

## The role of Main Institutions

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# EFESEIIS

Enabling the Flourishing and  
Evolution of Social Entrepreneurship  
for Innovative and Inclusive Societies

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## AN INSIGHT INTO PROJECT RESULTS



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# Index

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Introduction	PAGE 4
1. Characteristics of Social Enterprises and Social Entrepreneurs	PAGE 7
2. The behaviour of decision makers in Social Enterprises	PAGE 15
3. Towards a New Generation of Social Enterprises	PAGE 21
4. The role of Social Capital	PAGE 29
5. The role of Main Institutions	PAGE 33
6. Mapping Stakeholder Networks	PAGE 39
7. A theoretical “Beagle voyage” through the landscape of SEs in Europe	PAGE 45
8. An Enabling Ecosystem for SEs	PAGE 53
9. Recommendations to stakeholders	PAGE 61
Final Remarks	PAGE 68
References	PAGE 73

## Introduction

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Social Enterprises (SEs) have received great deal of attention in Europe in recent years. European SEs especially are in the spotlight after the Social Business Initiative was launched by the EU Commission in 2011. SEs are perceived as being able to satisfy the growing need for social services in the context of decreasing public spending whilst also creating employment opportunities, especially for people who have been excluded from the labour market (De-fourney and Nyssen, 2006; Borzaga et al., 2008). The positive understanding of the SEs presence in a society has increased in the policy discourse because of the economic crisis. It has also contributed to the increase in attention on the relationship between SEs and the system in which they are set.

Since SEs are seen as having a positive impact on society and as contributors to human and economic development (Scarlato, 2012; Biggeri et al., 2016), in many countries the need emerged to understand the best methods to promote their establishment and continued success. In order to understand these issues, to contribute to the academic debate on SEs and to give useful policy advice on a truly enabling ecosystem, in November 2013 a consortium of 11 organisations<sup>1</sup> started an ambitious three-year research project covering 10 countries: Albania, Austria, Denmark, England, France, Germany, Italy, Poland, Serbia, Scotland and The Netherlands. The EFESEIIS<sup>2</sup> research project had four main objectives: to identify the features of an “Enabling Eco-System for Social Entrepreneurship”; to identify the “New Generation” of Social Entrepreneurs; to build an “Evolutionary Theory of Social Entrepreneurship”; to provide effective policy advices to stakeholders.

In order to pursue and achieve these research objectives, the consortium implemented a complex research design with different work packages built both on qualitative and quantitative methodologies. The results were analysed in detail to explore how social entrepreneurship and social enterprises emerged in the project partner’s countries - their co-evolution with major institutions, the reciprocal influence with the ecosystem in which they are set and how people that recently founded social enterprises differ from those that founded social enterprises many years ago. All project partners carried out in-depth case studies on the new generation of social enterprises. They also carried out several interviews and focus groups with stakeholders, together with a survey on social enterprises. As a result, more than 1,500 social entrepreneurs and stakeholders have been involved in the research activities during the three year project.

<sup>1</sup> The research consortium was led by PIN S.c.r.l. Servizi didattici e scientifici per l’Università di Firenze (Italy) and formed by the following organizations: Glasgow Caledonian University (Scotland); Fondacija Za Razvoj Ekonomske Nauke (Serbia); Impact Hub (Austria); Nxitja e Biznesit Social Sha (Albania); Science Po -Fondation Nationale des Sciences Politiques Paris (France); Stichting Dienst Landbouwkundig Onderzoek – Alterra (The Netherlands); Syddansk Universitet (Denmark); University of Northampton (England); Uniwersytet Warszawski (Poland); Westfaelische Wilhelms- Universitaet Muenster (Germany).

<sup>2</sup> EFESEIIS (Enabling the Flourishing and Evolution of Social Entrepreneurship for Innovative and Inclusive Societies) has been funded from the European Union’s Seventh Framework Programme under grant agreement no 613179.

Thanks to the passion, knowledge and experience of social entrepreneurs and stakeholders, the consortium was able to produce several reports, publications and policy recommendations. An excerpt of this wealth of information is included in this dissemination book with the aim of providing readers with an accessible overview of the main results of the research project EFESEIIS. The topics of the different chapters of the book are addressed in more detail in the academic papers, reports and publications available on the project website [www.fp7-efeseiis.eu](http://www.fp7-efeseiis.eu).

Each chapter of the book briefly tackles one of the main subjects addressed during the research, as follows:

- The first chapter presents the main results of the survey in order to provide a picture of European social entrepreneurs and social enterprises;
- The second chapter presents the results of a behavioural experiment to identify the behaviour of decision makers in social enterprises and of decision makers in other types of enterprise;
- The third chapter provides an overview of the structural features, enabling (or hindering) factors, biographical traits and survival strategies of the new generation of social enterprises based on 55 in-depth case studies;
- The fourth chapter provides an insight into the role of social capital in the social economy;
- In the fifth chapter the authors address the role of the main institutions in developing (or hindering) social enterprises;
- In the sixth chapter, stakeholder network maps are used to identify four 'ecosystem types' across the 10 partner countries;
- The seventh chapter gives an insight into how evolutionary theory can be used to account for the great differences in the ways that the social enterprise sector has matured and developed across Europe;
- The eighth chapter provides a definition of an enabling ecosystem and a first analysis of ecosystems according to their software and hardware features.
- The last chapter presents advice to stakeholders on how to improve the European ecosystem for social entrepreneurs.

We believe that in light of all these strands of research, understanding which features of the system enable or hamper SEs to thrive in different contexts is of paramount importance. Moreover, these features need to be understood in an evolutionary perspective in which they co-evolve together with the SEs. The knowledge of how these evolutionary processes develop over time as a result of the various interactions between the features of the system and of the SEs can inform policy makers on how to draft policies that are able to create favourable conditions in which SEs can thrive. Thus, conclusions will summarize the main contributions of the EFESEIIS project and provide a set of policy advices for policy makers and the stakeholders of other SEs.



# Characteristics of social enterprises and social entrepreneurs

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## Who are EFESEIIS social entrepreneurs?

Dees describes social entrepreneurs as

*“playing the role of change agents in the social sector by adopting a mission to create and sustain social value, recognizing and relentlessly pursuing new opportunities to serve that mission, engaging in a process of continuous innovation, adaptation and learning, acting boldly without being limited by resources currently in hand, and finally exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created”* (Dees, 1998, p.4).

Following Dees the EFESEIIS project defines social entrepreneurs as individuals (or group of individuals), who provide social needs through entrepreneurial activities.

The EFESEIIS project provides an overview of the defining features shared by Social Entrepreneurs and SEs in the eleven countries studied<sup>1</sup>. The project included a survey covering 850 social entrepreneurs, as well as focus groups and a large number of face-to-face interviews. In the survey we included questions that sought to understand social entrepreneurs' life-course both as individuals and as representatives of the enterprise in which they work. In so doing, it has been possible to identify the features of the entrepreneurs and the enterprises. The survey sample design was based on available information on SEs in each of the respective countries. When the number of entrepreneurs was high and a list available we used random sampling; in the remaining cases, we fell back on purposive sampling. The sampling results are satisfactory as the main characteristic of the population is similar to those reported in other studies. For instance, the gender composition is evenly split. This finding is consistent with the European Parliament's study of women's entrepreneurship (McCracken, K., et al., 2015), which shows that the gender gap among social entrepreneurs tends to be smaller than for profit-oriented entrepreneurs. It is also consistent with the results of other research (Harding 2006; Bacq et al. 2016). The social entrepreneurs in our sample are also highly educated. In fact, three-fifths of them have a minimum of an undergraduate university degree.

<sup>1</sup>The data for each country and specific thematic focuses are available on the project website. <http://www.fp7-efeseiis.eu/>

## Why does a person become a Social Entrepreneur?

If we ask why survey participants wish to work in a social enterprise, it becomes clear that the motive to establish or work in an enterprise for social reasons seems to trump personal economic goals. In particular, only 12% of respondents cited 'self-employment' as their primary motive for participating in a social enterprise, while 40% indicated that their primary goal was to address a social problem. These findings are consistent with previous studies of European social entrepreneurship. In particular, European social enterprises tend to gear economic activity to their social objectives (or 'mission') rather than allowing economic opportunities for income generation through trade in goods or services to drive their activities (Defourny & Nyssens, 2012, p. 13). Thus, the primary goal of social enterprise is to achieve a social impact that directly benefits a given community or group of people (Borzaga, C., & Defourny, J., 2004).

The willingness to solve a problem directly experienced by a social entrepreneur was cited by 14% of interviewees. Slightly less survey participants (10%) mentioned the importance of pushing innovation in existing social services as the main reason for starting a social enterprise.

No significant differences in motivations can be distinguished by gender or age. Nevertheless, younger people were slightly more likely to view SEs as a self-employment opportunity. This reflects the recent growth and popularity of the sector, which is increasingly seen as a credible alternative to traditional business. Younger social entrepreneurs were marginally more likely to engage in SEs in order to tackle some of the existing inadequacies of existing social service.

## What are Social Enterprises?

This project draws on the definition of a social entrepreneur adopted by the EU Commission. According to the EU Commission (2011, p. 2), a social entrepreneur is

*“an operator in the social economy whose main objective is to have a social impact rather than make a profit for its owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities”.*

As the EFESEIIS research findings confirm, SEs vary greatly within and between countries. Much of this variation depends on the nature and the level of development of the national/territorial ecosystems in which SEs are situated. SEs operate in different sectors, take on different legal forms, differ in their capacity to remain in the market, and depend on external finance (grants, donation, bequests and benefactions) to varying degrees. They also differ in terms of their overall income, how they use their profits, and the number of employees and volunteers.

In terms of the legal form of SEs, the EFESEIIS survey indicates that the majority of organisations are cooperatives and companies, followed by charities, NGOs and associations. The high number of SEs in the form of NGOs and associations in countries such as Albania reflects the degree of development of the SEs' ecosystem in the country in question<sup>2</sup> and the absence of recognized legal structures for SEs as well as recognition that SEs are viable options for addressing social issues.

Most of the SEs in our sample operate in the service sector (predominantly in traditional fields of the third sector such as health care, social work and education). Nonetheless, recently growing sectors such as the arts, entertainment and recreation, hotel and catering, media services, professional, scientific and technical activities, and administrative and support services, already account of almost one-third of the survey sample. Primary industry is represented by 7% of organisations, while the secondary sector is smaller. The presence of SEs in non-traditional sectors reflects the flourishing of the social economy within varied and innovative environments. It also reflects the fact that most of the social enterprises included in our study are relatively new and are attracted by these sectors.

In most of the countries surveyed, the majority of SEs in our sample were either totally independent or only partially dependent on external finance (money from grants, bequests and benefactions), and were involved in economically sustainable activities. SEs that are set up as foundations, associations or NGOs appear to be more dependent on grants and benefactors. Nonetheless, around one third of SEs set up as companies do depend on external finance, especially during the start-up phase.

The capacity of SEs to mix market and non-market revenues as sources of income clearly emerges from the survey. Organizations that are sustainable through market activities employ a larger portion of paid staff, compared to financially dependent SEs that rely mostly on volunteers. Half of our sample relied on volunteers to undertake activities.

<sup>2</sup>See the final chapter of this book for a discussion of different types of ecosystems.

SEs that engage in market activities work with both private and public customers (including companies, citizens, authorities). The types of customers depend on the type of sector and the market they operate in as well as how the welfare state is organized in the country in question. For example, in countries such as Italy, where the welfare sector has been decentralized, many SEs work for public authorities in managing social services.

Social Enterprises face many challenges over their lifetime which vary according to country and the extent to which the ecosystem enables – or hinders – their development. Following the EFESEIIS survey, we have been able to identify the most common enabling and constraining factors<sup>3</sup>.

The questionnaire focused on the evolution of social enterprise with particular reference to the nature of the challenges faced at different stages of their development. The main challenges in the start-up phase were associated with the legal and fiscal framework (mentioned by 40%) which can be too bureaucratic or can present problems due to failure to adequately contemplate the appropriate legal form of the SE in question. Lack of funding (mentioned by 28%) and lack of skills (mentioned by 34%) were also issues for many SEs.

In the current phase, the lack of government funding and the weight of bureaucracy are viewed as challenges by 24% and 20% of SEs respectively. These are followed by difficulties in getting funds from private sources (14%), competition with for profit businesses (13%), problems competing for public tenders (13%), lack of favourable tax treatment (13%) and diminishing profit margins (12%).

## Social enterprises and their capacity to create innovation

In order to face these challenges and provide solutions for unmet social needs (or increase the effectiveness of existing strategies), SEs strive to innovate. Some of these initiatives fall within the domain of social innovation defined as

*“new solutions (products, services, models, markets, processes, organizations, etc.) that simultaneously meet a social need (more effectively than existing solutions) and lead to new or improved opportunities and relationships and better use of assets and resources”* (Young Foundation, 2012, p.18).

<sup>3</sup>For an overview of the opportunities and challenges faced by SEs see Focus n.6 on EFESEIIS website

The innovative nature of social enterprise is characterized by their embeddedness in the local context. As stated by the participants of our focus groups, SEs are able to effectively create new combinations of local resources and forge new social relations due to their knowledge of local problems and opportunities. It is important to understand the factors that drive SEs to innovate.

The relevance of social enterprises as innovators prompted the inclusion of a separate module on their innovative practices in the EFESEIIS survey<sup>4</sup>. About 80% of SEs engaged in innovation with respect to products, processes, finance or marketing; and around 50% innovated in response to a change in the external environment. The main drivers of innovation were new kind of social needs and unmet social challenges, financial distress, strategies to find profitable niches in the market and increase competitiveness, and adaptation in response to changes in policies and the legislative framework. Innovations can be found in products, services, production systems and internal processes, changes in the business-model, networking strategies and relations with customers, marketing channels, and brand strategy.

The interest in innovation seems to increase over time especially among those SEs set up sometime between 1980 and the turn of the century. This can be explained by the need of well-established firms to reinvent their products and services in order to maintain a competitive advantage.

Innovation in different business areas (such as products and services, processes, finance and marketing) have varying implications for market competitiveness, social outputs and the environmental impacts produced by SEs. The performance of SEs in each of these areas are briefly considered in turn.

- Increases in the competitiveness of SEs: in total 71% of SEs ranked innovation in products or services (that is, improvements with respect to their characteristics, uses and provision) as either “very important” or “extremely important”. Innovative marketing designs (relating to marketing channel, brand design, and customer interaction) were important for 69% of SEs. Process and financial innovation (relating to business model and funding sources) were regarded as having slightly less impact on the competitive advantage of SEs (around 60% of respondents said this was ‘very important’ or ‘extremely important’).
- Achieving greater social impact: the majority of respondents believe innovation in products or services is essential not only to beat competitors but also to achieve a greater social impact (70%). In this respect, marketing (61%), process (58%) and financial (55%) innovations are less relevant.

<sup>4</sup>Again, the data for each country and specific thematic focuses are available on the project website

- Achieving greater environmental impact: less than 40% of respondents rated innovation to meet environmental challenges as “very important” or “extremely important”. Among different innovation strategies, product and service innovation (37%), together with market innovation (36%) were the main strategies for tackling environmental issues. Product and service provision can be improved in an effort to become more environment-friendly, and marketing strategies help to communicate the environmental principles of the SEs.





# The behaviour of decision makers in Social Enterprises

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## Introduction

Social Enterprises (SEs) are often confronted with a range of constraints and challenges during the different phases of their existence, from start-up to maturity, being constantly required to balance economic sustainability with social impact<sup>1</sup>. In recent years SEs in several countries, such as England, Italy and Scotland, have faced increasing market competition, both from other SEs and from for-profit enterprises, shrinking resources from the public sector and higher standards required by public authorities in awarding public tenders. By definition, the primary objective of SEs is to solve a social or environmental problem. Traditional companies might see this as a secondary objective and usually look at profit maximisation first. From this difference in objectives it could be inferred that SEs behave differently from traditional firms by making more pro-social choices. However, in reality there is a continuum of organisational behaviours and objectives between for-profit firms and SEs (Borzaga, Depedri, and Tortia, 2010).

In the EFESEIIS project we decided to assess whether decision makers (including entrepreneurs and managers) in SEs and in the other types of enterprises (OTEs) make different decisions, and to understand what the outcomes of these decisions are in terms of enterprise profits and benefits for society. We expected decision makers in SEs to take more pro-social choices than their peers and to contribute more to the well-being of society. We addressed this question using a behavioural economics approach (Feicht et al. 2016; Valente, 2015) and ran several lab experiments and a behavioural questionnaire at the University of Florence and at the University of Glasgow.

## The SEs behavioural experiments

The sample selection was based on standard method. In Italy for instance, all social enterprises<sup>2</sup> in the provinces of Florence, Prato, and Pistoia were contacted and invited (via e-mail) by the researchers to take part in the research. These 316 enterprises, which formed the entire SE population, were taken from a list prepared by the Chambers of Commerce. Of these, 199 are based in the main cities of the three provinces: 125 in the city of Florence, 20 in Prato and

<sup>1</sup> To know more about the challenges of SEs check the thematic focus N°6 Challenges and obstacles on the EFESEIIS website [www.fp7-efeseiis.eu](http://www.fp7-efeseiis.eu)

<sup>2</sup> As social enterprises we considered A and B type social cooperatives and social enterprises ex-lege 155/2006

44 in Pistoia. The OTEs were invited via email directly by the local Chambers of Commerce to take part in the research.

As 120 enterprises (60 for each group) agreed to take part in the research, they were contacted by e-mail by the research team. At the end of this complex process, 74 decision makers attended the experiment sessions, 36 from SEs (11.4% of the SE population) and 38 from OTEs. All decision makers lived and worked in the same, culturally homogeneous metropolitan area of the cities of Florence, Prato and Pistoia.

The behavioural experiment was run over four different sessions, where all decision makers had to come to the computer lab of the University of Florence to play a market game. Each participant was then given an identification number (ID) and directed to the lab, where the researchers conducted the experiment. The researchers did not know the participants' identities.

In the lab experiments, decision makers of SEs and of OTEs had to make incentivised decisions in a fully computerised simulated market.

During the market game, each decision maker was paired with another decision maker, not known to them but with whom they would interact to simulate the market. A decision maker from an SE could be paired with one from an OTE or with one from an SE. The same applied to decision makers from OTEs. Therefore, pairs could be formed by the following types of decision makers: SE with SE, SE with OTE and OTE with OTE. Each participant represented a firm in a vertically differentiated duopolistic market.

During the game, the pairs were confronted with the situation of a market in which they had to choose the price at which to sell a hypothetical product and the amount of social quality of the product. It was explained that the social quality of the product equalled its production cost. Each decision had three main outcomes for the decision maker: market share, profit and social impact. At the end of each round, market shares for the two firms were artificially determined through a mathematical algorithm reproducing preferences of consumers with a certain degree of social consciousness. A firm's market share was positively dependent on the social quality of the product and negatively dependent on the social quality of the product of the competitor. On the other hand, a firm's market share was negatively dependent on the price of its product and positively dependent on the price of the product of the competitor. Then both the profit (simply the price, cost and market share) and the social impact (depending on the social quality of the goods produced and on the market share) were calculated for each participant and summarised on the computer screen, together with their own choices and those of the competitors.

Each decision maker, after answering a few comprehension questions, played

the game for 10 rounds to allow scope for learning.

Decision makers were also informed that they would be paid in cash immediately after playing the market game, according to the results achieved (based on a random extraction of one of the 10 rounds). The payoff earned in the different sessions would be paid directly to them, while the result achieved in terms of social impact would go to international and national charities and NGOs such as UNHCR, OXFAM, Greenpeace, Mani Tese Firenze, Fondazione ANT and Noi per Voi.

### Results of the behavioural experiment with decision makers

The variables of interest in the simulated market are the quality of the goods offered and the mark-up (price minus quality) required by the subjects in the game rounds. The actual outcomes in terms of the social impact and realised profits are also relevant to our analysis, in particular whether or not those variables are affected by the relative presence of SEs in each market.

The quality offered does not differ significantly between the two types of decision makers in general, whereas the Social do offer more quality than their counterparts in the mixed groups.

The most important differences between the two types of decision makers are found in terms of mark-up and profits, both of which are larger for the OTE decision makers (DMOTE) than for the SE decision makers (DMSEs). This effect is particularly strong if one compares the two kinds of homogeneous groups. In fact, in homogeneous groups, where the market is populated only by DMOTEs or DMSEs, the latter ask for significantly lower prices and provide higher quality than the former. This dynamic is not present in mixed markets. This could suggest that for some services in which the public has an interest in maintaining accessibility, it could be more convenient for society as a whole to create a market only for SEs.

Perhaps surprisingly, the social impact of the various markets does not vary significantly from the composition of the various groups, so the number of (presumably) socially oriented subjects does not affect the resulting social impact on average. This can also be explained because the social impact calculated in the experiment depended on the social quality of the goods produced and on the market share obtained by the decision makers of the two groups. DMSEs in mixed groups generally obtained a smaller market share, even if providing a relatively higher quality. This could mean that in situations where there are SEs and OTEs, policy interventions may be required by public authorities to artificially enlarge the market share of SEs in order to have more social impact.

Overall results suggest that there are indeed significant differences in the market dynamic generated by the DMSEs and DMOTEs. However, none of the expected results are borne out by the experimental evidence. The DMSEs do not offer significantly more quality and the external effect due to markets with more DMSE types is no greater. Only when the market is mixed are dynamics in line with the expectation that DMSEs offer more quality than DMOTEs. In general, the type of decision maker does not appear to be a good indicator of social outcomes due to the business choices that are simulated in the experiment.

These results are quite interesting since they give us food for thought about markets and interactions between decision makers with supposedly different objectives. The common understanding of SEs leads us to think that DMSEs will take more pro-social decisions and therefore achieve greater social impact. However, the results of this first experiment appear to partially challenge this understanding.

More research is needed to better assess these interactions and to fully understand behaviours of both DMSEs and DMOTEs.

### Results of the behavioural experiment with students

The same experiment has been run with two different groups of students. One group was made up of students enrolled on a course named Economic Development and International Cooperation (EDIC). These subjects are usually quite socially active and sensitive to social/environmental issues and might be seen as similar to future DMSEs. The other group was made up of students of business administration (SBA) and they might be seen as similar to the future for-profit entrepreneurs DMOTEs.

The EDIC subjects showed a higher quality on average and obtained lower profits. Such results seem to be driven by two distinct facts: in the mixed markets the EDIC subjects indeed offer significantly more quality. The homogeneous groups with two EDIC students, in turn, demanded less mark-up and raised fewer profits than those with two SBA students. The social impact dimension did not show significant differences among the different groups.





# Towards a New Generation of Social Enterprises

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## Does a “new generation” exist?

This chapter provides an overview of the main organizational characteristics, forms of diffusion and identity-based specificities that contribute to shaping the “galaxy” of New Generation Social Enterprises (NGSEs) in Europe. Data suitable for the analysis mainly comes from qualitative research. Indeed, the fifty-five case studies selected in the partner countries have been carried out by applying a multi-disciplinary methodology encompassing organizational life histories, narrative methods and in-depth individual and collective interviews as well as participatory exercises, desk analysis and – in some cases – shadowing techniques.

Our **main research objective** was to verify the existence of a “new generation” of social enterprises and identify its specificities at the transnational level. Specifically, the analysis sought to explore the extent to which this supposed “new generation” of social enterprises: (1) scales up social innovation to address crucial community-related problems, reducing poverty, joblessness and a lack of reliable access to basic services such as education, energy, health, etc.; (2) utilizes different approaches from the previous generation to create social value; and (3) uses specific narrative modes to express its values, visions and organizational culture.

Social entrepreneurs are often addressed as a “heroic”, unique group of people (Light 2010; Zahra et al. 2009), focusing on the “personality” of social entrepreneurs and identifying very special traits, including a strong ethical fiber (Drayton 2002; Bornstein 1998), exceptional leadership skills (Thompson et al. 2000) and a passion to realize their visions (Bornstein 1998). However, these studies have an inherent problem of bias given that they only choose to analyse successful entrepreneurs (Mair and Marti 2005). In our inquiry, we attempted to overcome this bias by addressing this field from a much more critical perspective. We did not aim to identify typologies of social entrepreneurs, but rather to assess whether this perceived NGSE could actually be legitimately identified as such, with behaviors (i.e. in governance, use of networks, models of enterprise, values and driving forces, work styles, etc.) and needs that are different from previous conceptualizations of social enterprises.

## Structural features

In selecting the “new generation” social enterprises for our sample, we privileged the **foundation period** as our main criterion while all the other variables were considered as features to be examined locally. We chose 2006 as the reference year due to two phenomena: in 2006, Muhammad Yunus, founder of Grameen Bank, was awarded the Nobel Peace Prize, giving rise to a series of initiatives to promote training, research, evaluation and consulting activities in relation to social enterprises in different European contexts; while the intensification of the economic crisis in Europe had a number of repercussions on the social enterprise sphere, with progressive cuts in public spending in several areas of welfare and a consequential intensification of unmet social needs. In turn, this led to the emergence of new areas of expression for social businesses.

Although the majority of the social enterprises selected are newly established, the sample also includes entities founded before 2006; however, over the last few years, these enterprises have radically reformed their organizational structure, taking on a more entrepreneurial vocation. A large proportion - half of the sample - got started between 2009 and 2011, during an intense economic crisis. The remaining enterprises are equally distributed from 2006 to 2008 (23%) and after 2012 (26%). In some cases, the foundation year only represents the moment of formalization at the end of an incubation period for an idea that originated in the past, while in other cases the biographies of the founders display previous attempts to create socially-oriented initiatives. Therefore, the story of the various phases of constituting the enterprise reveals a fragmented and rarely linear path.

One of the most difficult aspects to standardize is the **formal-legal dimension**. 44% of these companies are ordinary companies, generally small and in many cases sole proprietorships. Apart from their legal character, social enterprises (especially new generation ones) seek to maintain a balance - often precarious - between the need to make a positive social impact and the need to make their activity economically sustainable.

A significant feature of the enterprises in question is that they are relatively economically independent from the public system. In over the 70% of the cases examined, at least two-thirds of their **income** comes from non-public sources, while for 67.3% at least one-third is paid directly by final users. The source of economic revenue varies considerably: 80% of the respondents have their income generated from final users, 61.8% from other forms of fundraising (project-based, donors driven activities, etc.), 27.3% from public procurement and 60% from a mix of the aforementioned sources.

The reduced dimension of these companies in terms of income are in line with **their small size** in terms of workforce and number of employees: two thirds of respondents classified their enterprises as having fewer than ten full-time equivalents (FTEs). The work teams are often supplemented with occasional collaborators, partnership networks and volunteer work. This kind of work frequently spills over into the sphere of personal investment, aimed at ensuring self-employment, involving a strong identification with the enterprise. Participating individuals experience a continuity between “customer”, “supporter”, “volunteer”, “worker” and “member,” whereby this choice of how to involve human resources represents a peculiar aspect that distinguishes NGSEs from both conventional companies and non-profit or third-sector organizations.

It is not an easy task to summarize all the **areas of intervention** taken into account and, especially, to extrapolate generalizations. The main sectors, environment and sustainable development, Integration of disadvantaged categories, intermediate labor market initiatives for unemployed people, education-related services, health and disability-related services, include diverse sub-categories of intervention that end up overlapping and intertwining.

#### NGSEs areas of intervention



## Settlement and enabling/disabling factors

Although many companies aspire to achieve a global presence, only 7% characterize their work as “essentially” targeting a global audience. Another aspect considered is the territorial/geographical presence. Whether the NGSE was located at the frontiers (margins), at the center or in expansion areas emerged as an important variable, given that these different positions truly raise distinctive challenges and opportunities for SEs. The first group comprises businesses headquartered in **deprived or marginalized areas** where people’s expectations are lower, opportunities are fewer and services are not straightforward to access or responsive to needs. These areas might be either urban and rural, and are characterized by a weakening of community bonds through discrimination, lack of skills, low income levels, limited employment opportunities, poor infrastructure and, in many cases, isolation. NGSEs still have a unique importance in such areas. The second type, social enterprises operating in **areas currently undergoing requalification or expansion**, is rather common among the case studies. The organizations located in areas subject to urban regeneration processes are a typical example. While it is true that urban regeneration can be a meaningful arena for neighborhood social entrepreneurship and community-driven alternatives to failing private and public markets, it is conceivable that social enterprises play a role that is less virtuous and more speculative in these contexts, acting in pursuit of private interests. In other cases, organizations prefer to be located in **areas considered “central”** because they enjoy greater institutional support and a more favorable ecosystem, as well as often being hotspots from a political perspective. This need is further intensified when the mission of NGSEs leads to them facing new challenges and emerging needs in a “glocal” way. Locating an enterprise in a strategic area can fulfill the need to give breath and visibility to its mission, or can be decisive in the pursuit of new trends or the attempt to anticipate them.

We also found the coexistence of different instances of **innovation** that vary in type and intensity which could be defined as “peak” or “leading-edge innovation” and “valley” or “cascade innovation”: on the one hand there are innovative processes developed based upon a profound understanding of the context and a well-reasoned analysis of its problems and opportunities; while on the other, there is a less marked form of innovation arising from the transfer of solutions that have already been tested.

The most frequently-mentioned **disabling factors** include legal constraints, a lack of institutional support, bureaucracy and increasing administrative efforts, dependency on private donations, subjection to founders’ personalities and popularity, weak business engines, being too project-dependent, a lack of reserves and a lack of qualified personnel.

Among these issues, economic and financial weakness of firms particularly stands out.

Due to their hybrid model, SEs are called upon to privilege their vocation of making a social impact over profit or figures in the financial statement, with the result that the latter area is often disregarded. The most common problem is precisely their **weak business engine**.

A number of **enabling factors** also emerged, including informal networks, the role of donors and sponsors, the support of business angels, incubators, mentoring and umbrella organizations as well as celebrities, testimonials and journalists, but also awards and prizes. The economic crisis is considered both a limit and an opportunity. In fact, NGSEs gain their energy from reduced public spending, owing to the associated increase in social needs.

### Biographical traits

The **human dimension** of social enterprises is crucial, which is equally true of new generation ones. The **average age** of founders is around 42 years, which calls into question a persistent myth in the world of “new” social enterprises suggesting a direct correlation between the new generation of social enterprises and the new generation as a whole. The **female component** of founders - confirmed by the EFESEIIS survey targeting 318 NGSEs (WP3) - is well represented, averaging around 50%, a much higher percentage compared to the founders of both conventional businesses and social enterprises as well as organizations of earlier constitution.

The majority of people with a key role in these businesses come from one of two contexts: the business or other professional sector, or the world of activism in the social or political spheres. Beyond the importance of **individual career paths** and/or **civic commitment**, the experiences and existential events populating the biographies of social entrepreneurs play a crucial role in determining the choices and steps that shape the life cycle of a company. Nonetheless, the figure of the founder is insufficient to characterize the identity of these organizations. Our investigation seeks to emphasize the **choral role** of the enterprise, especially in the phase of its actual implementation. When analyzed through its human component, the new generation social enterprise appears a mesh of intentions and the result of a partially overlapping set of force fields:

- it represents an intermediate step along a transitional path for men and women in the midst of their existential journey, rather than young people looking

for a first, uplifting work experience;

- it is a space for expression for a mostly feminine universe, eager to emerge and seize opportunities that are closer to their own inclinations and ambitions;
- it is sometimes experienced as a stopover for managers of companies active on the market, disappointed by the universe of values from which they came and interested in putting their skills to the service of a “good cause”;
- it can also be a testing ground for third-sector business operators who are dissatisfied with the traditional formulas of the non-profit sector, or simply concerned about the decline in the public market of social policies;
- for some, these organizations are spaces for sublimating and exorcizing personal traumas or pain, experiences of vulnerability and marginalization, thereby turning a personal affliction into a virtuous and edifying story to experience and recount to others;
- they typically represent a meeting place in which people recognize and celebrate a shared purpose and put into practice a form of involvement that goes well beyond the provision of wage labor, in an “enterprise” that is unavoidably fueled by common values, practices and languages.

### Survival strategies

Research on NGSEs explores the productive engine of SEs, highlighting their most innovative aspects, encompassing - among others - governance and decision-making processes, gender or age balance, the use of ICT and social media, coping mechanisms and collaborative workstyles. Social innovation appears to be an essential ingredient of NGSEs, which particularly translates into the tendency to turn problems into opportunities. In fact, the experiences described here highlight the importance of implementing **coping strategies** to overcome the obstacles that are encountered along the way. At the same time, they prompt us to reflect about the **adaptation and resilience** shown by this new generation of social enterprises, as well as their propensity to work in networks and give rise to forms of collaborative economy.

**Social innovation** is scattered and disseminated at multiple moments throughout the case studies, in their stories and phases of development. Many companies are distinguished by the way in which they envisage the use of space, both physical and virtual. Hotels, restaurants or pubs rediscover new vocations,

become spaces of co-working and co-creation, the expression and aura of the spirit of a community. The same is true of web pages that explore new dimensions of 2.0 sociality. The concept of **reshaping space** can also be understood in a broad sense, revealing a rather cross-cutting propensity for reinventing disruptive practices in relation to conventional codes that are characteristic of both the business world and the third/non-profit sectors. Nonetheless, less than half of the SEs that we encountered seemed to invest mainly and decisively in ICT and social media, which casts doubts upon clichés of a close tie between SEs, social innovation, technological innovation and social media.

Many NGSEs cultivate a strong **educational vocation**, cross-cutting the types and scopes of intervention in which they engage. Some display a tendency - almost a specific need - to grow in a rapid and unbalanced way, pursuing paths that a traditional enterprise would not dare to follow without first having consolidated its business model. The possibility to **exploit the social economy** and incorporate it in conservative rather than transformative ways is displayed - at least potentially - in some of the cases analyzed. By facilitating the transfer of services out from the state, there is also the risk that NGSEs may contribute to the state of affairs in which local communities are obliged to increasingly manage their own welfare.



# The role of Social Capital

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## The Value of Social Capital

### ***What does social capital mean?***

Social capital is seen as a form of capital, although unlike other forms of capital it is integral to the structure of relations between and among actors (Coleman, 2000). In simpler terms, social capital means features of social life – network, norms and trust – that enable participants to act together more effectively (Putnam, 2000).

Many authors indicate a positive value of social capital, particularly trust and willingness to cooperate with others. Social capital also empowers individuals to take some risk and explore new opportunities (Coleman, 1988).

There are two types of social capital - the one we build in close-knit circles of people well known to each other (the bonding type of social capital) and the one where we open up to contacts from the outside, with people not so well known to each other (the bridging type of social capital) (Putnam, 2000).

### ***The main components of social capital: Trust and cooperation***

#### Trust

Trust is seen as an essential part of social capital. Trust, as it exists amongst neighbours, peers and group members, leads to a high level of solidarity. It is the key driver for undertaking cooperative actions (Fukuyama, 1996; Coleman, 2000). Some authors equate trust with social capital, as in, “Trust or social capital determines the performance of society’s institutions” (La Porta et al., 1996; p. 3).

#### Cooperation

The second pivotal dimension of social capital is cooperation (Woolcock, 2004). The more that individuals are in regular contact with one another, the more likely they are to develop a “habit of cooperation” and act collectively. Cooperation, one of the central tenets of social capital, is perceived as a value per se (Praszkie & Nowak, 2012).

### ***The importance of social capital for social economy***

An important consequence of social capital is the inclination that arises from participating in social networks to do things for each other (norms of reciprocity). Social capital makes it easier to achieve certain ends (Coleman, 2000). For example, it has been shown to facilitate entrepreneurship (Chong & Gibbons, 1997) and the formation of start-up companies (Walker et al., 1997). It is important to note from this study that social enterprises mobilise social capital (Evers, 2001). For example, a community café contributed to building social capital in a disadvantaged urban area in London (Bertotti, 2012).

### ***Reaching out from well-known circles***

#### What glues a society?

The question of what glues societies has been inspiring sociologists and psychologists since the first half of the 19th century when the French thinker Alexis de Tocqueville, in his book “Democracy in America” (de Tocqueville, 2003), expressed his fascination with the vibrant associational life that bolstered American democracy and its economic strength. For de Tocqueville, personal interaction in voluntary associations provided the social glue that helped to bond individual Americans together. This social glue, called social capital, is seen as a blend of networks, trust and cooperation. It perpetuates development, empowers people, raises their self-esteem and makes them happier and more optimistic (Putnam, 2000).

For a society to be glued, not only connections among homogenous groups (the bonding type of social capital) need to be established but also lineages across diverse social groups (the bridging type of social capital; Putnam, 2000). Strong ties within close-knit groups seem more natural - we usually trust and socialise with those most known to us (families, friends, neighbours or professional colleagues). The less obvious is “gluing” with other groups and with those little known or unknown to us.

#### The power of weak ties

The propensity to build social capital is not inherent and it depends, above all, on the perceived strength of the ties among individuals. For example we may tend to establish trusting and cooperative relationships in situations where we perceive bonds to be strong, e.g., with family members or long-term close friends, professional colleagues and neighbours well-known to us. On the other hand, we are typically slower to trust and cooperate with strangers. Through his research on the acquisition of jobs, Granovetter (1973) found that the connections that proved most effective in this context were not close friends but distant acquaintances. This led to the hypothesis that there is “strength in weak ties.” Granovetter’s studies confirmed that not only did weak ties

result in greater job opportunities, but also that those who found jobs through strong ties were far more likely to have had a period of unemployment between jobs than those using weak ties (Granovetter, 1983).

Establishing weak ties requires cognitive flexibility and an ability to function in complex organisations (Granovetter 1973) – the characteristics critical for operating in the area of social economy.

## Our research and recommendations for the future

We measured the characteristics of social capital as related to social enterprises in 10 European countries. We made several important findings, especially in support of the claim that social enterprises mobilise social capital (as indicated before by Evers, 2001).

Moreover, the research documented a visible difference between the much higher level of social capital generated in “old enterprises” (established before 2006) compared to “younger enterprises” (established after 2012). This means that over time the “old enterprises” weave the many social relationships which become a source of support. These results may also suggest that the “old enterprises” successfully underwent critical phases of organisational development (implementing solutions that allowed them to function and thrive) while the unsuccessful units did not manage to survive. This selection process may still be ahead of “younger enterprises”.

Additionally, the results showed that socio-economic organisations, which combine social goals with economic activity, tend to obtain higher levels of trust and a sense of support among their members compared to non-profit and for-profit organisations.

It is also interesting to note that the level of cooperation tends to be higher in relationships perceived as “distant” (weak ties) and lower in those perceived as “close” (strong ties). This means that they are not entrenched in close-knit circles. On the contrary, the entrepreneurs within social enterprises are open to cooperation with new and distant partners, which is promising for the development of their organisations.

Our results have documented a high level of social capital in the area of social economy in all 10 European countries. Moreover, all types of social enterprise studied demonstrate a high level of social capital.

As the issue of trust and cooperation appears crucial for social economy, we would recommend including Social Capital Modules in the training for social entrepreneurs. There appears to be a consensus that social capital generates economic capital, as there are many untapped resources embedded in the network of relationships.



# The role of Main Institutions

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## Between the state and the market

One of the major questions emerging from the EFESIIS research program is how to balance the entry of social entrepreneurship in social services that can, have or should be provided by the welfare state. It is usually accepted that social entrepreneurship is a legitimate way to complement and fill the gaps of a welfare system that has to evolve to meet a more complex set of demands in the post-industrial society. However, is social entrepreneurship only a way of devolving welfare provisions, particularly in the wake of the latest economic crises? Should it be interpreted as part of a neo-liberal or new public management scheme to privatize public institutions? Some stakeholders stress the importance of operating as an entrepreneur or innovator, using the latest managerial and organizational tools from the mainstream economy to address social, environmental and/or economic issues. Conversely, others argue that the social economy should be an alternative to the current system of the liberal market economy.

Both orientations are possible. With a model mainly based upon private initiatives, the UK has over 70,000 social enterprises, employing over a million people and contributing over £24 billion to the economy (Social Enterprise UK, 2015, p.4). By contrast, with a much more interventionist system in which public authorities finance and regulate an important part of the social economy, France is undoubtedly the EU country in which the field is most developed in quantitative terms: 'Sources indicate that in 2010, the 23,000 organizations surveyed generated between 8% and 15% of GDP, employed between 2 and 2.3 million people, which corresponds to almost 10% of the French workforce' (Gérardin and Poirot, 2012, p. 142). While the social economy clearly plays a significant role in some countries, it still remains embryonic in other countries where there are relatively few social enterprises, such as Albania.

The current ecosystem of social entrepreneurship is strongly determined by previous institutionalization during the industrialization-process during the last century. As most countries in Europe turned to more democratic political systems after WWI, the social side of the economy began to be integrated into

the emerging welfare regimes to varying degrees. The characteristics of social protection systems have taken different forms in different countries, particularly depending on the influence of the state, the market and/or solidarity relations such as neighbors or family (Esping Andersen, 1990). As social and health care services constantly develop – at both the local and national levels – they are either crowded out and not considered services to be provided by the public or insurance companies or provided by complimentary service providers on behalf of the welfare system. In Eastern Europe, the rise and eventual power of the communist parties gave way to a state-controlled economy and civil society, which effectively eradicated the possibility for social entrepreneurs to act within the economic or social spheres of society until the fall of the iron curtain in the late-20th century.

The rolling back of state provision of welfare services in both the ex-communist European countries and the remaining European countries – due to adopting a more neo-liberal or new public management type of approach – has obviously opened up opportunities for alternative service providers, including social entrepreneurs. It is possible that the 2008 crisis has triggered a move in the other direction, encouraging governments to more directly control the market, particularly through the social economy. Such intervention has been described in the past as a response to economic deregulation and as a state where the market should be “embedded” (Polanyi, 1944).

## The role of the EU

At the EU level, entrepreneurship has increasingly come into focus as a potential stimulus for societal value creation. As the European Commission stressed:

*“Social economy actors and social enterprises are important drivers of inclusive job creation as they often employ disadvantaged people and/or provide them with services or goods, but they also have strong potential for rethinking economic and social policy action. They have an important role to play in the search for new solutions to societal problems and social innovation. Hence, they require specific support schemes as well as incentives for getting started. The ESF may be able to provide assistance for actions in favour of capacity building and support structures for the promotion of social enterprises, in particular through social entrepreneurship education and training, networking, the development of national and regional strategies in partnership with relevant key stakeholders, the provision of business development services and by facilitating access to finance” (European Commission, 2014).*

Beyond declarations, progress is not easily achieved. In particular, the issue of the European statutes of social economy has never been met, despite several projects (Pezzini and Pflüger, 2013). Although the statute for a European cooperative was adopted in 2003, those for a European mutual and a European association have never emerged. In each instance, the intergovernmental negotiations failed and consequently the European Commission was unable to find a compromise. Launched in 2011, the Social Business Initiative had the merit to put the social economy onto the European agenda and foster debate at the national level. An expert group on social business was thus created by the Commission, which is still working in 2016. However, the Juncker Commission's position is weak and has decided to "clear the table", namely eliminating all issues that are not unanimously approved by Member States. Consequently, social entrepreneurship is no longer a European priority but rather is considered as falling under the responsibility of national governments.

### School systems and learning

Throughout the eleven countries studied, the lower tier of education (compulsory school) seems to have very little room for social entrepreneurship and innovation in general; instead, most courses devoted to these issues take place in higher education, such as universities and equivalent colleges. This "academisation" of the subject is unfortunate, as it limits the scope of social entrepreneurship to a group in society that is least likely to be socio-economic vulnerable. Moreover, the subject itself is less likely to have the practical, inclusive and dialog-based approach that the reality of social entrepreneurship requires when taught academically.

Nonetheless, there are some good examples of peer learning, sharing experiences and communities of practice-type centers. Scotland has perhaps the most supportive environment in Europe, with several bodies offering courses and management support for social entrepreneurs. In the Netherlands, social entrepreneurs have formed Social Enterprise NL, which offers peer learning, coaching, master classes and legal advice for their members and aspiring social entrepreneurs. France has regional councils of social and solidarity economy, which offer channels of communication with the local and national authorities, while in Sweden the government has tried to roll out various support programs, although these have often been tied to higher education and have not been very successful in inducing peer learning or sharing practical knowledge between social entrepreneurs. Moreover, across (almost) all of Europe, the Innovation Impact Hub - like other intermediaries - offers similar support either during the start-up phase or to accelerate innovation process within the social area.

Many learning and capacity-building initiatives are still managed in a top-down manner and are concentrated towards higher education institutions, hinting at difficulties in finding a model of encouraging the management and organization of social entrepreneurship in groups of society that probably need it the most. In order to reach a broader spectrum of classes, social entrepreneurship has to be taught earlier in schools, with a greater emphasis on peer learning.

### Financial support

A lack of access to funding is generally highlighted as major obstacle for social entrepreneurs to start and grow their operations. Very few countries have large funds that specifically target social entrepreneurship and even fewer that stretch over a longer period, meaning that most social enterprises are forced to look for alternative financing options, given that they face difficulties in accessing the mainstream financial sector. Funding are various and come from selling services and/or products, crowdfunding and donations, private capital from friends and family, as well as public funds directed at various welfare provisions, starting up on very minimal funds, mainly investing their own time and money. Furthermore, international NGOs, foreign aid organizations and philanthropic organizations are common sources of investors, mainly in Eastern countries.

However, the difficulty seems to relate to convincing traditional financiers to invest in a venture that might not have a defined mature market in today's business sense. The dilemma facing existing and prospective social entrepreneurs is that to access financial capitals on the market, they need to present a business plan and demonstrate a managerial thinking making them more similar to mainstream entrepreneurship, thus granting access to financial systems, albeit at the cost of losing the spirit and essence of being a social entrepreneur. Accordingly, the question that beckons is how to maintain the traits of being a social entrepreneur while organizing economic activities in a manner and language that satisfies the financial system.

The dilemma is similar when turning to public funds to finance operations: in order to fulfill requirements, adequately report on spending and results, manage transparency and fulfill bureaucratic regulations, social entrepreneurs can be "trapped" by the dependency of public funding, slowly turning into local branches of government through the process of organizational isomorphism (Di Maggio and Powell, 1983). The current trends of managerialism and bureaucratic requirements within the public sector will eventually "rub-off" on the social entrepreneur as a service provider, adding layer after layer of bureaucracy to its organization and eventually making it indistinguishable from any other

public organization, especially when scaling up and expanding its operations. Financial issues are evidently not only technical but to some extent also have political implications. The type of funding (whether public or private) and the procedure to access it (whether more or less stable and/or time-consuming) have a direct impact on how social enterprises work, the kind of services they deliver and which group or population they target (Chabanet, 2017).

### What can institutions do for SE?

The institutionalization of social entrepreneurship is a particularly complicated process. Social entrepreneurship's strength is based upon the notion that it is rooted in specific local contexts and primarily grows in a close relationship with the public that it serves. However, public policies that assist social entrepreneurship - whether local, national or European - often aim to increase its weight and size to change its scale. This shift from "small" to "large" and from "local" to "national" is often a challenge for national governments, given that they have to consider the territorial specificities of social entrepreneurship. Given the diversity of social entrepreneurship organizations, policies supporting its development usually follow a "bottom-up" process and are implemented at the municipal or regional level. To summarize, it is difficult to promote social entrepreneurship nationally while maintaining its (social) identity and values.

Moreover, the credibility of the social economy and its ability to grow are closely linked with its social impact and thus how it is measured, reflecting an issue of strong discussion and controversy. However, this debate is necessary and identifies two orientations that are difficult to reconcile: on the one side, in times of crises, policy-makers are frequently interested in social entrepreneurship, primarily perceiving it as a way to fight unemployment and thus playing a kind of reparative function; and on the other side, social entrepreneurs want to make a lasting contribution to reducing social inequalities, promoting a sustainable economic system and a fair world. Accordingly, social entrepreneurship must find a balance between these two directions and somehow satisfy the needs of both policy-makers (politicians) and practitioners (social entrepreneurs).



## Mapping Stakeholder Networks

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As has been noted earlier in this book, social enterprise is a global phenomenon that is attracting increasing interest from academics, policy-makers and practitioners as a means of solving what have been termed society's 'wicked problems' (Rittel and Webber, 1973). The role of institutions has already been outlined in the previous chapter (see Chapter 6) in relation to the state and market; finance; education; and international institutions such as the EU. However, understanding institutional processes and logics and how policy frameworks drive behaviour within these, tells only half the story. In order to contextualise how these various institutions (and the stakeholders contained within them) interact requires an understanding of the social linkages that exist between them. Understanding these social connections is crucial to the development of any robust ecosystem model of social entrepreneurship within a given 'space'<sup>1</sup>, and also acknowledges the 'social' element of these networks in shaping behaviour. Research has identified how such behaviour can be shaped by socio-economic, political, cultural and historical factors (Roy et al., 2015; Hazenberg et al., 2016a), but in order to assist policy-makers, and other relevant stakeholders seeking to develop flourishing social enterprise ecosystems, to fully understand the effects of actions it is also key to understand the social networks that exist within social enterprise spaces. This chapter provides a typology of social enterprise ecosystems in relation to the mapping of stakeholder networks and identifies four main types within this (Statist-macro; Statist-micro; Private-macro; Private-micro). These typologies are used to argue that the efforts of policy-makers and other interested stakeholders should be focused on increasing pluralism within ecosystems. The chapter begins with a short exploration of social networks and stakeholder pluralism in social entrepreneurship, followed by an in-depth examination of the typologies identified across the eleven countries that participated in the EFESIIS project. The chapter then concludes with policy recommendations for supporting the development of flourishing (and pluralistic) social enterprise ecosystems.

It has long been conceived that economic behaviour is embedded in social networks and systems, and that these networks constrain and/or enable behaviour amongst actors that is not always rational (Granovetter, 1985; Mehra, Kilduff, and Brass, 2001; Qureshi, Bistruck and Bhatt, 2016). This social 'embeddedness' (Granovetter, 1985) and the social interactions that exist within an ecosystem, are fundamental to the flow of resources from and between insti-

<sup>1</sup> This term is used loosely here, to refer to multiple types of space within which social entrepreneurship could exist within (e.g. geographic region; economic sector; specific public services).

tutions, whether these resources are financial, intellectual, or emotional (Uzzi, 1996; Jack, 2005). These different stakeholder groups can consist of: policy-makers; funders; investors; practitioners; entrepreneurs; academic; lawyers; and accountants to name just a few. In the field of social enterprise research this is not a new phenomenon, as a number of authors have explored the effects of social networks on social franchising, innovation and embeddedness (Zafeiropoulou and Koufopoulos, 2013; Qureshi et al., 2016; Smith and Stevens, 2010). These papers identified greater social enterprise network pluralism leads to wider resource access and increased innovation (Qureshi et al., 2016; Smith and Stevens, 2010).

The research data that has been used to develop the stakeholder typology of social enterprise ecosystems contained in this chapter is based upon primary data gathering that took place across the 11 partner countries and comprised of 117 one-to-one interviews and 20 focus groups<sup>2</sup> involving 141 participants. The total number of participants engaged in the research was therefore 258 social enterprise stakeholders. These data were then used to produce 11 stakeholder maps – one for each country – designed to identify the key stakeholders involved in each country’s social enterprise ecosystem and categorise the types of relationships that exist between them. The data and the maps produced from them were then analysed in order to develop the social enterprise ecosystem typology that is presented below. The analysis revealed four ‘ecosystem types’ across the 11 partner countries: Statist-macro; Statist-micro; Private-macro; and Private-micro; as well as the identification of a pluralistic zone that sits across these four types. The characteristics of each type is summarised as follows:

- **Statist-macro:** This type is characterised by reliance on centralised state institutions at national or international levels, in which policy/funding mechanisms are utilised to support the development of social enterprises to deal with social problems. The ecosystems present within this typology are often less commercially sustainable as they are reliant on grant and/or directed funding and are homogenous in the types of social enterprises that emerge (particularly around work-integration social enterprises). There is a lack of localism and a lack of collaboration between stakeholders at the macro- and micro-levels, but relatively strong formalised social entrepreneurship education in schools. The countries within this type are: Albania; Austria; France; Poland; and Serbia.
- **Statist-micro:** While this type is also reliant on state institutions for funding and policy support, this is much more embedded at a local level through procurement and community initiatives. There is also widespread use of central

<sup>2</sup>Focus groups were required to have a minimum of six participants so as to ensure representation of stakeholder groups/views. In reality, this minimum number was not always possible to achieve.

state and European funding for local social enterprise support, with the former often being in the form of subsidised loans rather than grants. The localised nature of the ecosystems present within this typology leads to heterogeneity in the ecosystems present. Again, WISEs are common as the state sees social enterprises as a robust labour-market integration method for vulnerable groups. The countries within this type are: Scotland and Sweden.

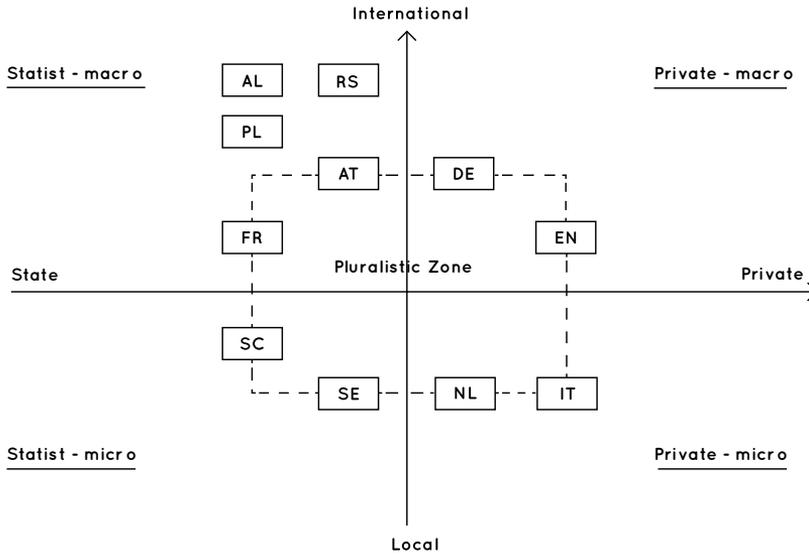
- **Private-macro:** This type is characterised by a lack of state financial subsidy; however, the state does utilise policy in an effort to assist social enterprises to become more market orientated. Funding is therefore provided through competitive contracts and social investors, although the focus on social value in procurement varies at a local level (despite national attempts to encourage this). Inclusive labour-market policies are less common within this typology and formalised social enterprise education in schools is almost non-existent. The countries within this type are: England and Germany.

- **Private-micro:** Like the private-macro type, the private-micro type seeks to promote greater marketisation of the social enterprise sector and encourage income diversification. However, this is not driven at the macro-level by state policy, but at the local level by regional associations and local government. This type is characterised by capitalisation problems for social enterprises and diversity in policies to encourage labour-market integration. The formal education of social entrepreneurship in schools is almost non-existent and collaborative networks between the micro- and macro-levels are poor. The countries within this type are: Italy and the Netherlands.

The typology identified and the four types that exist within this, have important implications for those stakeholders that wish to support flourishing social enterprise ecosystems. Indeed, it has been identified within the EFESIIS project that social enterprises are seeking survival within the turmoil of socio-economic systems (During et al., 2016) and that whilst this implies competition, there is in fact a growing number of collaborative stakeholders developing strategic partnerships (Hazenberg et al., In Press). This growth in collaboration is what can be termed the 'pluralistic zone' (see Figure 7.1 below) and the development of any of the four ecosystem types towards greater pluralism should be the goal of any stakeholder that wishes to develop robust social enterprise ecosystems that are better able to help solve Rittel and Webber's (1973) 'wicked problems' and build more inclusive societies. This is because greater pluralism through diversified income; stakeholder collaboration; evidence-based policy; and cultural relativism provides social enterprise ecosystems with an enhanced ability to endure economic downturns, political volatility, and improve organisational performance. It is such pluralistic networks that allow social en-

terprises to see the ‘truth’ (Dey and Steyaert, 2012); resist dominant discourses (Jones et al., 2015); and act innovatively (Dey and Steyaert, 2016) by creating areas of low power distance (Puumalainen et al., 2015) and increasing trust and collaboration (Zafeiropoulou and Koufopoulos, 2013; Qureshi et al., 2016).

Figure 7.1 – A typology for social enterprise ecosystems



Adapted from Hazenberg et al. (In Press). The diagram outlines the four ecosystem types and the pluralistic zone, as well as identifying each partner country’s perceived position within the typology.

This chapter has sought to demonstrate the importance of understanding the stakeholder networks that are present within a social enterprise ecosystem, in order to identify the mechanisms that would best facilitate the creation of a more pluralistic social enterprise ecosystem. It is clear that depending upon the social enterprise ecosystem type that a country or region has, the mechanisms for supporting greater pluralism will differ. For example, in the Statist-macro type, greater localism, diversification of funding away from state sources, and more developed social enterprise networks are required to drive pluralism. However, it is also important to recognise that this model only presents a generalised typology, and that the reality is that the development of regional ecosystems (just as in biological ecosystems) is a fluid process that requires constant reassessment as the environmental conditions change.





# A theoretical “Beagle voyage” through the landscape of SEs in Europe

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## **An evolutionary perspective on social enterprise**

EFESEIIS shows a big diversity across European countries and between cities within countries in the way that social enterprise has become a sector in itself. In an attempt to understand this diversity, an evolutionary perspective has been adopted that helps to account for the pluralism causing mechanisms. This perspective may also help to distinguish enabling environments from those which are disabling. Therefore we see the social enterprise as a new species of enterprise, trying to establish itself in the turmoil of the economy and social life. We see it as the result of the co-evolution of economic change (that started with corporate social responsibility and other forms of sustainable business practices, such as the circular economy), reactions to austerity measures and new trends in active citizenship (the so-called participation society). Although business and social scholars often use biological concepts for developing a deeper understanding of what happens in this intermediary zone of two academic traditions, e.g. economic ecosystem theory (Dodd, 2013; Nambisan & Baron, 2012) or social system theory focusing on path dependencies (Van Assche, Beunen, & Duineveld, 2014a), no attempt has been made to consistently use an encompassing description of evolutionary theory to account for diversity and the path of dependencies leading to this diversity.

Several reasons can be considered for using evolutionary theory to understand social enterprises. Social enterprises cannot be understood solely as economic activities that can be reduced to a business model and its monetary characteristics, it is even problematic to separate them from their social context, just as a highly specialised species in a rainforest will not survive outside its natural habitat. Producing social output and impact over time goes hand in hand with an increasing web of diversifying social relationships, as with succession in an ecosystem and other related biological concepts of evolution. Any small social enterprise can be the beginning of a societal change that alters the (institutional) framework of society, just like the co-evolution of individual genes and their effect on the ecosystem as a whole via traits.

Using evolutionary theory in the analysis of social enterprise implies the application of three fundamental principles - variation, selection and heredity. Evolution here starts with an idea. Variation can be seen in the way a social entrepreneur creates, adjusts and puts his ideas into practice. Already in the area of ideas there is competition, sometimes inhibiting even the start of an enterprise. Some start with impact, others with inclusion or with finance. There is a rapidly growing repertoire of entrepreneurial action addressing the social needs of society. The process of selection is creating evolutionary pathways and here is where the ecosystem becomes important - the environment being more or less receptive to the idea of the entrepreneur. Some ideas will be rejected and others embraced. The huge variety of ideas and social enterprise practices will decline in this phase of the evolution; only those who are fit will survive. And then there is heredity - the process of learning over generations of ideas and enterprises. Mastering the art of creating synergy between impact and return on investment is at stake here. Learning takes place everywhere, in networks of social entrepreneurs and within ecosystems. This may give rise to social innovations such as institutional change or new entrepreneurial structures. Tipping points resemble the short phases in evolution wherein acceleration happens, stepping stones resemble the pathway to system change (Scheffer, 2010).

From an evolutionary perspective the following question can be posed: Does the social entrepreneur change the structure of society or is society itself changing in such a way that new niches for social entrepreneurs emerge? The question can also be put in terms of the economic and social systems: Does the social enterprise sector become fully integrated in the neo-liberal economy or are new social arrangements, shaped as business initiatives, changing the economy?

Reflecting on these questions requires an analysis in which the evolution in various European countries and in various cities is scrutinized and compared. EFSEIIS partners made a national analysis of the social enterprise sector and created a detailed analysis of the structures with a historic overview, a map of stakeholder relations and a questionnaire. Although notions on the evolution in each country infused and informed this analysis, a specific evolutionary analysis has been accomplished by the partners. The analysis as evolutionary pathways in social enterprising has the following components:

- Analysis of origination
- Analysis of traits, leading to success and failure
- Co-evolutionary analysis of the social entrepreneur and the ecosystem
- Analysis of enabling and inhibiting environments
- Analysis of path dependencies

Below we will build on the results of these analyses and finally discuss the transformative evolutionary power of the social enterprise sector while reflecting on this question of systemic change.

## Variation

Obviously there is a huge variation in the social enterprise sector. The first level of variation is caused by a choice of working with social inclusion principles or striving for social impact (or both). A second level of variation emerges due to the choice of addressing specific or combining more social impact areas. In evolution this process would be designated as radiation. A third level of variation develops from the unique combination of aims and resources, sometimes recruited from social reciprocity mechanisms, from crowd sourcing or addressing social impact bonds or impact investors. Use of the internet and social media creates huge differences in the way resources are recruited and managed. A fourth level of variation emerges from institutional predecessors of a social enterprise - did it come from a business, an NGO or a governmental institute, or did it start from scratch? The fifth level of variation is caused by previous experiences of the entrepreneur, sometimes with a lifetime of business development, where in others the balance lies primarily on ideology and less on experience.

Despite strong pluralisation some societal problems remain unaddressed by the sector, such as resolving the debt situation of large numbers of poorer people. No business model has so far been able to make a profit when solving the financial problems of the lowest classes in society.

To summarise, five causes of variation have been observed:

- Social principles
- Impact areas radiation
- Combining aims and resources
- Institutional predecessors
- Experience and ideology

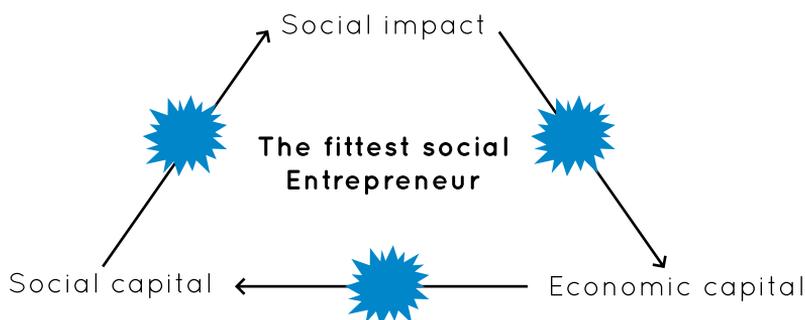
This pluralising tendency should be seen as a pool of potential practices that may or may not succeed in establishing a well-functioning social enterprise. Ideas migrate easily from one context to another. It has been noted that a creative image of a city or region favours the diversity and quality of ideas. Which are to survive, however, is a matter of selection.

## Variation Survival of the fittest entrepreneurs: Selection

No matter in which country a social entrepreneur starts his business, it is the quality of his idea that makes the difference between succeeding or failing. In the very first phases of an enterprise, pitching and testing of the idea is crucial. It can be observed that if a social entrepreneur operates within a liveable and vibrant network of colleagues he will have a competitive advantage. The quality of an idea has the following dimensions:

- Added social value
- Avoiding direct competition with the landscape of social service institutions
- Based on a good business plan; based on social start capital

A social entrepreneur is fit if he manages to create synergy between social impact, social capital and investing. Social impact is boosting his reputation and this again attracts investors (Mohtsham Saeed & Arshad, 2012). See illustration below.



Although an entrepreneur might have a brilliant idea and be well equipped to launch a social enterprise, this is not a guarantee for success. Just as in biology, it is the environment that decides which part of the whole repertoire is fit enough to settle into what could be classed a niche and these environments can be hostile or receptive towards a social enterprise. This raises the question of what determines the basic attitude of an environment towards a social enterprise.

The attitude towards social enterprise is a very complex evolutionary process that needs further clarification. It is multi-layered, pluriform and full of ambiguities. In a few words we will describe how a positive attitude can build up an infrastructure and how complications can spoil the positive atmosphere.

A first indication of a positive attitude can be found in the presence of a widely accepted definition or a set of principles giving access to the label of social enterprise. A further positive indication can be found in a country's inclination to adjust the rules and practices of public procurement. If the attitude becomes more positive, the government can create infrastructures to connect funders, end-users and entrepreneurs, besides educational programmes for entrepreneurs. Another pathway of development can be the creation of innovation programmes in which social enterprises are designated as experiments and innovations. The public administration in a country can develop specific privileges for funders or for social entrepreneurs. Above all, a government can create a regulative framework that enables a social economy to emerge. This framework can, for instance, involve tax privileges or the use of local currencies.

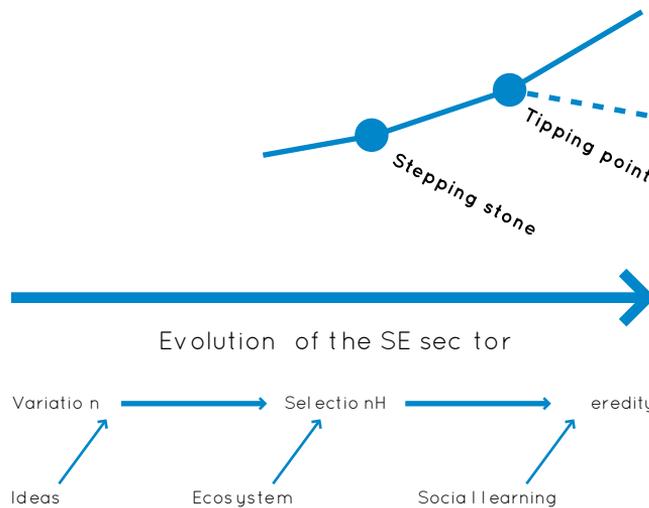
A negative environment for social enterprise starts with a discussion about what is so different about a social enterprise. A public denial of value creation by the social enterprise sector can prevail and an absence of public policies will remain the predominant situation. Few opportunities will arise in such conditions, ensuring that public procurement remains a closed shop for big social welfare institutions. Moreover, it can become quite difficult to start an enterprise because the bureaucracy prohibits any competition infringing the institutionalised social welfare. In many cases people with social needs (e.g. new migrants) are forbidden to engage in social projects because they have no rights to receive public services or, in case of inclusion, the engagement is framed as "work that should be paid for". As a result nepotistic structures may emerge in which a social entrepreneur has to engage in informal networks of those in power of procurement to get access to funding. In the end a standstill may arise or even devolution.

## Heredity

The analysis has shown co-evolution of the social enterprise and the ecosystem. Both the entrepreneur and the ecosystem learn in social contexts how to deal with all sorts of challenges. The capacity of social learning is a major asset in the struggle for survival (Mesoudi, Chang, Dall, & Thornton, 2016). Learning of the ecosystem also implies an increase of its interior complexity. New structures result from learning in which the social enterprise is fostered. It can be observed for instance that the network of funders and funders' strategies is pluralising.

The key to evolution towards an enabling or disabling environment consists of complex factors shaping both the public mind-set (such as sentiments regarding the EU, reaction to austerity measures, repetition of historical events or

identity discourses), defensive reactions from the landscape of social service institutions and the political debate on the crossroads of socialism and liberalism. In this complex, many types of ambiguity emerge which are inherent to innovations. In the evolutionary process these function as tipping points between paths of stagnation or progress, or even evolution or devolution. Managing the ambiguities here is seen as the evolutionary process of social learning - how to create a competitive environment in European or worldwide competition.



## Conclusions

Evolutionary theory can be used to find the ambiguities which determine evolutionary progress. It can be used to account for major differences between countries and also for reflecting on the transformative power of social enterprise. Applying the theory implies a discussion on variation, selection and hereditiy as the three basic principles of evolution. Stepping stones, being part of evolutionary theory, may help to account for publicly recognised anchor points in the evolution. Tipping points also help to find the phases of ambiguity after which the evolution is accelerated or slowed down.

Ambiguities are always embedded in fierce debates or are the result of conflicting lobbies. One such ambiguity lies in the use of public funding for the sector. From a neo-liberal ideological perspective, the best enterprises manage to acquire their resources from their end-users and are able to scale up towards big firms. In reality, many of the societal need co-creation between the social enterprise sector and the public administration, wherein the use of public funds is unavoidable. Many success stories try to prove the opposite.

Another ambiguity deals with definitions - does a definition help the sector forward or not? A further ambiguity lies in diminishing the administrative burden. Should standards for a social service rely on the nature of a provider, being either an entrepreneur or a social service institute? As tipping points, the ambiguities temporarily slow down the evolution, prior to further acceleration or stagnation.

The theory helps to account for the great differences in the ways that the sector has matured and developed across Europe. In Poland one can see the presence of the Solidarnosc Movement in the social enterprise sector, serving as an important symbolic stepping stone. In the Netherlands the political striving to engage the philanthropy sector in the social enterprise sector can be seen as a tipping point in which ambiguity of 'giving versus investing' plays a significant role. In Italy the sector encountered the ancient structure of the Roman Catholic Social Co-operatives, very well anchored in history, leaving only limited space for new niches, a major determinant throughout the evolution. In Scotland the evolution in the cities differs profoundly from that in rural areas, where a social entrepreneur could learn from older community businesses. The radiation and impact of the social enterprise sector across Europe in some contexts is rather modest and in others almost system hacking. It seems that society is changing for the better although the end of this evolution is not yet within sight.



## An Enabling Ecosystem for SEs

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The environment in which social enterprises (SEs) are situated has increasingly received attention from international organisations and governments in recent years, often with the goal of creating an enabling ecosystem for SEs (OECD-LEED 2016). As previously shown in this book, the EFESEIIS project (through the analysis of interviews, focus groups survey data relating to social entrepreneurs in European countries) indicates that the presence and interaction of SEs in a specific ecosystem should be understood as the result of economic, social, cultural, and institutional processes that involve a plethora of actors and networks (Roy et al., 2015; Hazenberg et al., 2016). Thus, the role of social capital, the main institutions, and the social linkages between stakeholders has been investigated in an effort to understand the key features of an enabling ecosystem for SE.

Biggeri, Testi and Ferrannini (2016), building on the theoretical foundations of Amartya Sen's capability approach (Sen, 1985, 1999) and its linkages with local developments processes (Biggeri and Ferrannini, 2014), define an enabling ecosystem for SEs as an ecosystem that fosters SEs' resources, means, opportunities, spaces and capacities to pursue their objectives.

In addressing the issue of what constitutes an enabling ecosystem for SEs all of these factors should be taken into account and viewed as an evolutionary process. The present work aims to provide the reader with some reflections on the concept of an enabling ecosystem for SEs, and deems to define its features<sup>1</sup>.

The features of an enabling ecosystem can be divided in two broad categories. The first category consists of those features that meet the specific needs of SEs, such as training, consultancy, and funding, as well as those attributes that regulate their activities and existence, such as the local legal framework. We can refer to these features as the "hardware" of the ecosystem. The hardware co-evolves according to the activities, the level of development of SEs, and the type, prevalence, preferences and choices of the different actors in the ecosystem.

<sup>1</sup> Further information can be found on the project website [www.fp7-efeseiis.eu](http://www.fp7-efeseiis.eu)

For example, financial instruments such as social impact bonds are part of enabling ecosystems characterised by structured SEs and strong financial and public institutions such as those found in the UK. Hardware features have an important role in creating an enabling ecosystem since the daily operations of SEs depend on them. Moreover, they also have the advantage of being easily verifiable, and for this reason they are often used (EC, 2015) to map ecosystems and to assess whether they support SEs or not.

An exclusive focus on hardware however, implies that relevant information on other important aspects of the ecosystem may be missing. In particular, it is important to consider how the ecosystem develops over time as well as its resilience and reproduction.

The notion of resilience refers to the extent to which the ecosystem is able to respond to, and recover from, internal and external shocks. These include natural disasters, wars, and economic crises, as well as sudden shifts in policies or legal frameworks (such as, opening up a protected national market to international competition).

The notion of reproduction is concerned with the sustainability of the ecosystem and how far its constituent elements are able to reproduce themselves over time. The features that characterise the evolution of ecosystems and make SEs resilient and capable of reproduction are rooted in society (or the parts of it) in which each ecosystem is embedded. Such features are the “software” that represent the second defining characteristic of an enabling ecosystem. Software features include history, culture, informal norms, behaviours, values, trust and reciprocity, social capital, perceptions of the common good, willingness to promote human development, and sensitivity to social problems (amongst other things).

These features are present in each ecosystem but with considerable differences across time and place. Such differences prompt different evolutionary paths for SEs as well as for the ecosystem itself. For example, Italy and most western European countries have a long history of civil society organizations that reflect expressions of the common good, inclusive development, self-help and a strong sense of community. Such organizations contribute to creating and keeping alive social capital as well as promoting an inclusive society. Therefore, they reproduce the software features of the ecosystem. These features led to the creation of mainly cooperative SEs, and subsequently, to the creation of hardware features, such as a legal framework that recognizes them together with services and infrastructures that address to various degrees, their needs and thus facilitate their development. In other countries, such as Albania,

software features are different from those in Italy and France, mainly due to historical differences that substantially affected the evolutionary trajectory of the societies and the economies. These features produced an ecosystem that does not enable the creation of SEs and consequently of the hardware features necessary for their development.

Software features have not only been prerequisites for the birth of many SEs but also facilitate their resilience and reproduction within ecosystems. Features such as culture, social capital, and views of the common good, are usually rooted in society and change over a longer time frame than hardware features. For this reason, they constitute the backbone of the enabling ecosystem to which the policies, legal framework and the actions of different stakeholders can refer to during endogenous or exogenous crisis. However, software features can not only enable the birth and development of SEs but can also hinder them. This happens when the core values of a society do not reflect those represented by the SE (such conflicts in values may relate to things like drawing on privately owned activities to solve problems, conceiving of enterprises as not only for personal profit, valuing the inclusion of disadvantaged people in the production or consumption process). If such values are not widely diffused within society as a whole, SEs will be rarely found or will become embedded in ecosystem that do not enable them to flourish.

In order to better explain the different types of potential ecosystems, Figure 1 presents a matrix positioning ecosystems according to the defining characteristics of software and hardware. Four ideal-types of ecosystems can be found in the respective corners of the matrix. These categories are abstractions for analytical purposes. In real life it might be difficult to find an ecosystem that closely reflects one of these ideal-types, and most existing ecosystems will be positioned at a certain distance from the extremes of the matrix (i.e., may have something in common with more than one category of ecosystem).

An ecosystem, irrespective of where it is positioned at a certain point in time, can move within the matrix as a result of internal-external policies, endogenous development, cultural changes or shocks (amongst other things).

Figure 1. Four types of ecosystems

Max level of Hardware features that enable SEs



### Case 1: The “Arid ecosystem”

The software and hardware governing the ecosystem that has the potential to enable SEs to thrive are either missing altogether or are only present at low levels. This could be the result of a history of totalitarianism, which has depleted the social fabric, as well as the trust and reciprocity, self-initiative, participation, and commitment to common good amongst players.

This kind of system could develop as an “artificial ecosystem” through targeted top-down policies and/or exogenous actions (such as development programs).

Over a longer period this kind of ecosystem could develop into a fertile ecosystem through continuous long-term formal and informal education, in order to change the underlying culture and values. It could also develop after an external shock, such as an economic crisis or natural disaster that obliges people to drastically change how they perceive society as well as the objectives they pursue and the means through which they are achieved.

**Case 2: The “Artificial ecosystem”**

The artificial ecosystem has the potential to enable SEs to be set up through top-down policies or development programs. One peculiarity of this system is that even though it provides valuable “hardware” components for SE, the relevant enterprises themselves (especially those that tend to emerge through bottom-up processes) are typically absent from the system. This may occur because people are not interested in establishing SEs in the first place, as they might not have reason to value them.

This type of ecosystem is less resilient and less able to reproduce itself, as it lacks a solid social base. For instance, this might be the case if an artificial ecosystem built by an international donor for a specific locality lacked ownership from stakeholders and effectively reverted to being an “arid ecosystem” after funding ended.

**Case 3: The “Fertile ecosystem”**

The fertile ecosystem has software features that enable SEs to thrive, but lack the necessary hardware. There are two main explanations for fertile ecosystems: (1) SEs are not adequately perceived as important actors in the system; and/or (2) the ecosystem has insufficient resources to develop hardware features.

The first case mostly concerns those countries that rank higher in terms of economic and human development, and have less social and economic needs to address. In such ecosystems SEs are not regarded as essential. Thus, even though the society in question has the right software, there is no actual need or desire to develop SEs. It may also be assumed that in this case the welfare state will play the main role, and SEs, if any, will be left with little more than a residual role. Since SEs generally emerge to cope with new social needs that are not (or cannot be) sufficiently met by the welfare state. It follows that this type of “fertile ecosystem” might develop hardware features if communities or policy makers need to find other solutions to tackle social problems, or need to innovate in order to solve existing problems.

The second case concerns countries that need SEs because the welfare state is weak or non-existent, but lack the necessary resources to develop the right kind of hardware. This type of fertile ecosystem could develop into an enabling one following external investments (for example from bilateral or multilateral donors) or internal economic growth that provide the necessary resources to build the hardware.

**Case 4: The “Enabling ecosystem”**

The “enabling ecosystem” is generally better placed to reproduce itself over time and resist external shocks than other ecosystems. In its purist form, the enabling ecosystem does not present SEs with any difficulties over the course

of their development. However, under certain circumstances even an “enabling ecosystem” can be transformed into one of the other three kinds of ecosystems. It could, for instance, turn into an “artificial ecosystem” if the social fabric of the system deteriorates over a long period of time, and social capital and pro-social values are lost. An “enabling ecosystem” could also degrade into a “fertile ecosystem” if the necessary hardware features are lost. This could be a consequence of political changes or in extreme cases, protracted conflicts. However, following a crisis, the enabling ecosystem may be able to rapidly bounce back following endogenous or exogenous interventions due to high resilience capacities.

### **Summing up**

This brief overview shows that it is possible to assess ecosystems based on their software and hardware features, and that an enabling ecosystem required both of these features. Understanding the type of ecosystem in which SEs operate together with the prevalence of enabling features can inform policies intended to develop and maintain an enabling ecosystem. Those interested in learning more about enabling ecosystems should visit the project website ([www.fp7-efeseiis.eu](http://www.fp7-efeseiis.eu)) to read more about our research results.





# Recommendations to stakeholders

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## Introduction

The European ecosystem of support for social enterprises (SEs) is comprised of a range of components that vary according to their historical, legal, political, social and economic structures and needs of the various member states. However, what all of the national ecosystems have in common is that they are not static. Instead, they shift gradually over time, moving apart or closer together, like tectonic plates. For this reason, marginal changes can have a great impact and reshape the SEs landscape. Against this backdrop, this report presents advice on how to improve the European ecosystem for social entrepreneurs. The recommendations are based on research undertaken in eleven partner countries as part of the EFESEIIS project and have undergone scrutiny by various stakeholders in all participating countries. The report is organized to provide targeted advice to different stakeholders of SEs: European and national policy makers; financial institutions; promoters from voluntary and non-profit sectors; and both SEs and corporate businesses.

## Recommendations to European policy makers

### **Engage in data gathering and develop a broad definition of SEs**

The European Commission Social Business Initiative was a step in the right direction. Yet many obstacles for SEs remain that European-level influence upon policy could address. One of these obstacles is that Europe lacks a shared definition of social enterprises, which operate under diverse legal forms. However, this plurality could be recognized as a strength. The European policy focus should be aimed at further promoting knowledge of, and networks within, the social economy. This can be done by engaging in systematic data gathering of various types of social enterprise and their activities across Europe. Such a broad understanding should be shared through support organizations by all stakeholders ranging from the European, national and state level down to the local level.

### **Promote financial instruments that are designed for SEs**

Additionally, European authorities should provide and encourage financial instruments designed to suit the particular needs of SEs. The empirical findings show that European Union policies are often too far removed from local level realities. Often, social entrepreneurs complained that national and regional bodies tend to dilute the effectiveness of policy programs and funding, such as the Social Business Initiative. To remedy this, it is recommended to offer financial instruments that target action at the local level, and directly to SEs rather than creating an ‘intermediary industry’. In this context, it would also be recommendable to promote the involvement of SEs in public contracts, particularly with local public authorities. Moreover, existing programs should be made more transparent and known to SEs. To broaden the funding opportunities for SEs, it is advisable to support a European-wide social investment policy. At the same time, European policy makers should promote innovative and flexible legal structures that offer funding opportunities for the various forms SEs take in member states, while recognizing that homogeneity of legal forms or local understandings of social enterprise activity is neither necessary nor advisable.

## **Recommendations to national policy makers**

### **Promote SE activities and products**

A supportive SE development ecosystem is one where the role of SE in a mixed economy is recognised and policies that facilitate this are uniformly implemented within administrative areas. Our findings suggest that no one has managed to create a ‘perfect’ ecosystem for social enterprise but there is certainly willingness and an opportunity to share knowledge and information to build on what already exists. Among the interventions that our findings suggest support an enabling ecosystem for social enterprise is raising awareness of SEs within each member state, with a particular focus on creating a market for SE products and services. For example, each country could encourage citizens and for-profit companies in order to promote consumption of goods and services offered by SEs. In this way creating a market for SE that enables sustainability rather than just funding activities.

### **Review procurement procedures**

Procurement policies present obstacles for SEs. In many countries (e.g. Poland, Albania and Serbia) there appears to be a lack of focus or understanding of social and environmental values that, if embedded in commissioning and procurement processes, would benefit SEs and wider society. There is a need to educate officials and commissioners about the value of the social economy. While significant attention has been placed on educating SEs – the delivery side – those involved in the supply side (usually local authorities) also require

to be educated in how to embed social and environmental value in competitive tendering processes. For one thing, public contracts are often too large, which often disadvantages small SEs in competition with their mainstream economy competitors. Moreover, officials are frequently not well informed about the value of the social economy and thus fail to recognise the particular benefits that local, often community-led organisational forms can bring to the delivery of public services. The main decision criterion for choosing a bidder is usually based upon price, without taking account of wider societal impact, an approach that often benefits large-scale commercial organizations. Smaller-scale contracts, with specific social benefit clauses would help SEs to participate in public procurement procedures and gain a foothold in the provision of public goods and services. There needs to be a focus on broadening the procurement rules to be more inclusive for SEs.

### **Reduce bureaucratic burdens**

The terms of delivery in procurement contracts are often strictly defined by public authorities, placing SEs under rigid reporting obligations and leading to a bureaucratic burden. Additionally, several different departments within authorities can be in charge of administrative issues. Where public bureaucracy lacks integrated coordination, administrative procedures are highly complex and time consuming for smaller, socially-oriented organizations. It is therefore no surprise that for the vast majority of organizations bureaucracy is regarded as a central hindrance to their development. Due to these bureaucratic requirements, employees in SEs can feel overstrained, as they often lack the technical knowledge and time to respond to extensive reporting obligations. For this reason, both commissioning and procurement procedures, and also the reporting obligations of public contracts, have to be reduced to ease the bureaucratic stress that confront SEs. If, rather, SEs are forced to adapt to reflect the bureaucratic tendencies of public authorities, isomorphic tendencies will mean that they may lose sight of their social mission, and thus the added value that they could offer to public service delivery. Introducing more flexible funding guidelines and allowing for small changes in the project execution could also give SEs the ability and the breathing space to test creative solutions to social problems and discard less successful ones.

### **Promote the sustainability of SEs**

There appears to be a trend to fund discrete SE activities rather than find ways to recognize their inherent benefit to society. Ring-fenced funding makes it difficult for SEs to develop a sustainable organizational infrastructure, with the result that they may lack resources to ensure the survival or growth. Even if they are able to persist, SEs commonly face difficulties in expanding. In the 100,000 to 500,000 Euro range in particular, there is a “valley of death” where

SEs are not provided with the support they require to grow to the next level. In this way, the short-term availability of funds is contradictory to the long-term mission of SEs. Thus, to ensure that SEs are able to fulfill their social mission, there is a need for more sustainable, long term funding that is adapted to the relevant life-cycle phase of the SE. Additionally, encouraging income diversification seems to be a crucial measure to facilitate sustainability. On the one hand, this could be done by refining legal and financial frameworks in order to simplify taxation and promote the development of ethical banks and social loans. On the other hand, income sources could be diversified by developing state grant programs where none yet exist. Notably many post-socialist countries are missing state-wide grant support programs.

### **Implement education on social entrepreneurship**

Some countries such as Sweden, Scotland, Serbia and Austria have incorporated entrepreneurship education in the formal education curricula and offer holistic courses at university level. In contrast, in many other countries (social) entrepreneurship education is still provided in a piecemeal fashion or is completely omitted. For this reasons, national policymakers should promote strategic and focused programs in schools, colleges and universities. This can be done by exchanging best practice between national and international stakeholders. Likewise, training courses for nascent and existing social entrepreneurs should be facilitated and connected to local networks. In particular, such training programs should teach social entrepreneurs the goals and work processes of public authorities, as well as how to bid for procurement and subsequently manage the complexity of delivering public contracts.

## **Recommendations to financial Institutions**

### **Increase the accessibility of funding to SEs**

SEs find it difficult to acquire loans from financial investors such as banks because they cannot offer sufficient guarantees. Instead, financial investors often administer financial support primarily by implementing specific funding lines. These lines often focus on specific funding priorities and link support to the fulfilment of specific funding criteria. This is problematic, since the funding lines rarely fit the specific financial needs of SEs. Often, they are not able to invest such funding freely, but are bound by externally imposed guidelines. Furthermore, it can be difficult for social entrepreneurs to link their projects to existing funding lines. To remedy this, financial institutions should gain a better understanding of the distinctive features of SEs and their peculiarities and increase the accessibility of funding to small SEs. SEs require funding which can be used flexibly according to the specific needs for their particular phase of

development. Banks should be especially willing to take reasonable risks and provide loans at rates that are favourable to SEs. Possible grants and business support should be combined with financial advice.

## Recommendations to social enterprise support organisations

### Improving the exchange between promoters and SEs

The field of intermediary organizations promoting social entrepreneurs is broad and the range of services they provide is manifold. Services range from financial support at specific phases of the development process to consulting services in specific legal, personnel or financial questions. For social entrepreneurs it can be a problem to find the best source for their individual needs in this jungle of different services. In the same manner, intermediary organizations often have to take care that they do not duplicate the activities of the organisations they purport to support. The empirical findings of our project show that the level of networking between promoters depends on the employees themselves and their personal engagement. Subsequently, there is a need for more integrated networks and institutionalized coordination on the local level between facilitators and social entrepreneurs, but also among facilitators themselves. Such an exchange could be aided by installing a regularly updated overview of all actors working with social entrepreneurs in different fields.

### Engagement with the development and distribution of impact measurement tools

The importance that SEs place upon presenting and ‘proving’ their impact, particularly to legitimize their work to potential investors, shows no sign of abating. Nevertheless, in some countries e.g. Scotland and Sweden, local governments have to become more aware of the amount of money that can be saved by investing ‘preventatively’ via social organizations to address social problems. In relation to this, SEs continue to lament the difficulty and complexity in measuring and reporting on social impact. In particular, small SEs bemoan the high administrative efforts and cost of doing so. In order to make the ecosystem more enabling, financial investors and supporting organizations could jointly engage in the development and distribution of more adequate and empowering tools e.g. in the form of qualitative instruments such as storytelling, and should further support SEs to engage in systematic impact measurement.

## Recommendations to social enterprises

### **Social entrepreneurs have to articulate what they need from policy makers and promoters**

The needs of SEs are diverse and change according to their developmental stage. As mentioned above, the field of promoters is various but not always easy to understand and access, particularly for new entrants to the field. SEs are often called upon to 'scale up' their efforts. However, these scaling up strategies are often implemented too quickly with regard to the current stage of development of the SE. Moreover, there is a tendency to think narrowly about 'scale' as simply about growing larger, rather than deepening the level of impact. It is often difficult for social entrepreneurs to find a viable individual scaling strategy, and so they should clearly formulate their needs and problems they encounter and direct them to promoters and public actors.

### **Adequate pay and development opportunities for employees**

In the early stages of development, SEs are busy shaping their own profile. Thus, like any rapidly growing organisation, the tasks of employees are subject to dynamic change. For this reason, SEs need staff that are all-rounders and are able to develop strategies and processes on their own accord. However, competitive tendering procedures and budgetary cuts in economically deprived municipalities induce cost and efficiency pressures on SEs. Likewise, small SEs rely heavily on earmarked funding, while neglecting their organizational infrastructure. Thus, they often miss the financial means to pay adequate wages which makes recruitment of qualified staff problematic. Despite these financial insecurities, SEs should be encouraged to be attractive, fair employers, with fair and transparent pay and working conditions. This may mean that the leaders of SEs should openly discuss with employees when pay rises are not possible due to the insecure financial situation of the organization, instead of making promises that cannot be kept. SEs can become attractive employees by opening-up development opportunities to employees. In order to achieve this objective, the founders or heads of the SEs should be encouraged, wherever appropriate, to hand over responsibilities to their team. Employees should be encouraged to attend networking events of the sector, increasing the employees' impact and skill levels.

### **Invest in measuring (social and environmental) impact**

It is increasingly important for organisations utilising public funds, or indeed claiming to contribute to wider communal benefits, to provide evidence of their impact. While, as mentioned, there are a variety of strategies that organisations can employ to evidence impact, and many lament the complexities and difficulties of measuring social impact, it is widely recognised that disseminating impact is beneficial to market the activities and achievements of SEs.

SEs should devote time and energy in demonstrating their positive contribution to society and, in particular their commitment to remain rooted to their local communities.

## Recommendations to corporate businesses

### Engage in joint efforts with SEs

Relationships between SEs and the corporate business sector vary considerably in different countries. Nevertheless, corporate businesses and social enterprises can profit from cooperating with each other. SEs benefit from the infrastructure and network of corporate actors, while corporate businesses can be inspired by SEs on how to deal with social issues. For this reason, mainstream business actors should be encouraged to gain knowledge about SEs, and particularly on how to include SEs in their procurement and supply chains wherever possible, perhaps as part of existing Corporate Social Responsibility agendas. Furthermore, business actors and SEs could be encouraged to consider the benefits of bidding for public contracts in partnership with private companies.

## Summary of recommendations

### Eu policy makers

- gather data and develop a broad definition for social enterprise
- promote financial instruments specifically and appropriately designed for social enterprises

### National policy makers

- promote consumption of social enterprises' goods and services
- review procurement procedures
- reduce bureaucratic burdens
- promote sustainability
- implement education on social entrepreneurship

### Financial institutions

- more accessible funding to social enterprises

### Social enterprise support organisations

- improving the exchange between promoters and social enterprise
- engage with the development and distribution of impact measurements

### Social enterprises

- formulate needs to policy makers and promoters
- adequate pay and development opportunities for staff
- invest in measuring impact

### Corporate business

- engage in joint efforts with social enterprises

## Final Remarks

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The readers of this dissemination book have hopefully grasped the variety of perspectives and approaches that can be used to analyse and understand the co-development of social entrepreneurship, social enterprises and their ecosystems. This variety reflects the need to implement policies that are not rooted in a particular discipline but rather draw data and insights from different sources.

A broader, holistic perspective that takes into account cultural, political and economic factors proves the most suited to address the issue concerning how to enhance the development of social enterprises in a territory, as well as how they can effectively contribute to social inclusion and overall human development.

The research implemented in the EFESEIIS project can provide useful insights in terms of how this can happen.

First, it is important to take into account that a multi-level strategy is needed. Even though the national institutional environment - such as the legal frameworks and the financial institutions operating at national level - plays a decisive role in the development of the sector and setting its evolutionary path, it clearly emerges that SEs are generally rooted in a locality and operate at the local level in solving local problems. Therefore, most of the policies and actions to create an enabling ecosystem should be implemented at the local level. In doing so, it is possible to take into account the specific features of the locality and better harness its resources to build an enabling ecosystem for SEs.

Second, it is also crucial to consider that a multi-stakeholder orientation is needed. The creation of an enabling ecosystem for SEs is not only a task in the hands of policy-makers but also other actors of the ecosystem, such as local banks, foundations, universities associations of entrepreneurs, chambers of commerce and - last but not least - the dwellers. Indeed, in order for different actors to coordinate and implement joint actions to create an enabling ecosystem, a shared vision of what society should be and the objectives to be pursued (for example, in terms of social inclusion and equality) is needed. Culture, informal institutions, social capital and all of the “software” features of the ecosystem play an important role in aligning the priorities of the different actors and keeping clear which are the values from which the actions should be inspired. It is important that the ecosystem is able to reproduce - and possibly increase - its “software” features over time.

The education system as a whole - including elementary education - could play a major role in this by stimulating creative, critical and care thinking. Thus, in order to create a truly enabling ecosystem, a multi-level and multi-stakeholder strategy is recommended. In order for the ecosystem to be both enabling and sustainable, thus been able to endure economic downturns and political volatility, actions should be aimed at increasing pluralism within it. This pluralism should be found in the features that support SEs (availability of different sources of funding, information, etc.) as well as the different forms that SEs can adopt to increase their capacity to survive and evolve.

The EFESEIIS project provides several recommendations to stakeholders<sup>1</sup>. Hereafter, we highlight some of those aimed at creating an enabling ecosystem:

- As seen in the fifth chapter, the role of main institutions is key in creating an enabling ecosystem. Therefore, as summarized in the last chapter, national policy makers should set a coherent policy framework, including legal, financial and cultural aspects, supporting social enterprises and allowing them to operate consistently across the entire territory of a country, reducing bureaucratic burdens and promoting sustainability and consumption of social enterprises' good and services. At the same time, EU policy makers should promote financial instruments specifically designed for social enterprises. However, as suggested in chapter five, the legal and financial framework in which SEs operate should provide them with sufficient freedom in terms of the types of resources that they can use and access, the types of activities that they can perform and the sectors in which they can work.
- It would be necessary to create a system in which SEs are not forced to compete on price with enterprises that have different aims. As chapter two suggests, creating markets only for SEs might increase their capacity to have a positive social impact. Along the same lines, in order to promote pro-social behaviour, public procurement procedures should be revised to consider the social impact of the service delivery rather than focusing on price.
- SEs should be involved in the co-planning of public policy delivery rather than being regarded as merely delivering an "on demand" service.
- The innovative capacities of SEs - which emerged in the first chapter should be harnessed and supported by creating a system that provides for sufficient freedom of action and experimentation. From this perspective, it is important to embrace and support the evolution of SEs into new forms by recognizing and possibly stimulating the differences from the previous forms, as highlighted in chapter three.
- It is of paramount importance for the sustainability of the ecosystem to support the creation and reproduction of its software features, as suggested in chapter eight. Rethinking the education system to become one that promotes

<sup>1</sup> The complete list of advice to stakeholders can be found on the project website.

creative, critical and care thinking, empathy and soft skills that enhance collaboration and entrepreneurial skills amongst new generations is one of the major steps to be taken.

- Alongside the previous point, it is important to align the objectives of the different actors of the ecosystem. This can be achieved by identifying with citizens' shared long-term human development objectives and priorities to co-create programs and solutions to meet them.
- Social capital is key for the social economy, as shown in chapter four. Therefore, it is important to promote spaces (physical or digital) in which citizens and organizations can meet, participate in the life of the ecosystem and organize themselves to find solutions to social problems.

We hope that the vast amount of research carried out in the EFESEIIS project will contribute to the on-going debate on the role of SEs in our societies and that some - if not all - of the advice provided to stakeholders will be implemented in the coming years.





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