social problems through public policies and through the management of their political economy.

Welfare Regimes

The degree of de-commodification, i.e. the extension of social rights that are independent of market mechanisms, the system of stratification, and the relation between the state and market, result the different degrees of social protection, inequalities, poverty, and social exclusion of populations which can also have a major impact at the regional level. According to Esping Andersen (1990), «Liberal Welfare States» would be less supportive of public social policies, whereas «Social-democratic Welfare States» would rely on social classes as a major agent of change, that is to say, as a powering balance between different political and economic forces within nations.

Governance Capacities  
as limiting factor

Governance capacities in different policy fields to respond to the many socio-economic challenges heavily depend on welfare regimes and influence the social innovation ecosystem. For example, welfare regimes in NMS (EU-8) have in common that corporate and personal income tax rates are considerably lower

compared to EU-15 resulting in lower tax income for the welfare state. Hence, not surprisingly one finds distinct and more socially vulnerable segments in these societies which have to be dealt with at different levels.

In Europe, a broad range of welfare regimes exist. In Western Europe we find more classical, established types of welfare regimes (e.g. Liberal, Anglo-Saxon, Scandinavian model). Welfare systems in the Baltic countries resemble «Minimalist Welfare Regimes», whereas the South Eastern European countries have been characterized as showing specifics of (so-called) «Familistic Welfare Regimes», and Central European countries as bearing a mixture of liberal, corporatist and universalistic elements in their welfare regimes. These differences are also reflected in the countries' social expenditure. Central European countries such as Hungary, Slovenia and Czech Republic, for example, have highest social expenditure as percentage of GDP among the NMS, this also has implications for their social innovation ecosystem.

Multiplicity of welfare regimes across Europe

## Welfare Regimes & Social Innovation

### 4.2.2

In fact, the more universalistic a welfare regime tends to be and the higher the social expenditure in the country is, the higher is likelihood that at least the basic needs of the vulnerable groups in the society will be met. Based on this, social innovations in these societies can – and tend to – focus more on «empowerment» of vulnerable groups than focusing on meeting their basic needs.

Universalistic welfare regimes impact on social innovation

A further implication from the welfare regimes across the NMS is related to the extent the social innovations can expect support from the public sector. Indeed, the governance models associated with each welfare regime gives an indication of the degree to which sharing the power and adopting participatory approach can emerge within the social policy fields. One can conclude that the more universalistic a welfare regime tends to be (e.g. Czech Republic or Slovenia), the more pronounced are the perceived – or predicted – challenges welfare states are facing due to, for example, ageing population, and the greater the willingness to seek and incorporate alternative solutions to the social challenges.

Welfare regimes & expected public support

In close connection to the above, the level **social capital** appears to impact the pervasiveness, quality and sustainability of social innovations in NMS. Empirical analyses have indicated that higher levels of social spending by the state leads to higher levels of social trust (social capital), which in turn facilitates a smooth formation and operation of social innovation networks (Moghadam Saman & Kaderabkova, 2015). Forasmuch, the public sector in NMSs has to understand that investments in social innovation are an opportunity for triggering a virtuous circle of improving the level of social capital in the society resulting in enhanced conditions for cultivating a more conducive ecosystem for sustainable social innovations. In addition, social innovations are to be viewed as social

Impact of social capital on social innovation

experimentation helping to learn «what works» as regards the transition from an existing welfare system to a potentially more efficient and effective one. An argument that is reinforced by the fact that share of social expenditure in the GDP increases due to the economic growth taking place currently in many NMS. In addition, the higher level of trust in local governments compared to central governments within the NMS shall be exploited as an enabling factor for local ecosystems of social innovation, which through the process of scaling out/up (→ SECTION 5) can lead to bottom-up process of institutional change.

Path dependence as determining factor

Path dependency of national welfare states and their influence on the sociocultural and historical context of the respective regions are another important condition in the definition of a social innovation ecosystem. When the state and the region fail to manage policy and economic resources in the right direction or are exposed to external market and/or political failures, local policymakers, social innovators, activists and social entrepreneurs become important actors/agents of change. The interactions between the macro-meso (state-region) and micro segments of the population (local policy, social innovators, social entrepreneurs, civil society, etc.) at different levels define the social innovation ecosystem. The openness towards bottom-up participative approaches influences policy and the management of resources inside the political economy of countries is crucial when trying to identify and improve policy failures inside welfare states. In this context, a more open approach towards the conception of social innovation ecosystems has to be considered in future research (→ Box 4.1).

**Box 4.1**  
Open and Social Innovation –  
a merged approach to Social  
Innovation Ecosystems

Organisations are complex entities that have to adapt to local and global environments in which they are embedded and in which they operate. This in turn, increased organisations' needs to be more open and receptive to their context since it affects the way in which they organise their work, their internal and external resources, and their connections with other parties (institutions, stakeholders, firms, etc.). This perspective has been well described by the **open innovation paradigm**, giving significant credit to the use of internal and external ideas and paths inside the markets where they operate when they are seeking to innovate in their products and processes.

A social innovation ecosystem must do the same. Social enterprises, social innovators, foundations, cooperatives, etc., must stay organisationally open to the challenging social conditions of the context in which they operate in order to adequately respond to its' social demands in an innovative way. Their capacity to acquire

and absorb internal and external knowledge, ideas and expertise about the problems they are seeking to solve, has to take notice of the institutional and market failures that the welfare regime is not capable of answering. Moreover, the exploitation of funding and market opportunities for the development of socially innovative initiatives, as well as harnessing social capital and political influence are key factors that make a significant difference. This is particularly true as regards the possible scalability of social innovations into wider contexts: social innovations that were designed in response to specific and localised social problems, might not work in other contexts (welfare models) where these needs are well covered or non-existent.

An open perspective to social innovation has to account for these factors. Sustainable solutions to different social problems do not happen only through social entrepreneurial activities, but also in a greater compromise with «the social» through the involvement of different organisations and the establishment of new alliances between companies, the public sector, non-profit organisations, universities, etc. Forasmuch, we are witnessing a shift in the agency of social innovation, being that social innovation is not necessarily dependant on philanthropic donations or individual actions but in heterogenic network of organisations that are capable of assuming new roles and new means to social problem solving.

The concept of Open Social Innovation has been valuable in understanding the importance of these changes. As described by Chesbrough and Di Minin (2014: ) **Open Social Innovation** refers to the «*the application of either inbound or outbound open innovation strategies, along with innovations in the associated business model of the organisation, to social challenges*». Although not all the actors, agents and institutions present in the context of social innovation have a business model or a market oriented approach to the design of social innovations, a Regional Social Innovation Ecosystem has to acknowledge the importance of applying open innovation practices to not only increase the flow of knowledge, but also to enhance social innovations' effectiveness.

#### Read more

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# SPREAD & DIFFUSION OF SI – MOVING FROM MICRO TO MESO LEVEL

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## SECTION 5

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**5.1 Strategies to Spread & Diffuse Social Innovation** | 5.1.1 Preliminary Consideration

5.1.2 Closed Scaling Up | 5.1.3 Open Scaling Up | 5.1.4 Scaling Out

**5.2 Drivers and Barriers for Spread and Diffusion** | 5.2.1 Viable Financing Models

5.2.2 Intangible Obstacles – Capacities & Skills | 5.2.3 Contextual Factors effecting Scaling Activities

**5.3 Scaling as Mechanism to bridge Micro and Meso Level** | **5.4 Concluding Remarks**

# 5

## SPREAD & DIFFUSION OF SI – MOVING FROM MICRO TO MESO LEVEL

A broad range of exogenous and endogenous factors shape social innovations' trajectories as well as the instruments favouring their spread and diffusion. Moving from isolated initiatives with local impact to broader societal impact, i.e. bridging micro and meso level of social innovation is crucial to achieve institutional change. Such processes are assumed to facilitate the utility of social innovation actors (initiators, firms, policymakers, beneficiaries) as well as the social and economic impact at large.

### 5.1 Strategies to Spread & Diffuse Social Innovation

Accelerating the impact of social innovations is a complex, open and participatory process. It goes beyond simply diffusing or spreading a product, service and model, and necessarily involves bridging micro and meso levels to achieve institutional change (→ [SECTION 1](#)). Practically reflecting our theoretical considerations by means of small-scale stakeholder experiments unveiled several drivers (e.g., actors' motivation, network or communication infrastructure) and barriers (e.g., lack of knowledge and capacity, resource scarcity).

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**« Scaling refers to the most effective and efficient way to increase social innovations social and economic impact based on the operational model applied. »**

Source: Adopted from Weber, Kröger & Demirtas (2015)

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In response to the identified challenges, scaling up and out mechanisms reflect the need to efficiently solve a social problem with the need of appropriate local conditions in which the social innovations can take place, i.e., a social innovation ecosystem (→ [SECTION 2](#)). While both mechanisms strive to accelerate the impact of social innovation, their strategies to achieve this goal vary largely, notably as regards organisational issues and necessary actions. Elsewhere research has emphasised the potential of many social innovation «pilots» to be replicated at national or global scale. In the same vein, SIMPACT's findings indicate that the transfer and adoption of socially innovative ideas is an essential instrument for scaling impact. This is why scaling out mechanisms gain in importance.

Scaling up &  
scaling out

As we can draw from our empirical research (including 60 cases studies) scaling up and scaling out mechanisms are seldom used at the micro level (single actor/organisation/initiative), but are more likely to be applied at the meso level, where pools of actors from distinct sectors collaborate in strong networks characterised by trust, knowledge exchange and financial security.

Scaling mechanisms'  
levels of application

## Preliminary Consideration

### 5.1.1

When considering scaling social and economic impact, several aspects specific to social innovations have to be taken into account: First, it is important to acknowledge that social innovation is often contingent and highly context sensitive. Due to differences in social, economic, legal, and cultural frameworks the need to adapt solutions to its context may prevent the innovation from being easily scaled. Forasmuch, variations of the same solution implemented by different actors emerge more often than replication led by the initial actor. Also, in many cases solidarity emerges as an important relational asset affecting the establishment and scaling up (out) of social innovations. In its simpler manifestation, solidarity can be interpreted as a feeling of unity between people based on similar interests, objectives, cultures and values.

Contingency &  
context sensitivity

Second, a significant gap in the financial support for testing and incubating social innovations exists. Likewise, the availability of structural reliable resources and long-term funding in support of scaling are limited. This concerns to equally structural investment plans at the European, national and regional levels, banks' credit lines and finance instruments, as well as long-term investments from private financial systems. Besides, competition for funding among social innovation initiatives exacerbates this situation.

Financial viability

Fourth, given its explicit social nature, social innovators often do neither aim at scaling their solution, nor growing their organisation, but rather choose to remain small. It also appears that the decision to scale the solution/idea and grow the organisation strongly depends on simultaneously achieving adequate levels of productivity, profitability, and competitiveness. With reference to the COP model










Social innovators'  
decisions towards  
scaling

(→ SECTION 2). and considering, for example, the trade-offs between social and economic objectives and the multiplicity of involved actors, this is difficult to achieve.

Legitimacy

Finally, emerging outside established institutions, challenging established rules and norms, and mingling distinct institutional logics and modes of action, social innovations may lack public legitimacy which in turn hinders processes of scaling. Figure 5.1 summarises the scaling mechanisms discussed in the following.

Figure 5.1  
Selected scaling  
mechanisms

	 CLOSED SCALING UP	 OPEN SCALING UP	 SCALING OUT
Scaling of the ...	 Solution	 Solution	 Idea
Mechanisms	→ Expansion → Adoption	→ Adaption	→ Dissemination
Instruments	→ Franchise → Resource allocation	→ Franchise → Partnerships → Knowledge sharing	→ Clusters & Communities → Engagement
Organisational growth			

5.1.2 Closed Scaling Up

Profit maximisation &  
increase of customer  
segments

Economic innovations’ mechanisms of closed scaling are commonly utilised by public or private organisations acting alone or in the form of a network that proactively operates to diffuse a solution. Profit maximisation and broadening the customer base are core motivations. The same applies to social innovation, essentially described as the process of incremental adoption or expansion of an innovation in order to either scale individual social impact at the micro level or achieve broader social impact at the meso level.

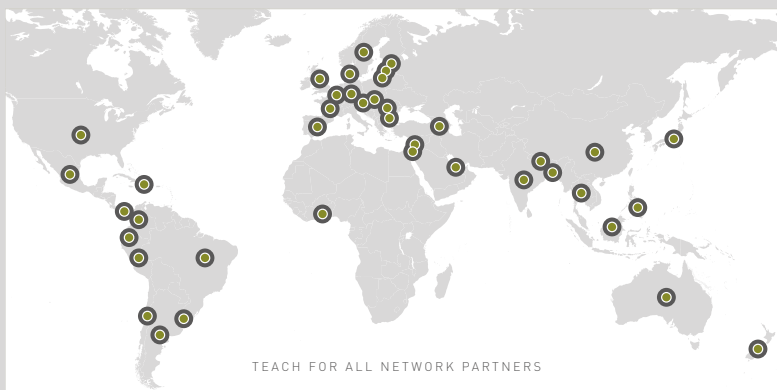
Expansion &  
Adoption

Scaling social impact through expansion often is associated with organisational growth, notably in terms of staffing, structures and earnings generation, but also as regards quality improvements of the solution(s). The underlying rational is to reach out to a larger number of users/beneficiaries, to optimise resource allocation and reduce costs, while increasing the efficiency and productivity of processes and operations. Whether an organisation reaches social and economic impact at the micro or meso level largely depends on the penetrating power of the innovation itself as well as on the quality of the actor network.

Merging formerly separated organisations or establishing umbrella organisations supporting similar social innovations emerges as a further instrument. It helps to grow in new sectors/regions and to survive in turbulent times or under less favourable conditions without adapting the initial solution to the target context – the basis of the solution remains in its origin. It strongly contributes to the development of a trustful network of actors following common objectives. In this context, Social franchise concepts help to organise the diffusion of social innovations in providing a common strategy for all franchisees including a given set of parameters, such as business strategy, production lines, marketing and training. Beyond, a diversification strategy to advance goods and services scales social impact in transforming or adding new activities within an organisation in order to achieve the required set of objectives (European Commission 2016).

Mergers & umbrella organisations

**Teach for All** is a London-based non-profit umbrella organisation of a global network of partner organisations in 36 countries that recruit young professionals to work in high-need schools with the mission to expand educational opportunity for all children. It was founded to scale the solution established by TeachForAmerica and Teach First UK at global level. The national partners apply a franchise system that is open to adaptations to different educational systems and social structures. Although Teach for All supervises the partner organisations, the latter remain legally and financially independent.



[Source: Teach for All]

**Box 5.1**  
Example – Teach for All

## Open Scaling Up

### 5.1.3

Open scaling up takes place when multiple actors (public or private, alone or in the form of a network) collaboratively undertake the adaptation of a solution in

Adaption into new contexts

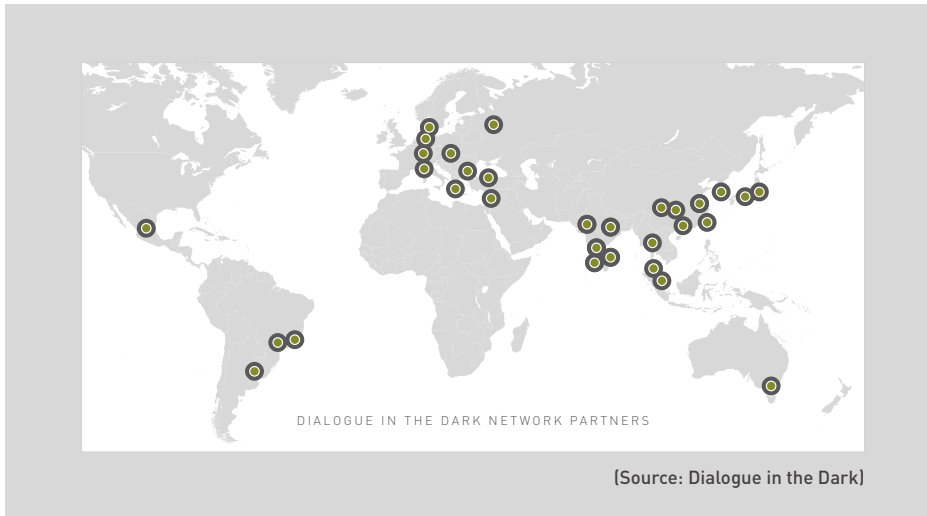
bringing the social innovation from the original site to new sites or contexts by means of knowledge sharing and strategic partnerships. Adaption often is applied for a proven and successful solution which, in due consideration of the specific contextual factors, can be transferred to another geographic or thematic area. Concepts behind this scaling mechanism emphasise the identification of social needs and untapped potentials, and therefore, facilitate the establishment of new branches serving peoples' needs. This is strongly related to the context factors described in the COP model as institutions. Moreover, open franchise strategies are recommended for raising the impact of social innovation initiatives in sharing concepts and knowledge with the franchisees, but without limiting them in their individuality.

#### Knowledge & capabilities as critical resource

Knowledge and capabilities are the most important resources social innovation initiatives call for – that is: management skills, knowledge about performance measurement, familiarity with the addressed problem or target group etc. More recently, it is yet recognised that social enterprises boost their scaling processes through knowledge sharing. Likewise, other forms of organisations operating in the field of social innovation, for example, limited liability companies, associations or cooperatives, apply knowledge sharing in order to reach social impact and to survive in the market of social goods and services. The interaction between social initiatives, civil society or public and private supporters may benefit the internal organisational structure as well as the refinement of the solution in order to spread the social innovation. Sharing knowledge activities can be divided in formal and informal interactions. Informal interactions are characterised by networking activities between organisations moving within the same specific field and context or are interested in the same market. Formal interactions are featured by outsourcing the scaling activity to interested partners in adapting the solution into another context or geographical area (European Commission 2016).

#### Box 5.2 Example – Dialogue in the Dark

**Dialogue in the Dark** is a program of the Dialogue Social Enterprise which offers exhibitions and workshops in total darkness lead by blind trainers and guides to raise awareness and overcome barriers between people without and with a disability. It is a worldwide-diffused social innovation, whose scaling process based on the development of specific partnerships and collaborations in 39 countries. The diffusion formula is an open franchising in which the enterprise provides knowledge and quality assurance and receives a license payment from local business partners that cover a broad spectrum of organizations, such as private social investors, corporates, non-profit-organizations, museums and universities.



## Scaling Out

### 5.1.4

As a result of scarce resources (e.g. time, capital) as well as lagging organisational capacity (→ [SECTION 3](#)), social innovators pursue strategies of scaling out, i.e. disseminate the core idea behind the social innovation, rather than scaling up their solution. Scaling out comprises mechanisms of dissemination, learning and transmission. It is argued that spreading the idea by motivating people to engage in social innovation does not cause the growth of the organisation, although it does not preclude such interest. Besides, scaling out allows for local ownership and can be rapidly adopted by others. Forasmuch, the adoption of the idea by other socially engaged individuals at local, regional, national or global scale, constitutes an alternative strategy increasing social innovations' impact for a larger number of beneficiaries without the active contribution of the initial social innovator. In most cases, the initiating organisation only transmits the idea underlying the solution including necessary technical knowledge, but is not involved in designing the solution.

Scaling without growth

Due to the close collaboration in the scaling process, scaling out mechanisms facilitate the formation of «clusters» of social innovation initiatives. That is, social innovation initiatives cooperate to leverage the knowledge and impact they produce. Mutual learning from the many initiatives implemented by the involved organisations and capacity building are at the core of cluster activities. Often they apply financing models similar to those of networks or virtual communities. This is a new form of community building in social innovation combining elements of franchise concepts with the independence, in terms of separate responsibility, of the single organisation. Usually organisations of the cluster address the same and related problems and pursue similar goals, but neither have the same solution, nor are they necessarily geographically connected.

Clusters of social innovation initiatives

### Box 5.3

Example – KONNEKTid

**KONNEKTid** is a platform that connects 15'000 skill providers with skill seekers promoting informal education through peer-to-peer learning solutions that are done in person, thus increasing social interactions and community cohesion in Amsterdam region. Its mechanisms are similar to those of other platforms such as Peerby (where you can share objects with others) and Shareyourmeal (where you can share meals with the people in your neighbourhood). KONNEKTid is in fact scaling out the idea behind all these platforms to start a social network based on a specific geographic area: a street, a neighbourhood, a city.

## 5.2 Drivers and Barriers for Spread and Diffusion

«Small-scale Stakeholder Experiments» helped capturing drivers and barriers in practice.

From a practitioner's perspective the spread and diffusion of social innovations is closely related to the debate on driving and hindering factors. Any innovator knows to report about the one or the other factors that drive or impede the development, spread and diffusion of the solution. By challenging SIMPACT's theoretical considerations (→ SECTION 1) by means of small-scale stakeholder experiments emphasis was on drivers and barriers at the micro and meso level as factors influencing the progress, spread and diffusion of social innovation. Practitioners from the policy, research and economic area including intermediaries as well as innovators, focusing on improving vulnerable populations' quality of life through social innovations were asked to describe key economic, political and social drivers and barriers they are confronted with in their professional fields. The results of the stakeholder experiments in combination with SIMPACT's empirical findings led to the identification of pivotal factors driving and hindering scaling processes.

### 5.2.1 Viable Financing Models

One of the major challenges social innovators are facing is the reliability of funding and lagging ability of securing risk-taking growth capital. Many organisations in the field of social innovation rely on grants – this includes charities, community and voluntary organisations, associations, foundations, as well as a significant number of social enterprises. This dependence on grants stands as a key barrier to the long-term sustainability of social innovation as a sector that produces growth and employment. In this regard, two factors hindering the spread and diffusion of social innovation are of particular interest:



First, it appears that social innovators have an adverse attitude towards the use of common financing instruments as an asset for scaling impact, while they tend to exhibit distinct forms of bricolage to circumvent the closely related problem of resource scarcity (→ [SECTION 3](#)). The hence resulting frugality of the implemented innovation produces fragile solutions which, in turn, inhibit investments and scaling up. Second, the not-for-profit nature of most organisations in the field that does not allow for the redistribution of profit-generating revenues among investors, is one of the most important causes impeding private sector investments in social innovation.

Aversion against common financing instruments

Besides, social innovators face a lack of structural reliable sources and long-term funding able to support scaling up and diffusing social innovations, among them: structural investment plans at the European, national and regional levels; lines of credit and adequate financial tools from banks; and long-term investments from banks as well as from private sector.

Lack of reliable and long-term financing sources

## Intangible Obstacles – Capacities & Skills

### 5.2.2

Organisations need to develop and maintain the capacity to allow innovative ideas to emerge, to implement those ideas and scale their impact. At the macro level related shortfalls can be described as a lack of knowledge concerning the potential of social innovation as an area of growth and investment, bringing forth an underestimation of socially innovative solutions as object to investment. At the micro level lagging capacities are related the profile of the social innovator. The profile of the typical social entrepreneur is a person passionate about a social cause but often unable to ensure the process of SI be followed from idea generation to scaling up due to limited business competences.

Lagging managerial knowledge of social innovators is among the core obstacles to scale social innovation. Usually they exhibit strong motivations and a high level of awareness of the problem they want to address, but show a naive approach about how to establish and develop an appropriate organisational model including a sustainable business model. Moreover, under-skilled staff has a detrimental impact on scaling processes. Although a strong voluntary sector can be considered an enabler of social innovation generating valuable resources without heavy costs, social innovations also suffer from the extensive use of volunteers that are not chosen on the basis of their competencies, but their engagement.

Management, leadership and workforce skills

As has been shown collaboration and cooperation is an opportunity to scale social innovations. Social innovation is intrinsically based on collaboration and co-production; processes which are shaped by the alignment of groups of stakeholders in partnerships. In addition, effective social innovation requires the ability to engage several actors with different skills, knowledge, and backgrounds into the innovation process including scaling activities. In order to succeed organisations

Communication & networking skills

must possess the capability to manage the complexity of these relationships. In this vein, social innovators frequently face problems to connect to established networks, as their issues seldom fit with existing categories. At the same time, social innovators might lack communication and networking skills necessary to manage complex collaborations characterised by conflicting interests and ask for aligning distinct vision, objectives and resources.

### 5.2.3 Contextual Factors effecting Scaling Activities

Institutional resistance to change

«Resistance» is to be understood as the forces that inhibit, constrain, or restrict social innovation processes.

SIMPACT's findings indicate a strict relationship between the configuration of the social innovation ecosystem and the emergence of obstacles and sources of resistance. Resistance to institutional change (→ SECTION 1) of, for example, social systems, financing bodies, organisations and enterprises is manifested in organisational structures, processes as well as individual behaviour. In addition, organisations active in the field of social care, for example, might even deny participation in the discourse on social innovation, as they see a conflict of interest: They feel threatened by the «hype» of the notion in the actual discourses on social challenges and fear a budget shifts.

Collaborative environments facilitate social innovation

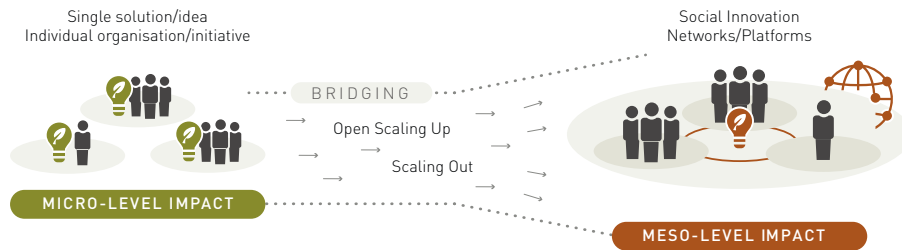
The «**Quadruple Helix**» comprises government, academia, business and citizens as active stakeholders

Being perceived as enabler of social innovations, features of collaborative environments include the involvement of «quadruple helix» actors in the policy making process (→ SECTION 6), new and effective ways of knowledge creation and sharing, a common mind-set and the mechanisms to overcome «silo»-thinking. The present design of – or else lacking – social innovation ecosystem (→ SECTION 4) is criticised as not being fit for innovation itself, due to deficits in leadership and the high fragmentation of social innovation activities that are too small to generate impact. This does not, however, mean to neglect the local level which is sensitive to individual needs, and brings in a good understanding of local provisions and strengths, but to bundle the capabilities to identify needs, to articulate them and link them to specific resources in a collaborative manner.

In summary, barriers to the spread and diffusion of social innovations are foremost related to the ecosystem of social innovation, the professionalisation of (potential) innovators, the availability of resources including financial means and knowledge, communication and cooperation capabilities and conflicting interests.

## 5.3 Scaling as Mechanism to bridge Micro and Meso Level

Identifying social mechanisms bridging the micro and the macro level is certainly an ambitious task. Drawing on SIMPACT's empirical findings and relevant contributions from middle-range theory studies (→ SECTION 1) lead to the systematisation of bridging mechanisms by means of scaling.



**Figure 5.2**  
Scaling as Bridging  
Mechanism

The first column in → [Table 5.1](#) entails the actors or group of actors that initiate and drive social innovations, the social innovators. While the first three actors appear to often function as social innovators, social movements and the organised civil society (welfare associations, foundations, trade unions and so on) are less assertive as social innovators. Additional actors such as policymakers, however, are expected to enter the scene and take up the role in the future (→ [SECTION 6](#)).

Distinct social  
innovators

**Table 5.1**  
Scaling as bridging  
mechanism

ACTOR	SCALING	SI PROCESS	POLICY INTERVENTIONS
Focus on economic objectives	<ul style="list-style-type: none"> <li>• Networking</li> <li>• Community Building</li> <li>• Events</li> <li>• Education</li> </ul>	<ul style="list-style-type: none"> <li>• Imitation &amp; adaption</li> <li>• No conflict as long as the solution remains at the periphery of welfare state</li> <li>• Social conflict in case of successful scaling</li> </ul>	<ul style="list-style-type: none"> <li>• Project funding</li> <li>• Awards</li> <li>• Better Practice</li> <li>• Open method of coordination</li> </ul>
Self-organised vulnerable and marginalised (e.g. interest groups)	<ul style="list-style-type: none"> <li>• Locally rooted and globally connected</li> <li>• Campaigns</li> <li>• Knowledge sharing</li> </ul>		<ul style="list-style-type: none"> <li>• Free urban infrastructures</li> <li>• Project funding</li> <li>• Outsourcing (subsidiarity)</li> </ul>
Social enterprise	<ul style="list-style-type: none"> <li>• Growth (often limited)</li> <li>• Social Franchising</li> <li>• Business models</li> </ul>	<ul style="list-style-type: none"> <li>• Market-driven</li> <li>• Balancing competition and cooperation</li> </ul>	<ul style="list-style-type: none"> <li>• Seed-/start-up funding</li> <li>• Incubators</li> <li>• Regulations &amp; Incentives</li> <li>• Public procurement</li> </ul>
Social movement	<ul style="list-style-type: none"> <li>• Organisation (association, club, political party)</li> <li>• Crowd effect</li> <li>• Self-enforcing dynamic</li> <li>• Cellular structure</li> </ul>	<ul style="list-style-type: none"> <li>• Community-driven</li> <li>• Direct confrontation</li> <li>• Legal conflict</li> <li>• Mediation</li> </ul>	<ul style="list-style-type: none"> <li>• Integration</li> <li>• Repression</li> <li>• Adaption</li> <li>• Institutional change</li> <li>• Legal frame</li> </ul>
Organised civil society	<ul style="list-style-type: none"> <li>• Fundraising</li> <li>• Lobbying</li> <li>• Campaigns</li> </ul>	<ul style="list-style-type: none"> <li>• Network governance</li> <li>• Modes of participation</li> </ul>	<ul style="list-style-type: none"> <li>• Round tables</li> <li>• Policy networks</li> <li>• Moderation</li> <li>• Institutional adaption</li> </ul>

## Scaling mechanisms

The second column «scaling» summarises activities or instruments that are used by social innovators to spread and diffuse their idea/solution in a broader societal context. Subject to social innovators' motivations, strategies and resources instruments and activities vary largely. For example, social enterprises' scaling instruments ideally base on and correspond to their business model and are frequently associated with organisational growth. In contrast, interest groups' scaling activities centre on campaigning and knowledge sharing. Often these groups are locally embedded and globally connected.

## Bargaining, reflection &amp; mutual learning

Interactions among different social innovators and conflicting actors to implement or impede a new solution, i.e., the process dimension (third column), become particularly apparent in the phase of scaling when socially innovative solutions attract the attention of a wider public. In this context all modes of governance can be found. While in certain phases the process is characterised by pure bargaining, in other phases it can be driven by reflection and shared learning or by self-enforcement and rule-breaking. For stakeholders in search for new solutions, for example, conflicts are not very likely as long as their innovation remains at the «margins of welfare state», whereas they experience major conflicts and tensions when scaling their solution as they put established institutions into question. In comparison, social enterprises scaling processes are foremost market-driven and call for balancing competition and cooperation to successfully spread and diffuse their solutions.

## Role of policy

As is discussed in → SECTION 6 in detail, policymakers and programmes play a crucial role in facilitating the acceleration of social impact through scaling. Instruments to intervene in the process range from seed-/start-up support and project funding, as is the case in current innovation policy, to different modes of cooperation and consensus building.

## 5.4 Concluding Remarks

Although organisations applying the distinct scaling mechanism differ in regard to their strategic objectives, what they have in common is the aim to broaden the social impact of their solutions. It also appears that no clear demarcation lines between the distinct scaling mechanisms exist and that social innovators may not opt for a single mechanism, but apply combinations of them. Both, open scaling up and scaling out point to the importance of strategic partnerships enabling social innovators to achieve greater impact than they would have managed to realise individually. Combining the knowledge and experience of the actors' involved, is not only likely to accelerate social impact, but also serves as strategy to overcome resource scarcity (→ SECTION 3) provided that the social innovators possess the necessary level absorptive capacities to exploit these relational assets.

In addition, it has to be acknowledged that there is nothing such as a one optimal strategy for scaling impact. Just the opposite, social innovators should consider which strategy complies best with their organisational model and objectives.

No single  
best strategy

Research also points to the viability of social innovators business model as prerequisite for any attempt at scaling. That is a solution has proven to be effective in achieving social and ideally economic impact based on a solid financing model. Besides, social innovators need to be aware that according to the strategy chosen, scaling processes may change their role in the organisation due to necessary delegation of responsibility; this applies in particular to closed scaling up processes which are accompanied by organisational growth.

Prerequisites

#### Read more

- European Commission (2016). *Policy Brief on Scaling the Impact of Social Enterprises*. Luxembourg: Publication Office of the European Union.
- Rehfeld, R. & Terstriep, J. (2015). Middle-range Theorising. Bridging Micro- and Meso-Level of Social Innovation. *SIMPACT Working Paper*, 2015(1). Gelsenkirchen: Institute for Work and Technology.
- Terstriep, J., Kleverbeck, M., Deserti, A. & Rizzo, F. (2015). *Comparative Report on Social Innovation across Europe*. Deliverable D3.2 of the project «Boosting the Impact of SI in Europe through Economic Underpinnings» (SIMPACT), European Commission – 7th Framework Programme, Brussels: European Commission, DG Research & Innovation.
- SIMPACT's «Small Scale Stakeholder Experiments». The full documentation can be found at: [www.simpact-project.eu](http://www.simpact-project.eu)
- Weber, Ch., Kröger, A. & Demirtas, C. (2015). *Scaling Social Impact in Europe*. Gütersloh: Bertelsmann Stiftung.





# HOW POLICYMAKERS CAN STIMULATE, RESOURCE AND SUSTAIN SOCIAL INNOVATION

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## SECTION 6

**6.1 Public Policy Making** | 6.1.1 Bureaucracy | 6.1.2 Programmatic Intervention | 6.1.3 New Public Management: Enter Private Sector | **6.2 Towards a new model of governance**  
**6.3 Policy Enablers of Social Innovation** | 6.3.1 Public Sector Workplace Innovation  
6.3.2 Negotiating Shared Values and Goals | 6.3.3 Resourcing | 6.3.4 Conclusion

# 6

## HOW POLICYMAKERS CAN STIMULATE, RESOURCE AND SUSTAIN SOCIAL INNOVATION

Social innovation is of growing importance in helping to realise multiple policy goals at European, national and local levels, contributing to a prosperous, inclusive and empowered society. Yet the relationship between public policy and social innovation remains both problematic and poorly defined.

For some, social innovation is a critique of public intervention, filling the gaps left by years of policy failure. They stress the versatile and embedded character of social innovation, reaching people and communities in ways that have typically not been available to public bureaucracies. Yet others point to the new forms of entrepreneurial policymaking emerging in some European public entities. They emphasise the innovative potential of cross-boundary collaboration between the public sector, the private sector, the third sector and communities, forging creative solutions to previously intractable problems.

One thing emerges clearly from SIMPACT's work with policymakers and social innovators over the last three years: traditional modes of policy production and delivery fail to create an environment capable of stimulating, resourcing and sustaining social innovation.

### 6.1 Public Policy Making

At its best, public policymaking can be understood as a dynamic process that seeks to reconcile contradictory and sometime irreconcilable forces in its search for desirable social and economic outcomes. In rejecting (to a greater or lesser degree) the neo-liberal proposition that optimum outcomes for society as a whole are the product of a free and profitable private sector, European policymakers juxtapose themselves between the open market and democratic pressures for inclusion



and fairness. If policymakers, at least in Western European countries, felt that they occupied relatively solid ground as part of the post-War settlement, this has begun to feel decidedly shaky in recent decades as the contradictions between market and society become more pronounced. Evolution in the production and delivery of public policy shows how these tensions have been amplified with growing societal complexity, an increasingly volatile global economy, and public demands for greater openness, transparency and accountability. Traditional public administration characteristics of rationalisation, centralisation, specialisation, and bureaucratisation contrast with increasing organisational fragmentation and decentralisation in the policy domain, but this in turn is manifested in the competing and contradictory forms of marketisation on the one hand and social innovation on the other.

## **Bureaucracy**

### **6.1.1**

More than a hundred years ago, the German sociologist Max Weber wrote about the «iron cage» through which bureaucracy exerts legitimate power over state employees through the rational deployment of explicit rules and processes. This results in a reduction of freedom, initiative and individual power. On the one hand bureaucracy provides guidance and rules, clarifying responsibilities and thereby easing stress, helping individuals be and feel more effective. It also seeks to guarantee fairness and equity of treatment between individuals. At the same time by removing individual discretion it stifles creativity, fosters dissatisfaction and demotivates employees. It is inherently non-transformative, offering few opportunities for learning, reflection and innovation, and thereby leading to path dependency.

## **Programmatic Intervention**

### **6.1.2**

After 1945, policymakers increasingly recognised that complex social and economic problems required more complex solutions than could be delivered by the bureaucratic application of rules. Deprived populations, for example, suffered multiple disadvantages that cut across separate policy areas including education, housing, employment and welfare. Programmes were developed that sought to integrate separate policy strands under centralised corporate control within local authorities or other state agencies.

At best, intervention was conceived as a reflexive process based on a virtuous circle of planning, intervention, learning and refinement. This shifted the emphasis from bureaucracy's focus on rationality in allocative procedures to rationality in decision-making. Such programmatic policy modes were often associated with scientific approaches such as Operations Research or Decision Theory.

Intervention as  
reflexive process

## Focus on quantifiable outcomes

There was also a much greater focus on outcomes, and specifically on quantifiable targets against which progress and eventual success could be measured. Achievement of these targets can be a significant factor in the career progression of individual managers. Inevitably this tended to shape management culture and practice. In the UK's National Health Service, for example, there is evidence to show that managers develop perverse behaviours to ensure that targets are met, often resulting in little real gain or to adverse consequences elsewhere. Targets become an end in themselves rather than indicators of wider progress.

### 6.1.3 New Public Management: Enter Private Sector

Political and ideological imperatives for the reduction of spending on welfare and other social policies have led, in some countries, to the introduction of market disciplines to public service management. This tendency, labelled New Public Management (NPM), is based on five principal goals:

1. A desire to decentralise decision-making.
2. The introduction of management by objectives.
3. The reform of the public service labour market by contracting out services.
4. The introduction of competition to previously non-market sectors.
5. The introduction of a consumer orientation rather than a producer orientation.

In practice there have been big differences in the way that countries have approached public service reform and two contrasting pathways are evident.

## Modernisation Agenda

One pathway emphasises the modernisation agenda. Here, the reform of bureaucracy is achieved by the introduction of new actors, the creation of new partnerships at national and local level, a new and greater role for the third sector, and the innovative provision of services based on decentralisation. Within this pathway there are opportunities for social innovation in shaping alternative, local delivery of services. Much is made of the active citizen within a «big society» capable of making informed choices and maximising public good.

## Privatisation &amp; Marketisation

The second pathway is primarily based on the introduction of market disciplines to public service management through privatisation and marketisation, backed by stiffer regulatory frameworks and measurement systems. Alongside this is a slimming-down of the size of the public sector and a diminished role for the state at both national and local levels. The eventual outcome is a smaller, public sector marked by a reduction in spending on services and providers. In this pathway, private sector participation in service delivery is typically governed by a strong emphasis on quantifiable targets reinforced by strong contract compliance regimes. This reflects a tension between the desire to decentralise decision making on the

one hand and the pressure for accountability and transparency in achieving value for money on the other. NGOs and other not-for-profit organisations may well find that procurement rules make it difficult for them to tender and compete against large-scale private firms.

In practice the introduction of private sector expertise and initiative advocated by politicians has not always overcome the rigidities and inefficiencies characteristic of previous modes of policy design and implementation. Service delivery contracts are often awarded to the lowest cost provider for relatively short periods of time, providing little incentive to invest in real innovation. Employment security and benefits for staff are often reduced, and although this is seen by governments as an efficiency gain it may also lead to disengagement and the loss of staff knowledge and experience as a driver for improvement and innovation. Nonetheless evidence can be found of efforts to create latitude within New Public Management regimes to overcome these rigidities and this will be explored later.

## Towards a new model of governance

## 6.2

Bureaucratic, programmatic and NPM approaches to policymaking as described above often tend to co-exist at the national, regional and local levels, creating a policy landscape that is not entirely conducive to social innovation. Nonetheless there are encouraging signs that forms of governance focused on the enablement of social innovation are beginning to emerge in many parts of Europe.

These emerging forms of governance are not well defined and understood, and the picture is confused by the competing models and explanations which exist throughout the literature. In the context of social innovation, governance is ideally seen as a non-hierarchical process involving networks of actors from both public and private sectors, and leading to collaborative action based on the identification of common interests through negotiation, bargaining and participation. The resolution of complex social and economic problems is beyond the reach of a single public organisation working alone; rather it involves a web of interrelationships and requires multifaceted approaches that cannot be contained in a single agency. The ability to work across government, between levels of government and across society has become a core requirement for public agencies, though one which is not always realised. In short, the need is to establish a model of multi-level governance in which public organisations operate as platforms of collaboration to leverage the power of others.

Governance in  
Social Innovation

In this respect, the European Union has played an important role in creating opportunities for novel governance approaches at local and regional levels by providing the resources and incentives for new relationships and new forms of cooperation and coordination through its Regional and Cohesion Funds. At the same time bureaucracy at the European level, and through the vertical relationships

with Member States, exacerbates the complexity of multilevel governance while decreasing the transparency of decision-making.

Policymakers at the EU, national and regional levels need to challenge this tendency while forging new roles as enablers, catalytic agents and facilitators to accelerate the transformative potential of social innovation. Such an approach is based on participatory and networked processes characterised by interdependency, collaboration and trust. It is directed at improving both processes and outcomes in public policymaking and public service delivery in the light of increasing expectation and demands as well as growing complexity and fragmentation. The need is to open up a new terrain in which democratic dialogue, social capital construction and empowerment constitute the dominant characteristics. This implies very different ways of working for policymakers, and possibly a very different type of policymaker. Table 6.1 summarises the distinctive characteristics of this approach, sometimes characterised as New Public Governance or Open Policy Making:

**Table 6.1**  
Characteristics of emerging  
policy approaches

TRADITIONAL	EMERGING
Hierarchy	Collective
Static	Dynamic
Expert	Multidisciplinary
Risk averse	Open to experimentation and failure
Market driven	User driven

A key task for SIMPACT through its analysis of case study evidence and by actively engaging practitioners was to identify emergent policy forms that both challenge embedded practice and begin to map a new terrain based on dialogue, inclusion, openness, long-termism and fostering creativity.

**Example:**  
Norwegian VRI

One notable example can be found in the Norwegian VRI (Virkemidler for Regional FoU og Innovasjon) regional development programme grounded in the action research work of Bjorn Gustavsen. VRI focuses on «research-based development processes in the regions» (The Research Council of Norway, 2016), critically including strands designed to create new spaces for interaction and innovative forms of collaboration between diverse partners though, for example:

- «Regional dialogue conferences», a meeting place for regional players to learn about each other's expertise and roles and develop a common understanding of what they can do together.
- «Dialogue and broad participation», a form of cooperation that promotes involvement in innovation efforts, with action-oriented researchers assisting in the process.

The involvement of researchers in the VRI programme is significant, on the one hand bridging academic knowledge and practice and on the other capturing transferable learning in ways that enable the knowledge and experience created in one location to become a generative resource for innovation.

**Example**  
Hedabide Project

In the Basque Country the Hedabide project (Social Innovation-oriented Hybrid Contexts of Learning and Practice) led by Sinnergiak Social Innovation (Sinnergiak, 2016) and financed by the Provincial Council of Gipuzkoa also piloted a more open and inclusive approach to governance, particularly in terms of social participation in the decision-making processes of public organisations and in the formulation of public policies.

Hedabide created Learning and Practice Communities (LPCs) focused on finding solutions to a specific strategic challenge faced by the Region, engaging a diverse range of knowledge and creativity in identifying collaborative strategies which stimulate social capital construction and social innovation. The participants of each of four Communities carried out activities on a weekly basis for one month and a half. Project methodology comprised five different stages:

1. identification and integration of different bodies of knowledge;
2. the generation of ideas;
3. interaction between the group's participants and external participants;
4. prototyping;
5. evaluation.

Successful evaluation of Hedabide opens clear possibilities for mainstreaming the approach throughout the Province's policy process.

## Policy Enablers of Social Innovation

### 6.3

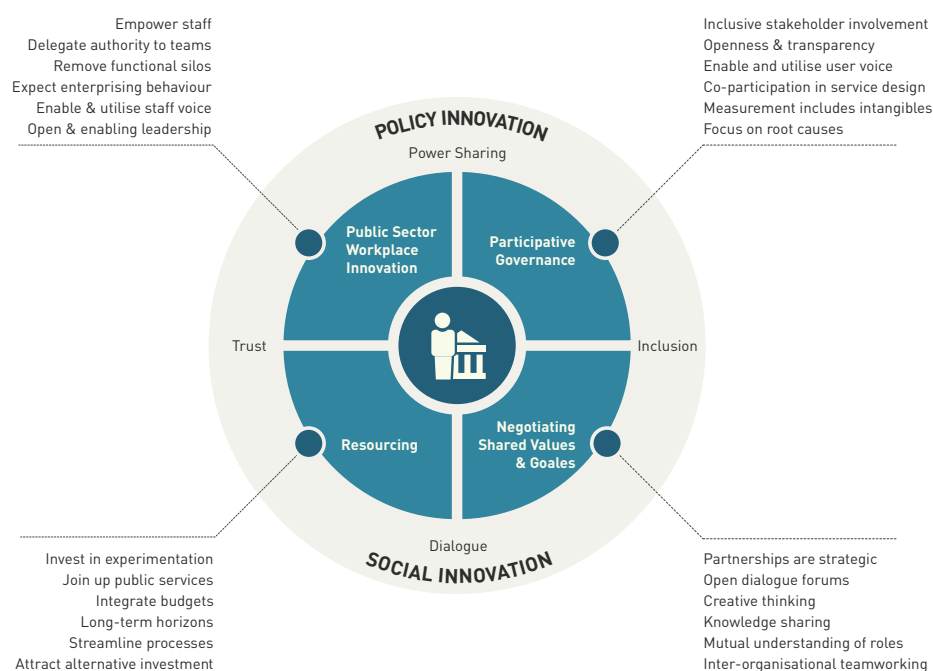
Social innovations typically involve creative interaction between diverse actors; these actors can be public sector employees or institutions, service users, NGOs or other stakeholders in a given policy field. At an early stage it became clear that the key challenge lay in defining the factors in the wider policy and institutional environment that enable (or potentially disable) such «creative interaction». We undertook a broad review of literature, not just in the field of social innovation but also covering public service reform and the transformation of public agencies.

This led us to four key propositions:

1. Public policy can only truly create an environment effective in stimulating, resourcing and sustaining social innovation if public agencies themselves transform their working practices and culture.
2. A new model of participative governance is required, based on power-sharing, the inclusion of all stakeholders, transparency, an assumption that users will be involved in the co-creation of services, and a recognition that «landscape change» in the social and economic environment involves a strong focus on intangible outcomes as well as quantifiable measures.
3. Models of partnership based on Programmatic and New Public Management policy models are inherently transactional and generally lack the characteristics needed to forge strategic, trust-based and long-term partnership, collaboration and convergence. Partnerships are required which focus on negotiated visions, open and inclusive dialogue, long-term collaboration beyond funding cycles, and an insistent focus on root causes.
4. Resources should follow the outcomes of inclusive dialogue in which the force of the better argument prevails, integrate budgets and services, stimulate experimentation and failure, and focus on long-term horizons.

The overarching proposition is that policy-enabled social innovation results from the synergies created when these four dimensions combine to create a milieu, or eco-system, based on mutually reinforcing practices.

**Figure 6.1**  
The Four Policy Enablers  
of Social Innovation



These propositions were tested and further developed through a series of dialogue-based meetings with policymakers and other stakeholders from the Spanish Basque Country, Czech Republic, England, the Nordic Countries, Poland and Scotland. One of the clear insights from discussions with policymakers who seek to promote social innovation was into their struggle against the organisational demarcations that result in policy «silos» an excessive focus on narrowly-defined quantifiable targets at the expense of long-term outcomes, and institutionalised risk-aversion and conservatism.

These meetings enabled the SIMPACT to blend findings from literature with the real-world perspectives of practitioners, and the outcome is illustrated in → [Figure 6.1](#). The four Enablers can be understood in the following terms:

## Public Sector Workplace Innovation

### 6.3.1

Form follows function. Let us accept that there is a strong potential role for public agencies in stimulating, resourcing and sustaining social innovation through collaboration with external stakeholders. To fulfil this role as an effective partner in an innovation-focused coalition, the public agency has to ensure that its strategic focus, culture and work organisation are fit for purpose.

This can present significant challenges. Public sector agencies are doubly constrained. They not only face the same obstacles that confront any organisation in dealing with change but are exposed to public scrutiny and accountability, often creating a fear of adverse publicity and a reluctance to depart from established practice. Internal obstacles include hierarchical structures, rigid functional divisions, professional demarcations, fear of blame and line management resistance to staff empowerment.

Challenges

Bureaucratic modes of policy production and delivery require little in the way of innovation capacity and much in the way of regulatory machinery. Organisationally this is reflected in highly routinised jobs located within highly segmented and specialised departments and divisions. The post-1945 emergence of proactive, programmatic forms of intervention required greater investment in internal research and development capacity within government, as well as in cross-functional corporate structures, but rigid organisational demarcations remained. Yet programmatic interventions tended only to lead to the development of enhanced forms of bureaucratic work processes and protocols, supported by more sophisticated tools for surveillance and monitoring but with equally limited opportunities for discretion, experimentation and innovation. New Public Management continued this tradition but with an even narrower focus on compliance and a greater insistence on quantifiable outcomes.

Bureaucratic modes  
of policy production

## New Public Governance

In contrast, New Public Governance needs public agencies to empower staff in multidisciplinary, cross-functional teams, enjoying high levels of discretion and characterised by high levels of entrepreneurial behaviour. It requires open and fluid organisational structures; delegated decision-making and simplified administrative procedures; a coaching style of line management; regular opportunities for reflection, learning and improvement; high involvement innovation practices; and employee representation in strategic decision-making. Policymakers themselves need to become more like social entrepreneurs, working in the spaces between formal structures and creating new partnerships based on imaginative and inclusive ways of working. Unlike bureaucratic modes of policy production and delivery, their actions are governed by multiple accountabilities to different stakeholders.

Although this is a radical and systemic change in the organisational structures, working practices and culture of public agencies we have detected reassuring signs of its slow gestation through our dialogue with policymakers in the Basque Country, the Nordic countries and Scotland. The systemic nature of this process of public sector workplace innovation is captured in **The Fifth Element** (European Commission, 2016), a framework for understanding evidence-based organisational change developed for the European Workplace Innovation Network (EUWIN), established by the European Commission in 2012 (→ [Box 6.1](#)):

**Box 6.1**

Understanding Public Sector  
Workplace Innovation

### **The Fifth Element focuses on the organisation as a whole system**

#### **The First Element: Jobs and Teams**

Employees help their customers and colleagues more effectively when they're trusted to use their judgement. Jobs which empower people to make decisions about how they work help people to manage pressure and to perform more effectively with less stress. Likewise empowered, self-managed teams are a basic building block in which people share knowledge and problems, break down barriers and generate ideas for improvement, innovation and growth using insights that day-to-day work experiences bring.

#### **The Second Element: Organisational Structures, Management and Procedures**

Organisational walls and ceilings that allocate people to departments, divisions, grades and professions tend to create silos that put barriers in the way of doing a good job. Different groups within an organisation should intertwine in ways that help



everyone understand other people's jobs, professions, specialisms, priorities, problems and vision. Systems and procedures that govern decision-making, resource allocation and standard operating procedures must also be aligned with commitment to empowerment and trust. Truly innovative workplaces demonstrate a consistent approach through corporate policy from reward systems and performance appraisal to flexible working and budget devolution.

#### **The Third Element: Employee-Driven Improvement and Innovation**

The knowledge, experience and creativity of employees at every level are a powerful resource for innovation and improvement in public services. Such innovations are strongly associated with "active work situations": workplaces and jobs in which workers have sufficient autonomy to control work demands coupled to discretionary capacity for learning and problem-solving.

#### **The Fourth Element: Co-Created Leadership and Employee Voice**

There are many reasons why employee knowledge, insight and opinion from every level of the organisation should be heard by senior management teams, not least because this leads to better decision making. Leaders need to empower others to take the initiative, coaching and supporting them towards successful outcomes. Enabling leaders avoid an excessive focus on targets and seek to learn rather than to blame others when things go wrong. Representative partnership structures (such as works councils and management-union partnership forums) on their own may have little direct impact on performance or quality of working life, but they can stimulate and support practices that do so. Above all, employee voice always requires openness, transparency and two-way communication.

#### **The Alchemy of The Fifth Element**

The Fifth Element highlights the interdependence between bundles of workplace practices represented by the four Elements. Each bundle of practices has been created by theming evidence from a robust analysis of research evidence. Each Element does not exist in isolation but is influenced, for better or worse, by the extent to which the principles that underpin it are aligned with those of the others. The metaphor of The Fifth Element is a useful way of capturing this essential quality, describing an alchemic transformation that can only take place when the other four elements combine.

### Inclusive stakeholder involvement

Inclusive stakeholder involvement in the production and management of public policy interventions can lead to shared ownership and collective endeavour, but for public sector actors it requires behaviours and practices centred on openness and transparency. It also requires the creation of spaces in which «user voice» contributes both to strategic decision-making and to service design.

### Classical bureaucracy

In classic bureaucracies, questioning is seen as highly disruptive. For employees it can be career-limiting while users and other stakeholders struggle to find the means to make themselves heard other than through large scale social movements. Programmatic policy frameworks may facilitate «single loop» learning and improvement, in other words when it is confined to the means of delivering prescribed objectives. Questioning the objectives themselves – the «double loop» – even on the basis of experience acquired during the programme, is unlikely to be well-tolerated. Participative governance requires inclusive dialogue in which ends and means are both kept under continual scrutiny, reflecting the continual learning shared by stakeholders as intervention progresses.

In terms of service design, the task is to conceptualise an approach to co-participation in which active citizens and public sector employees contribute together, sharing essential, situated knowledge and experiences to improve services, products and social environments.

### Democratic accountability

Democratic accountability rapidly emerges as an issue in discussing the governance of social innovation, and is often presented as a constraint on the freedom of the public sector to act. As a multi-stakeholder endeavour, social innovation necessitates multiple and mutual accountabilities in which the conventional feedback route through to elected government represents only one dimension. This also requires support for the strengthening of internal governance structures in non-public stakeholder organisations.

The question of value (whose value and value for what end?) is also brought into sharp focus. In many respects we need to take a starting point to value based on an understanding of each of the different actors and beneficiaries, and which directly challenges NPM strictures.

NEW PUBLIC MANAGEMENT	BEYOND NEW PUBLIC MANAGEMENT
Individuals as market actors	Individuals as active citizens in a community framework
A consumption relationship	A sharing relationship
Public services as resource depletion	A sustainable approach to resources and communities
Indifference to disadvantage	Empowerment and the active eradication of disadvantage
Narrow market profitability	Maximising social utility

**Table 6.2**  
Defining value

This raises profound and difficult questions about how to audit outcomes and what forms of measurement are appropriate. This is especially pertinent since social innovation embodies macro, meso and micro fields of activity with a plurality of actors. Yet data collection is currently pitched predominantly at national level and used for macro governance purposes. Measurement for social utility is distinct from that relating to market transactions and poses different problems. One is related to the different levels mentioned above and suggests a need for the disaggregated collection of data in different forms, reaching down to small communities, groups and households.

Measurement

The second challenge relates to tangibility and intangibility. How appropriate is it to use forms of quantitative measurement for social interventions grounded in matters such as empowerment, sustainability, tacit knowledge and personal development?

Tangibility  
& Intangibility

NPM's mantra of «value for money» as defined by market testing is a reductive measurement exercise when compared to approaches in which public good is promoted through for example sustainability and empowerment, or debates relating to topics such as wellbeing and Layard's focus on happiness.

We need to examine the different assumptions points embedded in these approaches including what is actually measured and valued. A good starting point is that of the Social Return on Investment methodology (SROI) that was developed within the UK Government's Cabinet Office. Here stakeholders in both public and non-market organisations can «value the things that matter» by using financial proxies for indicators. This leads to the inclusion of the values of indicators excluded from markets in same terms as those used in markets. Actions that prevent harm to individuals, households and communities are also included,

Social Return  
on Investment

widening the scope of measurement and bringing into focus social preventative measures that are largely invisible in other accounting measurement formats.

We can examine environmental sustainability, wellbeing and health audits with a similar lens. In all of these wider approaches the basis for measurement differs and widens what is seen as valuable in comparison with the canonical market model. Likewise, the Scottish Government's National Performance Framework (The Scottish Government, 2016) is an innovative attempt to embody this wider scope at a national level. In summary, recognising and valuing solidarity, community, cohesion and sustainability, and crucially providing methods of substantiation, is a key test for future public policy in such a complex field as social innovation.

### 6.3.2 Negotiating Shared Values and Goals

Our analysis suggests that social innovation is stimulated when policymakers seek to construct relationships with NGOs, user groups and other stakeholders which are long-term and trust-based rather than focused solely on the delivery of short-term outcomes. Partnerships that are successful in stimulating and resourcing sustainable social innovation are likely to be characterised by:

- **A strategic relationship.** Trust-based relationships must be built on more than the short-term transactional and contractual concerns associated with outsourcing. Partners need the opportunity to forge a common vision and a sense of mutual interdependence in securing a successful future.
- **Dialogue extends beyond compliance.** Contractual relationships are often focused on the achievement of quantifiable targets with little scope for shared reflection and double-loop learning. Spaces need to be created in which more open dialogue with diverse stakeholders takes place on a regular basis, driving innovation and improvement.
- **A deepening appreciation of each partner's competence and contribution.** Public sector commissioners and NGO providers benefit from informal opportunities to learn from each other, and to share private concerns and aspirations. Mechanisms such as job swaps, dialogue seminars and collaborative research can provide such opportunities.
- **Inter-organisational team working and reduced demarcations at every level.** It is critical that inter-organisational partnership extends beyond the formal agreement at senior management level. Staff at every level needs to benefit from the shared visioning and learning described above if they are to avoid mistrust and work together as an effective team across organisational boundaries.

There is no doubt that establishing such partnerships creates real challenges for policymakers in terms of time, resources and competencies. It will also challenge procurement, competitive tendering and other regulatory frameworks, and this is discussed further in considering the fourth «Enabler».

## Resourcing

### 6.3.3

While practitioners may justifiably show concern about the quantities of funding and other resources available during a period of austerity, the structure of funding allocation can also constrain the effectiveness of social innovation. Short-term funding regimes based on narrow, quantifiable targets and competitive tendering fail to achieve «landscape change» because they are not designed to build core capacity or social capital within disadvantaged communities and populations. Lack of continuity in funding means that NGOs and community organisations struggle to retain experienced staff and need to rebuild competence at the start of every funding cycle. Innovation in service design and delivery is discouraged because competitive tendering encourages applicants to pursue conservative interventions seen as less risky by public sector evaluators. In short, transient policy and funding cycles fail to generate a cumulative and self-sustaining momentum within communities and populations, while relationships between policymakers and other key stakeholders are limited to transactional discourse and contract compliance.

The obverse lies in a multi-channel approach to resourcing focused on long-term horizons in which competitive funding processes give way to the resourcing of actions identified during inclusive dialogue between public agencies and other stakeholders. Small scale, experimental actions generate shared learning, and resources are gradually scaled up as knowledge and experience accumulates of «what works» in each setting. The focus is also on the integration of budgets, recognising the interdependence of disadvantages in employment, education, housing, health, environment and lifestyle, and reflecting the new possibilities for a systemic perspective as policy and functional silos are eroded by means of public sector workplace innovation.

## Conclusion

### 6.3.4

We have argued that the scale, effectiveness and sustainability of social innovation is shaped by the institutional and relational milieu in which it takes place. Public agencies and NGOs therefore need to evaluate the alignment of policy interventions, regulatory frameworks, organisational cultures, workplace practices and working relationships with the vision for scaled, high impact and sustainable social innovation. The creation of such a tool constitutes a key outcome for SIMPACT.

**Read more**

- European Commission (2016): EUWIN «European Workplace Innovation Network». Online available at <http://portal.ukwon.eu/the-fifth-element-new>.
- Sinnergiak (2016): Project Hedabide «Hybrid Environments for Learning and Practice with a focus on social innovation». Online available at <http://www.sinnergiak.org/clon/index.php/tag/hedabide-en-2/?lang=en>.
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- Totterdill, P., Cressey, P., Exton, R. & Terstriep, J. (2015): Simulating, Resourcing and Sustaining Social Innovation: Towards a New Mode of Public Policy Production and Implementation. *SIMPACT Working Paper*, 2015(3). Gelsenkirchen: Institute for Work and Technology.



# MEASURING: TOOLS FOR LEARNING TO IMPROVE SOCIAL INNOVATION

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## SECTION 7

### **7.1 Framework to capture Social Innovation with Metrics**

7.1.1 Survey Questions and Indicators capturing SI Initiatives | 7.1.2 Indicators on the Regional Context for SI: Implications for Policy Learning | **7.2 Ex-Ante Impact Assessment of SI Initiatives**  
7.2.1 A Framework for conducting Ex-Ante Impact Assessment | 7.2.2 Measurable Social Impact  
7.2.3 Translating Goals into Practical Action Roadmaps | 7.2.4 Dealing with the Stakeholders  
7.2.5 Co-creation as an Explorative Exercise | 7.2.6 A Toolbox for Social Innovators, Policymakers and Social Investors

# 7

## MEASURING: TOOLS FOR LEARNING TO IMPROVE SOCIAL INNOVATION

Not only markets and governments fail in providing perfect social innovations which meet all needs of vulnerable groups, also the innovations of self-organised groups in society may fail. Due to the uncertainty related to innovation no single form of organisation and no single stakeholder in society is perfect in solving all problems, at once and for all. But we can improve, as we can learn from our own experiences and those of other stakeholders (in social innovation initiatives and society at large). In this regard, applying indicators to capture social innovations, and ex-ante impact assessment of social innovation initiatives provide important means for improvements.

### Knowledge & learning

Social innovation-related knowledge and learning processes are mostly concerned with tacit knowledge, e.g. from informal discussions, story-telling and in-depth case studies (→ Table 7.1). Measuring social innovation and turning the tacit knowledge of stories, discussions and case studies into more codified forms promotes learning and diffusion of knowledge. However, measuring social innovation is complex and calls for adjustments of the existing tools.

The traditional mainstream instruments of surveys and (ex-ante) evaluations have to be adapted to the needs of the characteristics of social innovation. A mixed-method approach is needed:

- to cover the dynamics of the hybrid sphere where public, private, third sector and citizens interact, and the boundaries that separate them become blurred
- to open up to new tacit (informal, subjective, intangible, context-dependent) knowledge on new needs, new stakeholders, new inputs, new roles, etc.
- to collect and capture information at a variety of scale levels.



LEVEL OF LEARNING				
TACIT KNOWLEDGE	Organisation/actor SI stakeholders (learning within organisations, e.g.: within public agency, social enterprise or self-organised group of vulnerable citizen)	Micro-systems level of SI initiatives (learning between stakeholders in SI initiative)	Meso-system level of regional/thematic SI system (learning between SI initiatives within regions or theme)	Macro-system level of international SI system (learning between countries/themes)
	<ul style="list-style-type: none"> <li>• Discussing SI Business-model canvas with employees</li> <li>• Brainstorm on workplace innovation</li> <li>• Discussion on social mission of organisation; Story telling among vulnerable within a community</li> </ul>	<ul style="list-style-type: none"> <li>• SI Biographies based on interviews with various stakeholders;</li> <li>• Workshops/Labs in which the involved stakeholders exchange knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Workshops/Labs</li> <li>• Platforms for regional sectoral SI strategies; sharing experiences among (SI-) initiatives and actors within the same region/ same theme</li> </ul>	<ul style="list-style-type: none"> <li>• Discussion on including SI in satellite of national accounts;</li> <li>• Lab preparing for international SI indicators;</li> <li>• International conference with SI community</li> </ul>
CODIFIED KNOWLEDGE	<ul style="list-style-type: none"> <li>• Tools for business model analysis &amp; design</li> <li>• Annual reports; CSR accounts</li> <li>• Satisfaction survey among volunteers; survey needs of vulnerable</li> </ul>	<ul style="list-style-type: none"> <li>• Survey among SI case studies</li> <li>• Database of indicators at the level of SI cases</li> <li>• Ex-ante Impact Assessment tool</li> </ul>	<ul style="list-style-type: none"> <li>• SI system mapping</li> <li>• Regional SI indicators framework; neighbour-hood survey</li> <li>• Smart city strategy evaluations</li> </ul>	<ul style="list-style-type: none"> <li>• National accounts</li> <li>• Simulation models for SI</li> <li>• International statistical surveys on SI; mapping global societal challenges</li> </ul>

**Table 7.1**  
Levels of Learning in Social Innovation

## Framework to capture Social Innovation with Metrics **7.1**

Traditional economic metrics and mainstream (technological and business) innovation metrics are hardly appropriate for social innovation. An alternative approach to capture social innovation with metrics is needed:

- Include information from various sectors in society: public, private, third and household sector, in order to capture the hybrid sphere and cross-sector dynamics, because social innovations take place across boundaries of sectors in society. Traditional metrics and underpinnings fail to address this because the boundaries between sectors in society are blurred and the enormous «hybrid sphere» is overlooked in our traditional concepts, studies and surveys. We need metrics and underpinnings which are open to these «hybrid dynamics».
- Financial indicators are not enough, also indicators for intangible, subjective and context-dependent info should be included, because it contains valuable

Account for the cross-sectoral nature of social innovation

Account for intangibility & context-specificity

policy information/intelligence. Social innovation means different things to different people because a large part of the information on social innovation is difficult to codify in cold, objective, impersonal, out of context, standardised categories, indicators, Euros and «real numbers». Most social innovations would not have emerged when vulnerable people would have been treated merely as «numbers», or expressing their needs merely in Euro.

Stakeholders inputs  
& activities

- The indicator-set should include those which capture the needs for social innovation, as well as indicators for the inputs and activities of stakeholders from various sectors which may generate and support social innovation (the potential resources, capabilities, networks, and framing activities which empower and transform). Social innovators are resource integrators who combine inputs from various stakeholders in society, and when their initiative meets the needs of vulnerable groups, it (directly and indirectly, intentionally and unintentionally) creates value for society as a whole. Insight in the needs and potential inputs for social innovation provides policy intelligence and options on how to promote interaction and to organise learning between potential stakeholders in society, e.g. address certain barriers or other systemic failures.

### 7.1.1 Survey Questions and Indicators capturing SI Initiatives

In order to apply the indicator framework at the level of social innovation initiatives, a pilot survey has been constructed to capture the most relevant information of the SIMPACT case studies (N = 55). The limited number of questions have been answered by the authors of the in-depth case studies and included questions on: the type of SI, actors involved, theme addressed, type of funders, objectives, input of resources, obstacles, and impact for various kind of stakeholders, including for instance: increased income, increased capabilities, increased networks and increased self-confidence. The answers to the survey have been used to construct indicators to describe and analyse SI at the micro-level of SI initiatives. The exemplary results presented below can serve policy learning.

Governments  
as funders

The economic impact related to a discharge of public budgets is rated high for social innovations which have a government agency as main funder, while the impact for the social innovator (including gained capabilities) is on average very low. This division of economic impact contrasts with social innovation cases which are mainly funded by NGOs or third sector because they have much higher rated impacts for the social innovator, and less in terms of reduced costs for public budgets. As a consequence, the long-term perspective of social innovations with a government agency as main funder is relatively low.

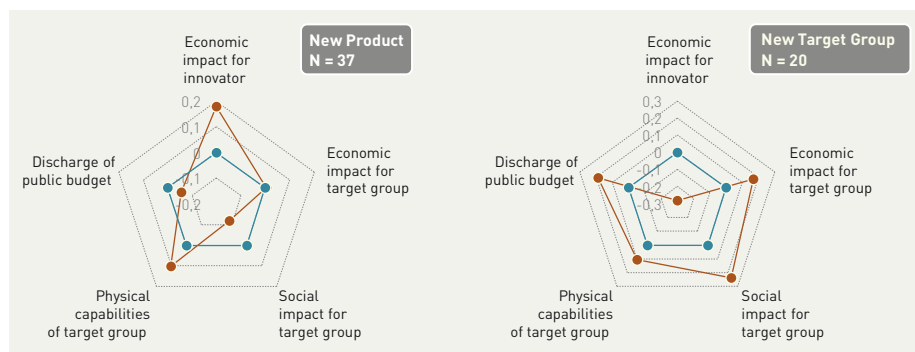
Governments  
as beneficiaries

Compared to investors from the third sector, public funders seem less interested in the innovation and economic capacity of the innovator (either to reward for

the use of it, or invest in enhancing it). Governments appear to use the social innovation initiatives as an option to outsource social policy and generate benefits for their own budget, while the funding of the third sector also empowers the social innovators, and thereby facilitate initiatives' long-term sustainability.

Figure 7.1 illustrates the need to distinguish between different types of social innovation. On average social innovations in the form of products or services perform well as regards the economic impacts for the innovators which can be labelled incremental social innovators. In contrast, social innovations that address a new target group of vulnerable people are lagging behind in all impact fields, except economic impacts for the target group. In order to improve their long-term perspective, policymakers should therefore consider investing in the business capabilities of these more radical social innovators while reducing political, social and financial obstacles innovators often encounter.

Radical Policy Innovation:  
Learning about new needs  
and addressing new groups of  
beneficiaries



**Figure 7.1**  
Impact profile by type  
of social innovation

**NOTE**  
The average impact  
scores of SI cases  
is 0, indicated by the  
regular pentagon

## Indicators on the Regional Context for SI: Implications for Policy Learning

### 7.1.2

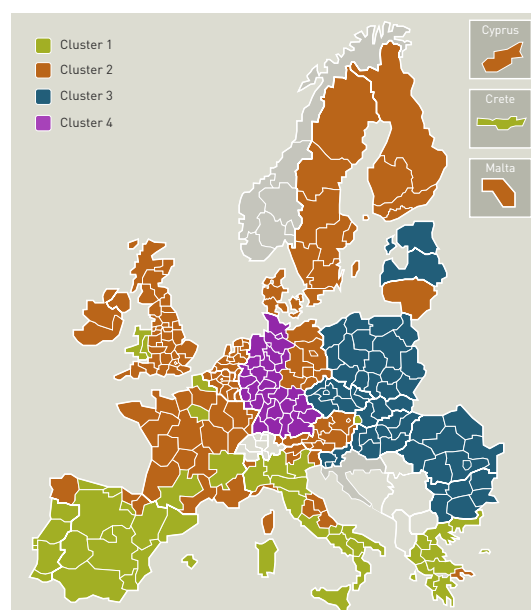
European statistics at regional level on social innovation actors and activities do not yet exist. Nevertheless, statistics relate to social innovation in a more indirect way are available and have been used to indicate the regional context for social innovation. By applying the SIMPACT framework, indicators capture the context of two subsystems as described in → SECTION 4. These are first, the vulnerability of the region based on several indicators on needs for social and second, the context with its potential resources and capabilities which can serve as (promoting, supporting and contributing) inputs for social innovation.

Capturing the context of  
social innovation

**Figure 7.2**  
Four distinct types of  
«Regional Social  
Innovation Ecosystems»

Indicators used comprise, for example:

- Eurostat data on «Early leavers from education»
- Indicators on trust and engagement from the European Social Survey
- Perceived importance of addressing certain needs for well-being from the OECD Better Life Index



Depicted in the figure on the left, a large set of indicators allowed to differentiate between four distinct types of regions or else regional social innovation ecosystems with the EU.

The regional social innovation ecosystems with their distinct degrees of vulnerability, i.e., needs for social innovation and potentials explain much of the differences found between the SIMPACT cases.

Mainly located in the southern part of Europe, in the first cluster of regions social innovations revolve primarily around the themes of unemployment and education, while in the second cluster demographic change (e.g. addressing elderly and children in vulnerable situations) and migration prevail. It also appears that the latter regions possess high potentials as regards the engagement of volunteers.

#### Lessons to be learnt

A policy implication is that there is neither a «one-size-fits-all» best practice social innovation, nor social innovation policy. Social innovation is context-dependent which is a barrier to policy learning and transfer of experiences to other contexts. To, nevertheless, enable the exploitation of the knowledge generated from comparing social innovations at a certain level of analysis (e.g., service/initiative; institution or system level), it is necessary for good practice of social innovation to be de-contextualised from their original context and re-contextualise it to the new context. In this vein, indicators which capture the regional context of social innovation are helpful in identifying differences and similarities at regional level. Learning and selection between social innovations and promoting their transfer as well as related policies between regional ecosystems is most relevant to also scale impact (→ SECTION 5). Accordingly, policymakers and other social innovation stakeholders can best learn from social innovations in regions of the same colour.

## 7.2 Ex-Ante Impact Assessment of SI Initiatives

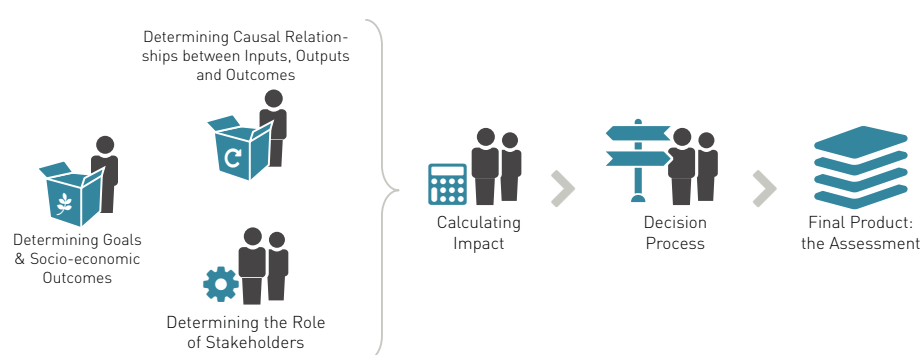
Social innovators and social investors want to do good, but as many commentators acknowledge, they lack a framework to decide upfront what is needed and how to choose between actions. Social innovators are confronted by considerable

scepticism about achieving both financial and social impact with their social investments. They are in need of instruments to learn how to get more impact from their investment. The starting point, however, is also that the social innovators need more financial support. You need to attract finances or combine different financial sources, even if you are not looking for an economic profit or ways to cover the financial costs. A good insight «ex-ante» is therefore not a luxury, but a necessity.

## A Framework for conducting Ex-Ante Impact Assessment

### 7.2.1

SIMPACT is not about developing new sophisticated approaches to match social and economic values for investors. A lot of work has been done in the hundreds of methods that have been developed over time. It is, however, of importance to select those building blocks and integrate these building blocks in such a way that social innovators (and other stakeholders) find solutions to deal with their decision making situation. In the project, this has resulted into a five step approach to ex ante assessment of social innovation. **Figure 7.3** shows the main components of the framework.



**Figure 7.3**  
Five steps form ex-ante  
impact assessment  
to social innovation

This conceptual framework for conducting an ex-ante impact assessment has been applied to three case studies; two case studies covered specific programmes of social innovation, whereas one could be seen as infrastructural, guiding decisions about investing, governing and supporting/monitoring social innovations. Lessons learned from the case studies were deducted for the different steps of the framework. Each of these cases was launched in the past without using some kind of cost benefit analysis or other economic evaluation.

The objective was to improve the working conditions for ageing workers in cities (**LEFC – Dutch Labour and Education Fund**), to get unemployed some work experience (**I-DID**) or to support major social causes in Scotland and improve living conditions of people in difficult situations (**Inspiring Scotland**). All three cases are however at a crossroad: they need to show results to guarantee continuity for their actions. Inspiring Scotland is the only of the three case with previous practice in identifying the social impact of their programmes. All three cases experience

**The cases**  
→ Dutch Labour and  
Education Fund  
→ I-DID  
→ Inspiring Scotland

quite some tensions with and between their sponsors and stakeholders. Their «markets» are under pressure of other projects and (social) investments. An ex-ante impact assessment was conducted with these three organisations to support them in their future decision making. The result of these interventions is helpful for other social innovations. The core questions and lessons are discussed in the following.

## 7.2.2 Measurable Social Impact

How can you clarify your social goals and make them more measurable?

When looking at economic impact of a social innovation, one tries to identify changes in (business) output, value creation, employment levels, income levels and wealth measures. The measurement and estimation of these economic impacts can become a very complicated matter, requiring deep economic and econometric expertise. For most social innovators, this is way beyond of what they need. Economic impacts can be seen at the level of the economy, but also at other meso- and micro-levels. Impacts are not always tangible. In most situations, it will not even be possible to monetise impacts from a social investment. The impacts may also be manifold: unemployment risks may need to be balanced with gender discrimination. For most decision makers, it may not be sufficient to maximise certain social impacts, but rather to optimise different outcomes or to balance certain outcomes. All these outcomes must be calculated. It requires mixed methods to value the different kind of economic and social benefits connected to these investments. But making it even more complicated: assessors will need to check for the intention to change investments (is there any scope creep during the project?); are the results counterfactual, meaning that the social impact results would not have appeared without the investment?; what about the additional impact above what would otherwise have occurred naturally?; and has been accounted for alternative factors that may have induced the impact, for displacement effects on other social groups, and for possible drop-off effects over time (gradual reduction of impact over time)?

Balancing levels of sophistication

In the end, all this sophistication should be balanced by what the social innovator is trying to achieve (and who's funds he or she is using). Common sense is a great good in such matters. Anyway, a rigid analysis does have its advantage in the sense that it helps to identify possible risks related to the future investments that may be planned. Not only the benefits are important, an impact assessment should also take into account which risks exist that may reduce the likelihood to achieve the social impacts. A good assessment will also deliver a risk management plan. A collaborative co-creative approach with stakeholders and other parties is needed to develop a risk management plan that can encompass all of these risks.

## Translating Goals into Practical Action Roadmaps

### 7.2.3

It is not sufficient to just identify the social objectives and the type of investment required. The LEFC case showed that from day one, some actions do not always appear to be the right choice. Numerous project lines were abandoned after several months, either because of too little support from the communes, either the project did not seem achievable within budget and time planning. For the LEFC, it became clear that they needed to be more systematic about thinking how the project lines support the goals they had identified. The technique of the «**Theory of Change**» was very useful for the fund to identify how the required impacts are linked to sub-goals and to the inputs in their project. Discussing these causal explanations was helpful to uncover the preferred impacts in the social innovation and the possible problems in the execution of the projects.

How can you translate your goals into practical action roadmaps?

## Dealing with the Stakeholders

### 7.2.4

Social innovation initiatives are not conducted in an isolated environment. Social innovation has a lot of sympathisers, but only very few stakeholders are prepared to fund or support the project when it starts. Together with the cases, we identified what the stakeholder networks were and how each of the stakeholders added (or influenced) value to the social innovations. It was helpful for each of the cases to see how extensive these stakeholder networks could be. Next, the instrument of «Value Network Analysis» proved supportive in mapping this tangible and intangible value exchange. The «**Value Network Analysis**» gives an overview of the network-as-is. To estimate the impacts, it is also necessary to have a clear view on how the stakeholders co-operate, share and exchange value in the social innovation.

How to manage the sponsors & stakeholders needed in your decision making?

In estimating social and economic impacts, the involvement of stakeholders in a co-creation process is of prime importance. The impacts of a social innovation are not a simple given thing. Valuing impacts is a subjective process, it requires context and connection to the interests of stakeholders in the social innovation. Social innovators and other stakeholders need to co-create the impact assessment. The process should be done in such a way that the role of the stakeholders becomes clear. Borrowing from the «**Measuring Impact Framework**», stakeholders should only be integrated once the estimations have been prepared. Stakeholders should have a clear view on what they can bring in their ideas.

Stakeholder involvement through co-creation

## Co-creation as an Explorative Exercise

### 7.2.5

The following question is how to approach the ex-ante part of the impact assessment. Ex-ante means that the impacts should be predicted. One of the most developed predictive models is «**Exploratory Modelling and Analysis**».

What kind of result can you expect from such an ex-ante impact assessment?

The lesson from this model for policymakers and investors is that the predictive exercise helps to understand what inputs help to influence social and economic outputs and outcomes, but also to see how «much» of the actual outcome can be influenced. Using these lessons allows to build benchmarks such as, for example, the IRIS (Impact Reporting and Investment Standards) and GIIRS (Global Impact Investment Rating Systems). Scenarios can be elaborated and teach us how to deal with future change once these impact futures move in the direction of one of the calculated scenarios. Building these scenarios is also helpful for identifying the risks that possibly influence the achievement of the required economic and social impacts. It is important to understand which enablers and barriers exist for achieving the impacts. Within social innovation, the possible social benefits are more likely to happen. This means that to achieve these benefits, an impact assessment should also take into account which risks exist that may reduce the likelihood to achieve the social impacts.

### 7.2.6 A Toolbox for Social Innovators, Policymakers and Social Investors

In conclusion, our conceptual framework aims to be a practical guide to both assessor and assessee by structuring the development and decision process. A toolbox has been developed, which consists of a series of steps sprung from our conceptual framework. Possible tools for performing a social impact assessment are not limited to those proposed in this toolbox and customisation is needed to provide a tailor-made ex-ante assessment of social innovation.

#### Read more

- Wintjes, R., Es-Sadki, N., Glott, R. & Notten, A. (2016). Improved Measurement of the Economics of Social Innovation. *SIMPACT Statistics Brief*, 2016(1). Gelsenkirchen: Institute for Work and Technology. Available at [http://www.simpact-project.eu/publications/sb/SB\\_2016-01\\_Wintjes\\_et\\_al.pdf](http://www.simpact-project.eu/publications/sb/SB_2016-01_Wintjes_et_al.pdf).
- Van Bree, T., de Heide, M. & Dhondt, St. (2016). Linking Social Innovation to National Accounts. *SIMPACT Statistics Brief*, 2016(2). Gelsenkirchen: Institute for Work and Technology. Available at [http://www.simpact-project.eu/publications/sb/SB\\_2016-02\\_Dhondt\\_et\\_al.pdf](http://www.simpact-project.eu/publications/sb/SB_2016-02_Dhondt_et_al.pdf).
- SIMPACT's «Measurement & Evaluation Toolbox» available at: <http://www.simpact-project.eu/tools/evaluation.htm>



A large, stylized number '8' is centered on the page. It is composed of two overlapping circles. The top circle is white with a grey center, and the bottom circle is white with a grey center. The text is overlaid on the bottom circle.

# **INTERPLAY OF SOCIAL INNOVATION, WELFARE STATE & MARKET**

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## **SECTION 8**

**8.1 Social Innovation & Welfare Regimes | 8.2 Social Innovation & Inclusive Growth**

# 8

## INTERPLAY OF SOCIAL INNOVATION, WELFARE STATE & MARKET

In order to successfully shape future transition processes from micro level social innovation activities to the solution of macro level socioeconomic challenges it is necessary to better harness the societal and economic potential of the many dispersed local social innovations. This requires us to critically reflect and advance our welfare regimes and governing institutions with regard to social innovations' impact on institutional change. Also, it is to be acknowledged that social innovations' contribution to inclusive growth is essentially based on open innovation models characterised by distinct forms of interactions which, in turn, require behavioural shifts at the level civil society, public and private sectors.

Micro, meso and macro level  
of social innovation

New ways of thinking and alternative approaches are needed for dealing with European socioeconomic challenges. That is what social innovation is all about. As has been shown in the previous sections, social innovations as novel combinations of ideas and distinct forms of collaboration cover a broad range of practices that transcend levels of governance (micro, meso and macro), institutional boundaries and sectors. At the micro level the many small, locally embedded, initiatives address a broad range of distinct needs. By empowering vulnerable groups to fully participate in social, economic, cultural and political life they actively facilitate processes of inclusion. At the meso level social innovation is about institutional change. That is, social innovators as «rule breakers» challenge established institutions such as rules, laws, attitudes, and modes of governance. At the macro level social innovations imply a new division of labour between the sphere of politics, i.e. welfare regimes and the institutions that govern them, civil society and market-driven economy.

Social innovators – societies'  
«hidden champions»?

We find a strong relationship between the institutional context, social innovation dynamics, objectives and impacts. Awareness, sharing attitudes, self-organisation, and solidarity are key motives for citizens to engage in social innovation activities. Given the limited scope of the social innovation initiatives, innovators' success in developing alternative solutions is, however, often not recognised by the wider public.

Forasmuch, one of the key challenge is to better harness the societal and economic potential of the dispersed and unrelated social innovation activities to facilitate the transition from small-scale local engagements to the solution of the socioeconomic challenges Europe is facing. To this end, SIMPACT has elaborated a toolbox to strengthen the economic capacity of social innovation activities (→ [SECTION 3](#)), a social innovation ecosystem (→ [SECTION 4](#)) that functions as seedbed for stimulating, resourcing and sustaining social innovation including distinct modes of policy production (→ [SECTION 6](#)) as well as mechanisms to scale social innovations' impact (→ [SECTION 5](#)).

Exploiting social innovations' potential

Inevitably, utilising social innovations' societal and economic potential on the one hand means generating impact at the level of welfare regimes and governing institutions that are shaped by economic and social contexts, but on the other also contributing to inclusive growth.

## Social Innovation & Welfare Regimes

### 8.1

Drawing on SIMPACT's case studies locating social innovations in the welfare regime we find four distinct positions:

Social innovation contradicts rule-based rational

#### 1. Social Innovations as «Niche Solutions»

Social innovation activities occupy niches of the welfare regime. Examples are different modes of self-organisation that partially depend on subsidies of the welfare system and aim at self-empowerment. Although such initiatives do not have an immediate effect on the welfare regime, they support beneficiaries to actively participate in social life.

#### 2. Social Innovations as «Complementary Solutions»

Traditional welfare regimes are marked by rule-following behaviour that eschews experimentation, personal decision making and individual enterprising. Although to a certain degree required, related regulations, laws and rules impede responding to and build on individual needs and potentials. Social innovations fill this gap by empowering vulnerable people according their needs while utilising their specific strengths.

#### 3. Social Innovations as «Embedded Solutions»

- Social innovations as «embedded solution» are in the one way or the other integrated in the implementation of welfare regimes. Such embeddedness is associated to
- initiating new modes of cooperation between different social services and other public actors,
- bundling information,
- connecting initiatives and facilitating the division of labour between the projects,

- strengthening the professional structure of the public service by training or better and more efficient use of vouchers.

Just as «niche solutions», these activities do not result in direct institutional change but contribute to enhancing welfare regimes efficiency.

#### 4. Social Innovations as «Experimental Solutions»

Experimentation is an inherent characteristic of social innovation. Although such practices challenge established welfare institutions, they seldom influence welfare regimes directly. As has been outlined in → SECTION 1, it is the cumulative impact of many social innovations in a certain field, rather than the single initiative that facilitates institutional change.

From «Bureaucratic» to the  
«Enabling Welfare State»

It is precisely this variety of social innovation and related practices that present policymakers and civil servants with many practical and conceptual roadblocks for which they are ill prepared. The classic notion of the «bureaucratic», as enunciated by Max Weber, is one marked by rule following behaviour. Instead the state is organised around the application of formal rationality that seeks to replace the substantive rationality of everyday life and existing social practices. In our discussions with policymakers representing social innovation within their respective ministries, we found that this clash is palpable to them. They find themselves isolated in arguing for innovation and flexibility, whilst decision making continues to follow rule-based rational calculation with means and evaluations expressed in purely nominal terms. Social innovation highlights the difficulties and the possibilities that policy and policymakers face in moving from the «Bureaucratic» to the «Enabling Welfare State». The question is what needs to change in that transition and what kind of enabling state is required.

Key areas of change

SECTION 6 showed clearly where some of the changes have to be made, and what new public forms are needed to enable social innovation.

- States have to deal with a great **complexity of actors and levels**, meaning that they must handle diversity rather than hand down uniform macro-level policies.
- A new, **participative inclusive model of governance** is required, one which operates within and across myriad interfaces, networks and micro groupings rather than seeing them as challenges and distractions. Some policymakers have begun to experiment with new modes of policy production and delivery, focusing on the creation of ecosystems capable of stimulating, resourcing and sustaining social innovation in ways that reflect both its contextual embeddedness and the creativity that underlies it.
- One central issue is to find ways of **sharing control** within that diverse arena so as to empower social innovators in enabling change and making real, sustainable gains. This is the opposite of a zero-sum game in which one party gains control as another party loses it.

## Social Innovation & Inclusive Growth

## 8.2

Social innovations addressing vulnerable groups in society have an, as yet underestimated potential to contribute to the Europe 2020 priority of inclusive growth. That is, more and better jobs, helping people to anticipate and manage change through investment in skills and training, modernising labour markets and welfare systems, ensuring the benefits of growth reach all parts of the EU. According to SIMPACT's findings, such community-based understanding of inclusive growth should consider the following aspects:

**First**, inclusive growth has to be based on the integration of seemingly disadvantaged people in the economic process. Companies' awareness of social and economic inclusion needs to move beyond mere sponsoring, but requires commitment including the willingness and ability to drive workplace innovation.

Integration and awareness

**Second**, inclusive growth necessitates open innovations that integrate civil society in the innovation process through, for example, co-creation. For related practices it is, however, not enough to treat civil society just as another element in the innovation process, as is reflected in the debate of moving from triple to quadruple helix. Unemployed, migrants and other people affected by exclusion have the knowledge necessary to design solutions that lift them out of their constraint situation; they know about the shortcomings, needs and requirements clearly before markets recognise these, if at all. The very fact of promoting the empowerment of vulnerable people and their active participation in the innovation process as well as underlying social processes contributes to inclusion.

Open innovation integrating civil society

**Third**, social innovation is embedded in a process of different and complex modes of interaction which are marked by competition, cooperation, conflict, and bargaining. These interactions involve a variety of actors from various sectors and fields of practice, acting at different levels and in specific contexts with their own rationale. Forasmuch, achieving the goal of inclusive growth cannot be limited to the application of pure principles of market economy but should take into consideration social, economic, and contextual factors and dynamics. Rather evolutionary changes in the markets must be accompanied by political leadership in terms of framing inclusive growth irrespective of market failure. Social innovators have to outpace bricolage attitude and economically sustain their activities. Actors from public, private and third sector as well as civil society must overcome the current «silo»-thinking and associated deficit in strategic thinking to implement comprehensive solutions.

Complex interactions, evolutionary changes in markets & political leadership

**Fourth**, co-evolution and mutual learning require an open and interactive flow of knowledge which is a matter of intellectual property rights in traditional economic thinking. Social innovations' dynamics, however, are shaped by knowledge sharing, imitation, and cooperation. Overcoming the limits of locally embedded knowledge is crucial for social innovations' contribution to inclusive growth.

Knowledge sharing, imitation & cooperation

Public and private research organisations or social innovation hubs, for example, acting as intermediaries or else boundary spanners could facilitate the necessary knowledge flows and processes of mutual learning.

A new division  
of labour

**Finally**, inclusive growth is embedded in a broader discussion about a new societal division of labour between public and private sector, and civil society. Although exceeding the focus of SIMPACT activities, this is particularly important for our understanding of the «economic underpinning» that goes beyond the mere marketisation of social innovation. As discussed in → [SECTION 1](#), social innovation will realise its potential contribution to inclusive growth to the extent it can unfold its social and economic impact for vulnerable people as well as for society as a whole. This can only be achieved when civil society, public and private sector co-evolve, accompanied by changes of markets shaped by an institutional frame that incorporates social and economic factors as well as their interplay.





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