



Stakeholder Brief 4

Executive summary

This Stakeholder Brief is a summary of the debates that emerged in the second Research Workshop of Working Group 2 ("Social enterprise in industries") of the COST Action "Empowering the next generation of social enterprise scholars" (Empower-SE), held at Frankfurt University of Applied Sciences in February-March 2019. Social enterprises (SEs) are a common phenomenon in many countries' welfare sector. Their entrepreneurial models, competitive situation and effects depend on public and especially social policies to a far larger degree than what is the case for SEs in other industries. Researchers and practitioners see international comparative research as a unique possibility to disentangle essential structural effects of SE from policy effects. Based on the papers presented, the researchers thus discussed methods for using empirical data to solve epistemological issues and study the relationships between context and environment, on the one side, and SE effects, on the other. Together, researchers and practitioners focused on the necessary framework conditions for SEs to thrive in the field of social and health services, as well as on these enterprises' innovative contribution to and impact on the provision of such services and on the potential for cooperation between established SEs and start-ups.

Social Enterprise in Social and Health Services

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1. Introduction: social enterprise in social and health services

The goal of this Workshop was to discuss the latest research on social enterprise (SE) in Social and Health Care systems, based on the presentation of research papers around four thematic lines, as summarized in the Proceedings produced after the Workshop. However, this workshop was not a "researchers-only" event: indeed, stakeholders also have a strong presence in Empower-SE, and as such, they are actively engaged in the academic activities organized in the framework of the Action. In the

case of the Frankfurt Workshop, a stakeholder panel first introduced the basic structure of the German welfare state to international researchers, as well as recent activities to increase the effects social entrepreneurship can have on the delivery of social and health services. **Practitioners and researchers** then discussed progress made and central questions in the four thematic lines. The overall emphasis of this opening plenary session was on discovering ways to improve the transfer of research results into social policy making and the practice of social and health services.

2. Main lessons from recent research on ecosystems and organizational types

There is still a significant **diversity in the understanding** of the term social enterprise across national contexts, and sometimes even between researchers, practitioners and policy makers within one country. Legal definitions in national laws on SE do not only differ, but they are not even always clear enough to decide which organizations should benefit from the law, if any benefits are attached to such legislation at all. The EMES approach to characterizing SE has become more prevalent in current SE discussions, though. Its three dimensions—the economic, social and governance-related dimensions—find a strong echo in research as well as at European and several national policy levels. The indicators which are nationally applied to each of these three dimensions are diverse, however, and many laws do not stipulate them clearly. This diversity was seen as potentially healthy in regards to what must be the overall goal: to encourage SE activities by giving them a nationally acceptable role. Neither researchers nor practitioners see attempts to use SEs to achieve savings in public budgets for social services and health as sustainable. After all, SEs in social and health services must frequently abide to the same public delivery standards applicable to any type of non-profit organizations (NPOs) and their entrepreneurial dynamics resemble those of other NPOs. As a result, SEs in these industries are not usually cheaper. Their advantage rather lies in more harnessing client orientation and innovativeness.

Under these circumstances, international comparative research is seen as one way to discover **essential structural effects** of both varying organizational models as well as the effect of SE in the delivery of social and health services. It offers the possibility to detach organizational effects from the effects of policy, legal and financial framework conditions, thus offering the possibility to come closer to the identification of organizational and management factors which constitute comparative advantages or disadvantages of SEs, on the one hand, versus NPOs, public or for-profit delivery, on the other hand. At the same time, it can help

to identify positive and negative influences that policy elements may have for the development and scaling up of social enterprises.

Researchers and stakeholders agreed that **both public grants and public-contract-related finance** is necessary to develop SEs. Grant finance is seen as necessary for innovative areas of supply as well as innovations in SE, in other words for types of service delivery that carry a particular risk for the providers. Although discussants agree that public-contract-related finance might increase the effectiveness in service delivery where services can be standardized, this applies only where impact measurement captures multidimensional facets. New financial instruments ought to be found especially for social and health services for small groups of recipients, as they are frequently neglected by current procurement processes. There is a danger that public-contract-related finance could lead to those most in need not being assisted (skimming effect).

If SEs are to provide services contracted out through **public procurement**, the relevant policies, tenders and contracts need to spell out clear quality criteria. Such criteria must lend themselves to monitoring procedures which are easy and cost-effective. Also, the procurement processes must be designed in such a way that organizations can bid, regardless of their size, and that the administrative cost of bidding is kept reasonable. Ideally, quality criteria should be given preference over price. In reality, however, procurement policies are frequently cumbersome and strictly price-related, which results in little innovation and market-entry obstacles for SE.

The pros and cons of **national SE laws** providing a clear definition of SE were discussed very ambivalently. While opponents pointed to the need for flexibility in regard to company forms, they also see a frequent need for improvements in terms of the legal recognition of SE aims. The proponents of SE-specific laws—sometimes prescribing one or several legal forms—point to the gain in transparency and the possibility to curb misuse of public funding. This was seen as especially true in those cases where the state creates special benefits for SE.

Discussing what **role the European Union (EU)** can play in empowering social entrepreneurs, several potential facets were seen as important:

- > the forging of networks among SEs,
- > the improvement of beacons/indicators for the measurement of benefits generated by SEs, and
- > the support to social innovation, particularly in those countries where SE activities are relatively recent.

The European Social Fund (ESF) is seen to have the potential to foster social innovation and the scaling up of socially innovative entrepreneurial practices, provided its means are related to social value creation. In order to achieve this, the EU has a major role to play in transferring benchmarking exercises and examples of what is seen as positive innovation. Discussants agreed that the stream of information on both these aspects (benchmarking and examples) must be managed in both directions—bottom-up as well as top-down. This will also eventually assist the development of commonly acceptable social policy standards within the EU.

3. The role of SE in national welfare systems and their impact on service delivery

Researchers and stakeholders agreed that the institutional evolution, welfare-delivery traditions, social welfare policies, organizational competition as well as the availability and admissibility of legal types for SEs influence these enterprises' preferred fields of activities, their size and the uniformity or diversity of the SE landscape. There is a great diversity among nations and sub-national regions when it comes to (potential) initiators, member and stakeholder composition (users/citizens, staff/professionals). The **competitive situation** in which SEs find themselves is strongly influenced by national and regional social and health policies, as this industry heavily depends on public funding. Eventually, depending on these various factors, the quantitative and qualitative impact of SE on specific social and health services thus differs immensely.

Regarding **impact assessment**, there was some doubt among researchers as to the rationale behind the concept of social impact. First of all, the outcome of any social intervention at the level of clients is difficult to measure. Person-related services do not have the same input-output-outcome logic that might be applicable to technical processes. What is more, any positivist logic has lately been criticized, even in the technological field. Secondly, this logic raises an ethical and human-rights issue when it comes to counselling, training, education and care. Thirdly, any evidence-based allocation of resources for social and health provision is heavily disputed among professionals of social work and health care in terms of both their effectiveness and their efficiency.

At the same time, **outcome measurements at the level of the organization** are seen as important for SEs to obtain the resources they need as well as to keep their staff motivated. However, single-indicator systems—such as the social return on investment (SROI), practised to attract private funding, or simple figures on employment, frequently considered as relevant indicators by public-employment agencies—are crude oversimplifications, because they restrict the assessment to the main goal of a single external stakeholder group and deny the qualitative effects of the SE, which might be of great importance to organizational sustainability and local and regional socio-economic development. It was agreed that, methodologically speaking, the organizational level is the highest level possible at which to catch social effects in a decent and reliable way. It was also underlined that capturing social value implies additional costs for the enterprises, which, so far, commercial and public competitors hardly ever incur.

Social-impact measurement was seen as a better way of demonstrating impact at the level of clients, members, organizations as well as local and regional communities. Researchers pointed to various neglected areas **of qualitative impact measurement**, such as (among others) member satisfaction, organizational reputation and competitiveness, as well as questions of local embeddedness and their ripple effects for local and social economies.

Key performance **indicators** for these benefits might be unique to certain sectors of welfare, if not activities. More research is needed in this regard, since many SEs either do not see the need or do not have the means to pay for monitoring and evaluation. They rather stick with single-dimension reporting, which might or might not be based on organizational goals. This in turn is why processes of cross-regional comparison as well as organizational learning processes do not happen at desirable degree.

In order to improve this situation, the discussants suggested the following two strategies:

1. **Bottom-up processes** for developing sector-relevant goals and monitoring processes need to be fostered. In particular, SEs need to adopt participatory processes to fully capture the goals (and resources) of their clients, members, funders and the community around them if they want to ensure their own sustainability. If they do not yet have such participatory processes, they ought to introduce processes of focussed dialogue with all their stakeholder groups and implement strategies that ensure negotiated goal alignment. Consequently, they ought to implement monitoring and evaluation procedures that provide transparency for all their stakeholder groups.
2. Social and health care professionals as well as external experts need to be given more training in regard to **multi-stakeholder goal setting and monitoring**. They need to be supported by hands-on-research to develop methods which are both significant for the organization and allowing for comparative assessment. The cost for such organizational R&D as well as training should be (at least partly) borne by public authorities. Instead of imposing, at this stage, its own evaluation criteria, the EU could install a kind of benchmarking procedure, sometime in a not-too-distant future, with procedural results being captured in regional and EU-wide data centers.

4. SE governance and social service system challenges

The **German example**, with its many ten thousands of well-established SEs and various problems of newly started SEs entering the quasi-markets for social and health services, provided some welcome lessons on the way forward in SE governance and on the challenges faced by elaborate social systems. From stakeholders' inputs, it became apparent that the predominant modes of public financing via (more or less performance-related) contracts lead to widespread standardization in the delivery of social and health services. While this is politically wanted in regard to providing equal living conditions all over the country, the reality shows that it also leads to certain **negative effects**, such as client skimming and service gaps, particularly in the countryside. It discourages need orientation and innovation, and cannot counteract a significant national staff shortage in these fields. Procurement strategies which give priority to price over quality of services result in a skimming of clients and in ever increasing unmet needs. The strict legal definition of services and financing obligations leads to complicated case configurations, which cause high administrative costs for the providers. Performance indicators are impossible to find for services such as, among others, shelters for homeless people or abused women, counselling services or family care. These services are human-rights-based and remain grant-financed, but since, in Germany, many are based on local government's voluntary actions rather than on constitutional obligations, these services are cut where- and whenever local governments fall short of funds.

In such a situation, both traditional welfare associations (many of them having limited companies as entrepreneurial subsidiaries or increasingly behaving themselves in an entrepreneurial way) and for-profit service providers see SEs as new competitors. On the other hand, social policy makers in the public as well as in the private sector cherish the **innovative capacity** of SEs for the welfare system as a whole. The current reaction by the larger welfare associations as well as by an increasing number of (small) SEs is to aim

for cooperative arrangements or take-overs. This evolution holds the promise of a faster roll-out of innovation and of easier scaling-up.

Cooperation between traditional welfare providers and SEs is experienced in most European countries. In some cases, SEs are spin-offs of traditional providers (e.g. in Turkey, Germany); in other cases, traditional providers stop providing some services and SEs are started to maintain the concerned services (e.g. in the UK); in yet other cases, young SEs turn to traditional providers for resources (e.g. in Germany, Austria, Croatia). Other motivators for cooperation include the fact that such cooperation can contribute to recruitment, give the staff more sense of social purpose and enable exchanges of specific skills, such as the knowledge of social policies, on the one hand, and technological—and especially digital—knowledge, on the other.

Lessons to be learned include the need for **SMART agreements to govern the cooperation**. SMART stands for specific, measurable, and mutually accepted goals, that are deemed realistic, and foreseen on a certain timeline (SMART goals). Any SMART agreement should specify the central means of cooperating as well as the division of tasks and responsibilities envisaged. Results should be monitored according to a set of indicators mutually agreed upon.

Time is needed to find a common language, define common goals, negotiate, and agree upon and experiment with cooperative arrangements. Potential **scenarios of competition** need to be explored and rules established for transparency. Frequently, **new software solutions** are needed on both sides in order to optimize communication and resource allocation. Both partners need to **respect each other's autonomy** and accept particular funding mixes, including differing degrees of profit orientation.

Small endeavors of focused cooperation might be a good starting point. This can help to establish a **constructive behavioral code** to which both sides adhere and which will be useful when the

cooperation enlarges. The growth of cooperation is best based on a **discovery process**. Gamification processes can help explore potentials and limits. Internships in the "other" organization will facilitate contact, communication and mutual understanding.

5. Some innovative contributions to social and health services

In the industries of social and health services, both needs and supply options frequently need to meet currently prevailing societal as well as individual criteria (for example, finding private funding for tasks related to children regularly proves easier than finding it for drug abusers). When social policies define what the term "social" means, SEs operating outside of these policy areas face particular obstacles, e.g. in financing. And when such definition is quite restrictive, and only few fields are considered as being "social", social innovation can mean that services are rendered for the first time, also leaving open issues of financing. Thus, **finance can be seen as the central issue in promoting innovation**. If SEs can access capital beyond their own (scarce) surplus from delivery contracts, innovations become more likely than if they cannot.

If innovation does not concern the service as such, but an SE attempts to implement a new way of delivering it, for example in a more inclusive, fairer or more embedded way, such **organizational innovation** does not always seem particularly innovative to potential funders or the public. The same applies to **cross-sectoral innovation**, even though it frequently proves highly effective in overcoming heavily bureaucratized service delivery. Due to likely contradictions in interests between the various stakeholder groups as to which innovations are most important, it is likely that SEs with a truly **participatory governance** might take longer—but they are also eventually more likely—to find sustainable strategies and unleash member resources; they are less likely, though, to create an appropriate innovation in answer to short-term opportunities. Leadership thus plays a decisive role in how innovative an organization is.

There is relatively little research so far on the **innovation perspective of the clients**. It cannot always be assessed with known methods. Professionals working with clients should be encouraged to harness their clients' innovative potential. This means there is a real need for more truly participatory and collaborative research.

The diffusion of social innovations depends on all the elements that are necessary for scaling up in general: finance, committed staff and a legal framework for trans-organizational cooperation. The EU can and indeed has impacted several countries (e.g. Croatia) in first introducing the notion of social innovation.

6. Main references

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