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Social innovation, an answer to contemporary societal challenges? Locating the concept in theory and practice

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Social innovation discourses see in social challenges opportunities to make societies more sustainable and cohesive through inclusive practices, coproduction and pro-active grassroots initiatives. In this paper we are concerned first that the concept has been stretched in so many directions that it is at breaking point. We illustrate this by documenting the varied uses of social innovation in different academic and policy discourses. Second, we assume that, if social innovation is to be a useful concept for policy-makers, then it must tell us something about what adjustments are needed to develop an effective political economy that is social innovation ready. Finally, we argue that what is needed is more theoretical and empirical work to help social innovation to develop into an effective policy tool.

Keywords: social innovation; European policy; social policy; EU 2020; economic underpinnings; neo-liberalism

Introduction

Advanced economies face a growing number of social, economic and environmental challenges. More concretely European nations are currently undergoing major demographic transformations. Because of declining fertility rates and increasing life expectancy, the European population is aging. At the same time, it is expected that ca. 40 million people will migrate to Europe between now and 2050 (European Commission 2006). These demographic changes put pressure on the public purse and question intergenerational social contracts on which existing welfare systems are based.

The 2007/2008 sub-prime financial crisis led to deep recession in many European economies. Europe's economic woes further intensified with the sovereign debt crisis and subsequent deficit-cutting policies. The EU-27 average of gross domestic product (GDP) per capita in purchasing power standards dropped by 6% between 2008 and 2009. Several countries at the European periphery (Greece, Ireland, Portugal and Spain) had contracting growth in consecutive years. Greek GDP has fallen by more than 11% since the beginning of the crisis (EUROSTAT 2012), and the country is expected to remain in recession into 2013. Growth in real GDP in the Euro area has been low since 2008 and will remain sluggish. The International Monetary Fund (IMF) estimates GDP growth to be negative (−0.4%) in 2012 and to be only 0.2% in 2013 (IMF 2012).

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For the first time in more than a generation, Europeans are faced with the prospect of increasing poverty and declining living standards. Unemployment rates are at record levels in some member states – 14.7% in Ireland, 24.7% in Spain, 15.7% in Portugal – and even European core countries such as France and Italy have high rates of inactivity (10.4 and 10.6% respectively; EUROSTAT 2012). More than one in 10 labor force participants are expected to be unemployed in the Euro area in 2013 (IMF 2012). The economic crisis hit vulnerable people particularly hard. Unemployment is acute among young people. Over one in two people aged 15–24 are out of work in Spain and Greece; in France and the UK, youth unemployment is well over 20% (OECD March 2012).

There is empirical evidence which supports the view that liberal social values, such as tolerance, rule of law and democracy, progress in nations where the benefits of economic growth accrue to all (Friedman 2006). In contrast, declining living standards for the majority and the lack of employment opportunities for young people are two of the foundations of the renewed spectre of political extremism and heightened social tensions causing civic unrest in a number of countries. Economic woes and changes to the European social fabric have a deep impact on social security and public finances. It is therefore ever more pressing to develop policies which address inequality and social exclusion and which aim to (re)integrate marginalized population groups into social and economic life.

While societal development in the nineteenth and twentieth centuries was driven by technological progress and economic dogmas, the twenty-first century must give rise to social innovation to encourage societal and systemic changes. Social innovation has become particularly attractive to policy-makers because of the difficulties traditional welfare systems face in meeting the growing and diverse needs of society (Borzaga and Bodini 2012). Therefore national governments like the Obama administration but also the European Union and the World Economic Forum put great hopes in social innovation to design and implement creative ways of meeting social needs and to build cohesive and sustainable societies. Social innovation is a key element of the European vision incorporated in Europe 2020 strategy by the European Commission. Europe 2020 aims to convert Europe into a social market economy delivering high levels of employment, social and territorial cohesion (European Commission 2010).

From a European policy perspective, research is needed first to understand what works in delivering economically successful social innovations which facilitate smart, sustainable and inclusive growth as key objective of Europe 2020[1] and second to address the basic societal needs and demands of society's most vulnerable groups (including the unemployed, the elderly, women, non-educated persons and young people; European Commission, Bureau of European Policy Advisors 2010). It is, furthermore, important to understand how public policy, including at a regional, national and European level, can accelerate, promote and measure the impact of social innovation. This will necessitate a working definition of social innovation.

Conceptualizing social innovation

Social innovations has become highly popular among policy-makers but its meaning continues to be ambiguous and vague. While social innovation is not a novel idea, the instrumentalization of social processes to create better societies is a departure from past doctrine or as Franz, Hochgerner, and Howaldt (2012) put it, it is the intentionality of social innovation that distinguishes it from mere social change. Part of the difficulty in defining social innovation comes from both its potential to meet pressing social needs and its use of new social processes to deliver products and services. In other words, social innovation can refer to both the means and the ends of action. Thus, social innovation may refer to new products and services that address social needs, that is, products and services which help to build more sustainable, cohesive and inclusive societies. We call this type of innovation goal-oriented social innovation. Mulgan (2006), for instance, terms social innovation as "innovative activities and services that are motivated by the goal of meeting a social need".

The Young Foundation understands social innovation as those "new ideas that work in meeting social goals" (Young Foundation 2007). Phills, Deiglmeier, and Miller (2008) define social innovation in similar ways as "a novel solution to a social problem that is more effective, efficient, sustainable or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals". However, social innovation may also imply new processes that make use of social relations to deliver products and services in more efficient ways. As Mumford (2002) put it, social innovation is "the generation and implementation of new ideas about how people should organize interpersonal activities or social interactions to meet one or more common goals". Howaldt and Schwarz (2010) make a similar point and argue that social innovation is a "new combination and/or new configuration of social practices … with the goal of better satisfying or answering needs and problems than is possible on the basis of established practices". From this perspective, social innovations take place at the level of operational practices and are instrumental to the way in which things are done. Social innovation thus defined is primarily a means to an end rather than an anticipated outcome of a given process. We call this type of social innovation process-oriented social innovation.

Some commonly used definitions of social innovation combine goal-oriented and process-oriented innovation. NESTA (Murray, Caulier-Grice, and Mulgan 2010), for instance, suggests that social innovations are those "innovations that are social in both their means and their ends". The European Commission in its report "Empowering People, Driving Change Social Innovation in the European Union" adopted the same definition and argues that social innovations are not only good for society but also enhance society's capacity to act (European Commission 2010, 33; see also President Barroso's speech on "How to boost Social Innovation" 2009). In this ideal type of social innovation the process is part of the outcome and social innovation is an end in itself.

In European public policy today there is consensus that social innovation broadly implies new ideas and new collaborations to improve effectiveness and meet social needs (European Commission, Bureau of European Policy Advisors 2010). Consequently substantial resources have been mobilized to research, develop and implement social innovation strategies. More specifically in Europe, social innovation is central in meeting the EU2020 targets to increase employment, support research and innovation, help people into education, reduce poverty and social exclusion and lower greenhouse gas emissions. The concept thus found a central role in European strategic policy papers, innovation road maps and public discourses (Bureau of European Policy Advisors [BEPA] 2011; European Commission 2012a, 2012b; Barroso 2009). Elsewhere, across the Atlantic, the Obama administration created the Social Innovation Fund in 2009 that is managed by the Office of Social Innovation and Civic Participation (OSICP) and holds US$150 million. The OSICP promotes bottom-up small-state community-centered solutions to burning social needs and advocates local proactive engagement that is similar to the Big Society agenda in the UK. The Global Agenda Council of Social Innovation (2012–2013) at the World Economic Forum states that over US$5 billion in the USA, Europe and Australia were made available specifically for social impact investment.[2]

The term "social innovation" has been also broadly embraced among socio-economic scholars. Social innovations have long been of interest to social science research: classical sociologists such as Durkheim and Weber investigated the complex societal transformations (new institutional frameworks, forms of control and solidarity) which went hand in hand with the techno-economic innovations of the nineteenth century (Moulaert 2009). Among academics there are variations regarding specific meanings, contexts and emphases between disciplines and subject areas (Pol and Ville 2009). Below we highlight the most significant of these.

In organizational studies, social innovation may refer to social capital as a resource for creativity, learning and skilling, knowledge exchange and capacity-building to make organizations resilient to rapidly changing external environments. The social innovation concept is also employed to research management structures and to explore new forms of client relations (Denning and Dunham 2010; Bakhshi and Throsby 2010) and the development of (cooperative and shared) business models (Ridley-Duff and Bull 2011). One important site for social innovation is the workplace. Workplace innovation has been defined as: a social, participatory process which shapes work organization and working life, combining human, organizational and technological dimensions and resulting in a better quality of working life (Oeij, Klein Hesselink, and Dhondt 2012). Workplace innovation is primarily a development in private organizations, but there have been recent initiatives to include new cooperative approaches such as sustainable production and social services (Vlaamse Raad voor Wetenschap en Innovatie 2011).

A substantial body of literature in territorial studies explores the potential of social innovation for the development of new forms of governance, community formation and participation (MacCallum et al. 2009; Moulaert et al. 2007, 2010; Swyngedouw 2005). Sub-concepts such as milieu of innovation and social capital stress the depth and effectiveness of networking and collaboration for regional economic competitiveness (Fromhold-Eisebith 2004). According to Florida (2002), one of the three institutions of the creative economy is interaction and proximity, or a broad social, cultural and geographic milieu (the other two being technological creativity and entrepreneurship). Castells (2000) argued that technological innovation in the second half of the twentieth century took place because like-minded innovators with complementary know how, cultural tastes, aspirations and values were locked into local social networks or milieu of innovation. However, not all networks are creative and innovative. Other authors, most notably Granovetter (1973), pointed out that, while networks require stable and strong ties, the encounter of strangers and the input from people at the fringes of the network make invaluable contributions to the resources of that network. The interesting aspect here is to achieve an equilibrium between the number of acceptable weak ties without compromising social trust and hence the stability of the network. Social networks have also been instrumental in creating new forms of local partnerships driving positive change. Clarence Stone's (1989, 2001) work on urban regimes and more specifically Atlanta's urban informal stakeholder networks is noteworthy in this respect. Simplified, Stone argues that, in order successfully to implement change in an urban setting, local movers and shakers have to cooperate with each other. These movers and shakers are relatively defined and include community elders, representatives from business and politics, and the local media.

Environmental studies use the social innovation concept to highlight the complexity of global ecological problems. Environmentalists argue that isolated top-down technological innovations will not be able to deliver long-term sustainable development and to combat climate change (Renings 2000; Diedricha et al. 2011). In contrast, there is evidence for the potential of grassroots innovations involving novel bottom-up solutions and cultural change strategies that respond more effectively to local situations and interests (Seyfang and Smith 2007).

Entrepreneurship scholars have embraced the notion of social innovation and conflated it with social entrepreneurship (Bull 2008; Ridely-Duff and Bull 2011). Social entrepreneurs, like their commercial counterparts, are said to recognize opportunities (Renko 2013). Zahra et al. (2009) categorize social entrepreneurs along the dimensions of ambition, resources and capacity to scale, while reflecting on some of the contentious issues of accountability and ethics associated with their personal agendas. There has been a shift, especially in the so-called European School, from seeing entrepreneurship in terms of individuals' attitudes and behavior towards processes of discovering and exploiting opportunities, and the many contexts in which that happens (Down 2006). Entrepreneurs and their stakeholders, in the words of Sarasvathy and Venkatraman (2011), "often end up co-creating new opportunities". Co-creation may occur in business, public services and community settings (Sundin and Tillmar 2008; Amin 2009; Farmer and Kilpatrick 2009)

In the field of social policy, social innovation generally describes new forms of governance and hierarchies. New user–provider relationships such as public consultation and participation in decision-making processes, etc., are also central social innovation debates in public administrations. These relations involve co-production, where users shape services, make decisions and may indeed actually be the same people as providers (Needham 2007). The rising interest in co-production comes from a number of areas including the enhancement of the citizen orientation in public services, the promotion of the role of the underprivileged and the encouragement of the actions of a civil society (Pestoff and Brandsen 2010).

Social innovation has become a prominent concept in academic research and policy debates. When we survey these discourses we are struck by the varied uses and conceptualizations of social innovation. There seems to be a general consensus that the social is neither a passive receiver of policy interventions or of global economic forces but, importantly, that social networks and processes themselves are important resources to anticipate change and to make societies more cohesive and resilient. However, we wonder whether the varied understandings and conceptualizations of social innovation are always compatible and we are concerned that the concept of social innovation has been stretched in so many directions that it is at breaking point.

Social innovation and policy

Leaving aside our concerns about the conceptualization of social innovation, we assume that, if social innovation is to be a useful concept for policy-makers, then it must tell us something about which adjustments are needed to develop an effective political economy that is social innovation ready. We are again concerned because social innovation, as currently conceived, could suggest myriad different and sometimes conflicting policy adjustments.

Consider, for instance, *technology*. The relationship between technologic and social innovation is complex and difficult to disentangle. While social innovations frequently make use of new technologies, the interplay between technology and the social is not a one-way linear relationship. Rather, societies and individual users apply new and existing technologies in innovative ways. Concepts such as design in use and the appropriation work of users in information technology refer to practical efforts to make technologies work. Innovation from this perspective is not about design or even about adoption but involves a process during which the user may accept, reject or repurpose the innovation (Willis, Webb, and Wilsdon 2007). The development of the Internet and more particularly social networking sites opened up vast opportunities for user-led innovation that ranges from political activism (the Arab Spring, and Student Protests in London 2011), to new user/public service provider interactions (Fix My Street, for instance; http://www.fixmystreet.com). The digital Open Source movement is a driving force behind socially innovative cooperative co-production processes. Numerous applications, including Mozilla, Open-Office, Wikipedia, Linux (to name only a few), were developed collaboratively by Open Source Community programmers and volunteers. Open Data movements and innovative/transparent forms of governance go hand in hand (http://data.gov.uk) with these new forms of coproduction. The Open Data movement lobbies government institutions, international organizations and the private sector to make private and public databases available to application developers. Therefore, the new technology co-creation community ethos of the Web 2.0 social media dialog questions not only the developer–user/producer–consumer dichotomy, but also the distinction between public and private ownership.

In the digital age, the dichotomies of innovator–producer and user–consumer are blurring into each other. In short, recent technological and societal developments need new innovation models such as "open innovation" or "user innovation" in order to grasp empirically and adequately theorize the complex interrelationship between technology developer and technology users (see, for instance, Chesbrough 2003). Data is an important resource and output of these social-media innovations. Opening up government data silos to developers and communities is therefore potentially one way to support this growing social-digital economy. Yet to be of any use, the new superfluity of data needs to be structured, analyzed and interpreted (Wilson et al. 2013). This is an increasingly pressing challenge, deeply imbued by often overlooked issues of provenance and trust Cornford et al. 2013).

One of the defining features of social innovation is that it provides insights and develops capacity and soft infrastructure (intangible assets such as know-how, intellectual property, social capital, etc.) that endure and can be utilized by other sectors and forms of innovation. It may encompass, but go far beyond, technical innovations such as those supported under the Commission's Information Society Transformation programs. Thus Mulgan et al. (2007, 35) note that "social innovations, unlike most technological ones, leave behind compelling new social relationships between previously separate individuals and organizations". In this sense social innovation provides a double benefit: not only can it help in finding solutions to pressing social needs, but the process of social innovation itself implies beneficial, transformative change, rather than mere incremental improvements in products and/or services (Transform Consortium 2008). These aspects of social innovation presuppose much more proactivity from people who use services and new dynamic relationships between user and provider.

Let us now move on to the *creative and cultural industries*. Some influential observers (Florida 2002) argue that the joint expansion of technological innovation and creative content is the motor of today's economy. The role of culture and creativity as drivers of growth and employment is high on the European Commission's agenda. Cities around Europe pursued creative and culture-led economic revival strategies. For instance, the European Capital of Culture scheme served as a stepping stone toward post-industrial urbanism for Glasgow in 1990, Liverpool in 2008 and Marseilles in 2013 to mention only some examples; similarly Manchester has been successful in rebranding itself as a global city of popular culture and is equally a blueprint for culture-led flagship regeneration programs. In the hope to start up a creative enterprise culture, there has been stimulation from above through the establishment of designated zones of cultural consumption and production with initiatives such as affordable workspace, information technology-infrastructure and business start-up advice (Landry 2007; Mommaas 2004; Grimm and Milestone 2009) in most European towns and cities. In order to advance understanding of the economic underpinnings of social innovation, it will be important to assess creative alongside technological processes, goals and resources.

Next, let us look briefly at *labor market* reforms. According to some sources (Cliffton 2011), there is currently a global shortfall of 1.8 billion good jobs. That is, nearly one-quarter of the world population can expect to be unemployed or under-employed through some or most of their life. Productivity growth fueled by technological innovation is likely to exacerbate this shortfall further. Empirical evidence from across Europe and the USA suggests that growth sectors are often those which employ the low-skilled and lower-paid, for example care work, which is expanding with the aging population (Goos and Manning 2007). Access to high social status jobs offering good levels of social security is increasingly restricted and depends on high levels of human capital. There is therefore increasing pressure for continuous professional development and lifelong learning to adapt to changing skill requirements. Conversely labor market sectors which require lower skill sets have seen employee's terms and conditions become increasingly precarious (Cappelli 1993). Consequently, those who are not academically successful are structurally shut-out of stable and well-paid employment situations (Barrett 2010). Failure to address the skills gap will impact on the general well-being of vulnerable population groups that, in interaction with other variables associated with precarious social situations (welfare dependency, low life expectancy, obesity, lone parenting and teenage pregnancy, crime and anti-social behavior, mental health etc.), create a chronic poverty cycle. Social innovation addressing labor market mismatches and the skills gap may offer routes to inclusion, economic activity and financial independence for the most disadvantaged groups in the population. Examples for innovation in education are the Open University and more recently free online courses from the MIT, the University of Berkeley and Harvard (https://www.edx.org), but additional avenues of capacity-building targeting excluded population groups remain largely to be explored. Ultimately closing the skills gap will create multiplier effects in terms of increased consumer demand, purchasing power, reduced welfare spending and better health and social outcomes.

We move on to the broader *economy and economic policy*. Some social innovation can be – and is – delivered in the framework of the market. The neo-liberal economic paradigm argues in general that markets are best placed to deliver economic growth and widespread prosperity. Thus Adam Smith in 1759 coined the (much overused) phrase "the invisible hand" of the market to describe how all may benefit from the market. In The Theory of Moral Sentiments, he writes, people:

> are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society. (Smith 1759, IV.I.10)

However, two hundred years of theorizing, economic research and practical observation demonstrate that, very often, markets are inefficient. Notwithstanding, in recent decades there has been compelling evidence to suggest that governments in some European countries are becoming less inclined to intervene to correct market imperfections, for example, those imperfections which arise from, or reinforce, increasing inequality. The pressing social and economic needs of those groups of society which are marginalized, and/or in a poor economic position, will not therefore be met if the market is allowed to be the final arbiter of distribution. Thus, policy-makers addressing social needs through social innovation must consider factors that distort market equilibrium, such as: a lack of sufficient income; inadequate access to credit; market entry costs; lack of education; gender, ethnic and/or cultural discrimination; and the lack of opportunities and information to engage meaningfully in society. Advocates of social innovation argue that societal challenges offer new opportunities for economic growth. Key growth sectors for many European economies in the coming years will be health, education and social care (Mulgan et al. 2007). For example, spending on healthcare is currently between 5 and 13% of GDP for EU countries and is set to rise by approximately 4% by 2050. Most of the projected increase in public spending will be on pensions, healthcare and long-term care. In 2006, 20 million Europeans worked in the health and social services sector (Communication from the Commission 2009). These sectors are characterized by mixed economies, the strong involvement of public policy and a need for models of innovation that are very different from those that have worked in the technology and finance sectors (Mulgan et al. 2007). Social innovation, defined as it is by a focus on meeting social needs and combining insights from different sectors and disciplines, will be key to the development of more efficient use of resources in these high spending public services.

Markets, although trans-local and trans-national, continue to be embedded in unique national institutional and regulatory arrangements or what we may call *welfare regimes* and it is to these that we turn next. Countries have different ways to organize and distribute welfare and social insurance, to produce social security and the sense of social safety. For instance, in what has been called the Nordic welfare model (in countries like Denmark, Finland, Iceland, Norway, Sweden and to a degree also The Netherlands), people are insured for social risks mainly by the state and they have a certain security and knowledge of what the future will hold. In turn, in the neo-liberal or Anglo-Saxon model, the sense of social safety is limited, making it more difficult to develop long-term life-plans. The fragmentation of society arising from the neo-liberal narrative's emphasis on individualization may lead to heightened social exclusion and marginalization when compared with more socially constructive welfare regimes. The effects of neo-liberal scaled-down welfare provision can be seen in the profound neighborhood-focused deprivation of the urban sink estates in the UK.

Against this background, successive UK governments placed more expectations on social enterprise as a delivery vehicle for welfare and public services than was observed elsewhere else in Europe. Over the past 15 years, social innovation in the UK has been systematically supported through public investment and new regulatory frameworks. More than £350 million of public money has been spent on social entrepreneurship, charity capacity-building and social ventures (Young Foundation 2007), helping to develop an estimated £24 billion social enterprise sector that now employs 800,000 people (Social Enterprise UK 2011). In the UK, particularly in England, social enterprise has become elided with delivery of public services under contract to state agencies (Teasdale, Alcock, and Smith 2012). Parts of health care were outsourced to the private sector and the Work Programme, the Conservative government's program to help welfare claimants back into the labor market, was subcontracted to private providers and voluntary groups. The opening up of the delivery of justice to greater involvement from the private and not-for-profit sectors has, according to the government, explicitly been linked to promoting greater innovation in developing solutions to reducing re-offending (Fox and Albertson 2011). Linking public and business spheres in this way may be less acceptable in other countries (Farmer and Kilpatrick 2009) and whether these programs are successful remains debatable. In addition to market failures, there are also failures in policy processes as the output of policy processes differs from initial expectations. What this highlights, however, is the continuous importance of national (and local) regulatory regimes in fostering social innovation.

This takes us next to the issue of *finance*. While the public sector plays a significant role in providing the economic underpinnings of social innovation, making use of its massive purchasing power, dependency on the public purse also carries risks for the sustainability of the socially innovative sectors. The sovereign debt crisis has put existing social innovation models under funding pressure. In the UK, 50% of all social enterprises trade with the public sector and social enterprises operating in the most deprived communities are more likely to have the public sector as their main customer. Current budget cuts will directly impact on the viability of social enterprise sector, affecting service provision and employment in most deprived communities over-proportionately (72% of social enterprises reported a negative trading outlook; 24% of all anticipated redundancies will fall within the most disadvantaged communities compared with 9% in the least deprived areas; Social Enterprise UK 2011). Funding streams have to be diversified to make social innovation resilient and sustainable in cyclical environments.

Innovation implies systematic research and development. R&D is often capital-intensive and it is skill-dependent. An innovative environment has to offer access to seed-corn capital; this can be provided through market mechanisms and public listings. Some medium-sized technology start-ups and pharmaceutical research companies raise capital in the Alternative Investment Market at the London Stock Exchange for instance; another example is the Social Impact Bond or the Big Society Bank in the UK. However, public listings will be beyond most social enterprises and may contradict the social enterprise ethos.

Socially innovative individuals and organizations often do not fulfill the traditional funding criteria of private institutional creditors. They lack collateral (current assets or futures) and social return on investment; their organizational strategies do not follow traditional financial ratio modeling. Social innovators therefore find it difficult to draw on the credit facilities of the traditional banking system. Banks, in turn, are unwilling to take on the risks and costs of making small, uncollateralized loans (Karani 2007). This is particularly true since stringent credit regulations have been put in place following the credit crisis in 2007/2008. In other words, the demand and supply model of the traditional (credit) market fails to underpin social innovation investment.

However, alternative funding can be made available within the not-for-profit sector. Significant private and philanthropic funding has been encouraged through the introduction of tax incentives and reforms of legal and regulatory frameworks as well as lobbying. Wealthy philanthropies and their respective foundations such as the Soros Foundation or the Bill and Melinda Gates Foundation support the movement. Private credit institutes like Deutsche Bank AG and City Group also set up microfunds as part of their corporate social responsibility strategies. Such funds offer credit to those unable to access regular retail bank funding. In recent years, so-called microcredit has become an important source of finance for small innovative initiatives and entrepreneurship specifically in international development. According to Maes and Reed (2012), over the last 13 years, the number of very poor families with a microloan has grown more than 18-fold from 7.6 million in 1997 to 137.5 million in 2010. Microcredit has a strong gender dimension; access to microcredit helps women – who are more likely to be excluded from traditional banking than men. Women are also more likely than men to ensure that the increased income is used to improve the lives of their children. From 1999 to 2010, the number of poorest women reached by microfinance increased from 10.3 million to 113.1 million (Maes and Reed 2012).

The European Commission has recently set up several microcredit programs. JASMINE (Joint Action to Support Microfinance Institutions) is a microfinance pilot initiative launched in 2008 and JEREMIE offers EU Member States, through their national or regional Managing Authorities, the opportunity to use part of their EU Structural Funds to finance small and medium-sized enterprises (http://www.eif.org).

While microcredit offers some positive outcomes, it has also been criticized to the extent that it buys into a neo-liberal narrative which offers individualized solutions to collective and societal injustices (Bateman 2010; Dash 2012). Innovative finance can also seek inspiration from business models which have proved historically successful. For instance, the first successful cooperative was formed in 1849 in the north of England and enabled people working together to find ways of obtaining goods they could not afford in existing markets. The cooperative model has since been a preferred legal status for businesses operating in the social economy. Other examples of innovative finance are complementary local currencies such as the Brixton and Bristol pound (see, for example, Lietaer and Dunne 2013) or crowdfunding (Ordanini et al. 2011). This latter is a way of pooling money from smaller investors to support community initiatives and is particularly successful among the net community and in the creative/cultural sector.

Talk of finance takes us inevitably to the issue of risk and hence *regulation and regulatory frameworks*. Innovations can be disruptive, with outcomes that are unwanted for some. Thus Rogers (2003) and Sveiby et al. (2009) apply a taxonomy which consists of three dichotomies in the consequences of innovation: direct vs indirect, desirable vs undesirable, and anticipated vs unanticipated consequences. Consequences are direct when they trigger an immediate response to an innovation, whereas indirect consequences are the second-order results of direct consequences. Desirable consequences refer to functional and undesirable ones to the dysfunctional effects of an innovation within a social system. Anticipated consequences are the intended and recognized effects of an innovation, while unanticipated consequences refer to its unintended and unrecognized effects. Innovation is an uncertain process (e.g. Souder and Monaert 1992; Jalonen 2011) based on trial and error and associated with the possibility of failure (e.g. Parsons 2006; Potts 2009) and thus risk (e.g. Gibbons and Littler 1979; Bhatta 2003). Dodgson et al. (2005), for example, have pointed out that there is a broad understanding in innovation research that the innovation process requires experimentation. Innovators, public and private investors need to manage innovation risks. Risk management can be facilitated though innovation-friendly legal frameworks, shared ownership and alternative ways to finance start-ups.

Regulatory frameworks, the availability of different organizational forms and attitudes to risk and reward will all shape the opportunities for social innovation to take place. Claims are prevalent that innovativeness is the main distinction of the non-profit/third sector but there is debate about the basis of this. Stephen Osborne and others in the evocatively titled article "Once and future pioneers" (Osborne, Chew, and McLaughlin 2008) challenge such claims from recent empirical evidence in the UK – finding that third-sector organizations working within public sector commissioning processes are dominated by approaches to risk management that privilege the tried and tested over the innovative. Historically the third sector innovated in welfare, often in ways later scaled up through mainstreaming into public services (Osborne, Chew, and McLaughlin 2008). Zahra et al. (2009) look at scaling from a much more individualized perspective in the attitudes and ambition of social entrepreneurs. Much of innovation therefore continues to depend on creative and opportunity seeking individuals.

Regulation and legislation are often cited as a barrier to social innovation. For example, in the UK micro-enterprises which meet local social care needs face regulatory, legislative and other barriers as a result of which many fail (SharedLivesPlus 2011). Yet new regulatory and legal frameworks can also provide opportunities and impetus for social innovation. These can take a wide range of forms including policy instruments (e.g. targets for employing people with disabilities, requirement that a proportion of services commissioned by government are provided by small and medium-sized enterprises and incentives to install renewable energy) and new legal forms such as the Community Interest Company designed to ensure that assets and profits are dedicated to community purposes (Department for Business, Innovation and Skills).[3] While the Community Interest Company is relatively new, some very old legal forms, such as the Industrial and Provident Society, are used by social innovators. For example, Suffolk County Council recently handed over its 44 libraries to an Industrial and Provident Society, providing opportunities for cost savings, greater community control and the development of innovative new services and ways of funding libraries (BBC 2012).

To conclude, although social innovation has become an important policy instrument, there is a lack of systematic research about how markets, the public sector and social institutions (including incentives, norms, legal provisions) work to encourage social innovation that will deliver on its promise to create sustainable economic growth and benefit those groups of society which are marginalized (including the unemployed, the elderly, women, non-educated persons, migrants and young people). In this brief review of social innovation and policy we are struck that social innovation, as it is currently conceived, could suggest myriad different and sometimes conflicting policy adjustments. In "Empowering people, driving change: Social innovation in the European Union" the European Commission (BEPA 2011, 12) argues that:

> While financing is a key issue at the different process development stages, there are also clear gaps in other types of support needed by individuals and organizations working in the field. Few robust models for scaling up social innovations exist, due to the fact that few commissioning and procurement structures are suited to social innovation ventures. In addition, there is a dearth of skills across sectors and relating to all stages of the innovation lifecycle. This situation is partly due to training programs lacking coherence, comprehensiveness or a global outlook, and also due to there being few developed channels for spreading skills, knowledge and experience. The field of social innovation remains fragmented and there is a need for more developed networks as well as innovation intermediaries for brokering the connections needed to nurture and scale up social innovations.

To make the situation more complicated, it is clear that social innovation often has a strong strand of localism running through it. This implies that policy instruments effective in one country may not work in another and the same may be true at a regional level. While it is important to develop a social innovation strategy across the European economic space, this strategy has to retain a local focus to draw on intangible assets such as regional identity and bottom-up networks and milieu.

It is clear from this short review that different welfare regimes and regulatory systems create distinct circumstances and environments for social innovation. There is therefore an urgent need for research on the relation between social innovations and economic policy, models of financing and welfare state regimes as well as regional and local institutional contexts, including tangibles such as regulatory frameworks and intangibles such as networks, embeddedness and soft infrastructure. In this way we can start to explore in what kinds of environments social innovations are created (or are not created). What kind of environment and what kind of settings are most favorable to the emergence of social innovations?

Setting out an agenda for academia

There are three main challenges to researching and theorizing what works in delivering effective social innovations:

- the loci of social innovation;
- the concept of social innovation is under-theorized;
- new, multi-method approaches to research that will be needed.

Thinking first about the *loci of social innovation*, as already discussed, the broad range of activities falling within the concept of social innovation poses real challenges for research. Activity taking place across the public, private and not-for-profit sectors, involving social entrepreneurs, organizations and movements for change, pursuing a wide range of social goals, using different methods to engage and mobilize service users and developing through distinct, but sometimes non-linear stages (generating, developing, scaling up and disseminating ideas) means that a wide range of potential factors will be important in delivering economically successful social innovations.

At the *macro-level* global market forces will be important factors that can facilitate or impede social innovation. Markets are embedded in unique national institutional arrangements, macro-level economic policy, regulatory and legal frameworks, welfare regimes and modes of production. Countries have different kinds of ways to distribute and organize welfare and social insurance, to produce social security and the sense of social safety and henceforth create nation-specific market conditions. For instance, in general the role of the private sector in providing welfare is much more developed in the UK than in other European nations. (Perhaps a good example to illustrate different welfare regimes and nation specific approaches to particular policy areas is healthcare, which varies greatly across European countries).

At the *meso-level*, social innovations require alternative business models of financing, distribution and/or employment and so these factors will be important in facilitating or impeding social innovation. However, the role, extent and viability of socially innovative practices largely depends on policy areas. For instance, the criminal justice system or care have different regulatory requirements and offer different opportunities for provision that facilitate social innovation in particular ways. Social and cultural norms will play equally a part, for example, distinct regional identities, existing local informal social milieus and sub-cultures.

At the *micro-level* attitudes to social entrepreneurship and organizational cultures will shape opportunities for individuals and organizations to develop social innovation. However, individuals' financial and personal capacity, their ability to access social capital and their willingness to take risks will influence opportunities for innovation.

The EU is a complex socio economic space with unique regional and national cultural identities. If social complexity has become an important asset class for the innovation process, then clearly European diversity is a competitive advantage. Then the challenge is to devise a policy that is prescriptive enough to promote social innovation on the macro-level within the European space while, at the same time being sufficiently flexible to allow for local particularities on the meso- and micro-levels. The above highlights the importance of multi-level governance to foster social innovation and to achieve the EU's 2020 target outcomes.

Next we turn to *theory*. At the time of writing, social innovation is under-theorized; this impedes attempts to conceptualize and establish its economic underpinnings. In the current macro-economic paradigm, so-called market fundamentalism or neo-liberalism, techno-economic innovation has been key to wealth creation. Wealth creation takes place in the context of a supposed free market. Yet the neo-liberal model by construction fails directly to tackle contemporary societal challenges such as uneven economic development, demographic transitions and environmental problems. It is generally assumed the market will address such issues as a side-effect of wealth creation. However, as many of these effects are examples of market failure through, for example, externalities, there is no market solution.

As a consequence of this oversight or neglect, many European regions struggle with high levels of dereliction, unemployment, welfare dependency, child poverty, crime and general deprivation. Social innovation, based on solidarity and reciprocity, is an alternative to the logic of the market ideology and suggests a different theoretical departure. This standpoint has profound implications for a study of the economic underpinnings of society in general because it suggests that, in policy terms, solutions will not be found in macro-economic policy adjustments alone, but will need to take account of the interplay between government policy, social and cultural norms and individual and social capacity, as well as wealth creation. In effect, we argue the market should be seen as a tool – one of several complementary tools – by which we seek to achieve social goals. This is in contrast to the concept that society must be reconfigured to achieve market goals.

We must recognize, however, an outright rejection of the currently prevailing economic paradigm poses major theoretical challenges for the emerging study of social innovation. It is not clear from where it should draw its theoretical building blocks. Social innovation is not an independent innovation class (Hochgerner 2012); an important insight from social research is the recognition of the need to develop integrated or holistic problem solving approaches that acknowledge the complexity of post-industrial societal challenges as multi-dimensional and interdisciplinary.

Social innovation extends the narrow economic and technological perspective on innovation and its role in development to a more comprehensive understanding of innovation that includes transformations of human relations and practices (Moulaert 2009). In other words, we see the "economic" as embedded within social relations and institutions. *The Great Transformation* (Polanyi 1946) is a classic reference point for alternative economic models while more recently – informed by feminist thought – Gibson-Graham (2006) challenge the boundary between what is and is not economic. Therefore the social innovation perspective elevates academic discourses such as sociology to the center of the innovation debate (Moulaert 2009; Howaldt 2005). Indeed some observers argue that the post-industrial innovation paradigm is sociologically founded (Howaldt and Kopp 2012; see also Hochgerner 2012 who extends common types of innovation with Parson's structural categories). Complexity theory may be one useful resource to conceptualize social innovation. Instead of a unified theory, complexity thinking refers to a wide set of concepts that can be used to explore dynamic drivers of change in socio-economic systems on multiple levels. Complexity thinking is a multi-disciplinary approach that can include the subjective as well as the objective (Mulgan 2012) in which comprehensive, holistic thinking replaces a world-view where simplifying causal relations, a linear time concept and predictability are emphasized (Fonseca 2002; Mitleton-Kelly 2003). Thus the Vienna Declaration of Social Innovation (2011) identified 14 research topics in social sciences and humanities to develop and implement social innovation policies addressing societal challenges of the twenty-first century.

Moving finally to *research methodology*, the study of social innovation presents methodological challenges that have yet to be fully addressed. On the one hand, research on market forces, economic and fiscal policy, welfare systems and regulatory frameworks might seem to fit comfortably with economic positivist models and methods which draw predominantly on quantitative analysis and include the use of econometrics, experiments and quasi-experiments. Such research seeks extrinsic (often monetized) objectives to determine optimality. By its construction, it addresses needs which are low on Maslow's (1943) eponymous hierarchy.

On the other hand, research that studies the dynamics of organizational culture, the personal capacity of social entrepreneurs and reciprocity in marginalized communities seems to fit more comfortably with methodologies in the hermeneutic or interpretive tradition including, perhaps, radical and democratic versions of "action research" in which research subjects, in this case marginalized groups involved in social innovation, co-produce research with "professional" researchers. In this sphere, intrinsic rewards, such as the concepts of the "good life" and self-actualisation, may be considered. That is, the higher needs in Maslow's hierarchy.

The challenge then is to negotiate the underlying epistemological and ontological contradictions implicit in different research strategies. It should be borne in mind that these are not just academic debates. They have implications for the ways in which research will inform policy. For example, claims to be able to construct evidence-based policy sit more comfortably within the positivist paradigm. In contrast, evidence in an interpretive tradition suggests clear limits to aspirations to create evidence-based policy with the development and progression of policy acknowledged to be a less linear, more iterative process in which the aspirations of policy-makers should be more modest. This latter model of policy-making suggests that policy outputs will have a strong situational dimension and will need to engage with those groups that they intend to benefit.

For EU 2020 targets such as fighting poverty and exclusion, reducing carbon emissions, increasing activity rates and raising educational achievements, this suggests a multi-method approach which includes a strong strand of participatory research that engages directly with target groups like marginalized and economically disadvantaged people. They are the experts on their own lives. At a more theoretical level, it also suggests the need to challenge the "orthodoxy" within the functionalist managerial literature that often implicitly accepts the neo-liberal paradigm (see for examples the critiques of Dey and Steyaert 2010 and Curtis 2008). Theories of social innovation are important because they help policy-makers place social innovation in the broader policy landscape and highlight potential synergies and conflicts with broader economic and social policy. For researchers, theories of social innovation give an important steer to the kinds of research methods likely to be most productive. For evaluators of specific social innovation projects and programs, theories of social innovation support theory-driven approaches to evaluation and, in particular, the development of "theories of change" that are widely accepted as a useful starting point for complex program evaluations.

A theory of change explains both the "mini-steps" that are required to achieve a long-term outcome and the connections between these mini-steps. Theory of change encourages all stakeholders, including the groups who are intended to benefit, to articulate expected achievements. Carol Weiss, who is closely associated with the development of the "theories of change" approach, argues that a key reason why complex programs are hard to evaluate is because the assumptions which underpin them are sometimes poorly articulated (Weiss 1995).

Conclusion

Social innovation is a multi-disciplinary concept that has found resonance in a number of academic disciplines and policy circles in the last few years. It also has a prominent role in achieving the EU 2020 targets that aim to raise the activity rate among 20–64 year olds to 75%, decrease the level of early school leavers to 10%, increase the level of tertiary education, reduce the risk of people falling into poverty and cut carbon emissions to 80% of 1990 levels. The concept is thus said to offer solutions to some of society's most urgent challenges. Depending on the policy area or field of research, the concept has a taken on a variety of distinct but related meanings. The relatively loose definition of social innovation is a strength of the concept but therein also lies a weakness. On one hand, innovation processes may arise from and have as much impact as predominantly economic, social, cultural and environmental variables. In actual fact, any innovation is grounded in complex socio-economic constellations. Recent experience has shown that ideologically driven neo-liberal free market policy does not deliver social cohesion and equal life chances for all but further marginalizes already vulnerable population groups. With its interdisciplinary, interconnected and holistic understanding of social needs and by promoting social values, social innovation is perhaps better placed to develop sustainable responses to cotemporary societal challenges than free market solutions.

One the other hand we have pointed out that social innovation, if it is applied successfully, has to be located in specific contexts. Context may refer to the different levels of governance and policy-making and includes the macro-level of institutional arrangements within particular welfare regimes, the meso-level of certain policy areas lodged in broader meta structures down to the micro-level of local community and neighbourhood politics. A general definition of social innovation can set basic parameters and provide support for innovative practices but these will have to be cross-referenced with national, regional and local constellations. Thus in order to achieve EU 2020 targets, for instance, balanced multi-level governance strategies have to be formulated that are prescriptive but which are equally flexible to allow member states, regions and neighborhoods to address their most urgent needs in efficient ways.

We agree with others (Howaldt and Schwarz 2010, the European Commission 2010) that social innovation is not purely target-oriented. The process – cooperation, coproduction, interaction, sharing of resources, etc. – of delivery is an important outcome of the innovation itself. In other words, social innovation is a means to an end *and* an end in itself. In stressing the significance of social processes, social innovation emphasizes the value of social capital for building sustainable and resilient societies that have the capacity to act in an environment of permanent change.

By encouraging engagement and participation, social innovation pushes the ball of responsibility into the field of individual citizens. One may argue that active citizenship is part of a neo-liberal agenda where the state increasingly transfers its obligations to individual members of society. However, we have shown in this paper that the state has an important role to play in the social innovation model. The state can encourage social innovation and upscale innovative practices through its purchasing power, by providing regulatory and financial incentives and through the removal of bureaucratic barriers. Rather than trying to ideologically positioning the concept of social innovation in the big state/small state camps, we suggest perceiving social innovation as boosting collaboration and partnership between various stakeholders (the public sector, private enterprise and the free market, civil society, the charitable sector and individual citizens) that make up the social fabric.

Europe's research and innovation strategy Horizon 2020 makes societal challenges a key priority (European Commission 2011). If the EU preserves a prominent role for social innovation, then future research has to demonstrate interdisciplinary and cross-sectoral complexity in its design and output in as much as its subsequent impact. Moreover, research should be encouraged to seek partnerships with private and public sectors but equally include perspectives from the people directly affected by policy recommendations that may result from research. In that sense, research must cut across different scales and levels of governance.

In this paper we also outlined the increasing link between social and technological innovation in the digital age where the once distinct roles of innovator, producer and user become increasingly blurred. European research funding has to acknowledge this paradigm shift; consequently, research areas of science and humanities can no longer be treated in isolation.

The social innovation concept has been put forward to pursue extremely ambitious objectives. However, there is at the time of writing only limited proof of whether social innovation can or already has delivered on some of its promises. In the absence of clear theory and a rigorous evidence base, it is difficult to judge to what extent social innovation might help to develop sustainable answers burning social questions of the twenty-first century.

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Notes

1. The EU aims to raise the activity rate among 20–64 year olds to 75%, decrease the level of early school leavers from 15 to 10%, increase the level of tertiary education, reduce the risk of people falling into poverty and cut carbon emissions to 80% of 1990 levels (http://ec.europa.eu/europe2020/targets/eu-targets).
2. http://www.weforum.org/content/global-agenda-council-social-innovation-2012–2013
3. http://www.bis.gov.uk/cicregulator

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