**Trial Lecture: The Role of Social Enterprises in Public Sector Innovation in Europe**

It is my pleasure to speak to you today about the role of SE in PSI in Europe.

**0) Introduction**

In recent years there has been a growing demand for the public sector to be more innovative in response to rising citizen expectation, dire fiscal constraints, and a number of “wicked problems” that because of their complexity cannot be solved by standard modes of operating. In the – some would label it – “crisis of the European welfare systems” (in terms of budget, efficiency, and legitimacy), public authorities have started to look at private initiatives to provide solutions that can address these wicked problems. In these discussions SE has been considered *one* possible means to address these unmet social needs. However, and as we will soon see, SEs are only a small, but still important fish in the large public sector innovation pond.

I have structured my lecture as follows: First, I will provide the audience with a lens through which we can understand public sector innovation, namely that of governance paradigms. Second, and since I am dealing with two contested concepts, I will delimit the scope of this lecture by defining PSI and SE respectively as well as providing the audience with innovation typologies through which we can properly identify SEs’ role in PSI. Third, in my interpretation of the given lecture topic I will employ a historical perspective to explore SEs’ role in PSI in different welfare state models in Europe, namely, the Southern-European, the corporatist, the liberal and the social-democratic model. I focus primarily on work-integration social enterprises and how their role in PSI emerged, and how they have evolved. Finally, I discuss their current role and their future trajectories.

**A) PSI**

**A2) The evolvement of PSI through the lens of governance paradigms**

Before delimiting the concept of PSI, I will first turn to a much-used lens to explore PSI, namely that of governance paradigms. This perspective is useful in understanding how innovation has been perceived through time, but also to understand why we talk about SE in relation to PSI.

A governance paradigm can be considered an overall policy and implementation regime steering the design and implementation of public policy and the delivery of public services within the public sector (Osborne 2010).

The public sector has passed through 3 regimes, namely Traditional Public Administration (TPA) from approx. 1945-1980, New Public Management from approx. 1980-1995, and New Public Governance from approx. 1995 to date. While the public sector has transitioned from one to the other, this does not mean that the paradigms cancel each other out, but rather that they co-exist in layers. A central feature within the scholarly debate regarding PSI is how the three paradigms relate to innovation.

TPA – Innovation as a concept was not widely used to describe developments within the public sector. And, if we talk about innovation in this governance paradigm, it happed through policy implementation and large-scale changes initiated by politicians developing new policy frameworks and legislation. Political executives had an entrepreneurial role, and the public sector acted as the legal authority exercising power over citizens by e.g., administering public services. Citizens had the role as passive receivers of public services, and as disempowered subjects highly dependent on the state.

NPM – With the turn to NPM came the idea that the public sector should continuously develop and renew itself. It was actually during this period that the term “innovation” became vitalized in the public sector. By introducing for example quasi-markets in the public sector, the aim was to enhance innovation through competition and user orientation. The role of the public sector changed from being a legal authority to a service provider. And citizens, acting as users, became more empowered. However, scholars argue that the plurality of actors capable of innovating the public sector has been overlooked here.

Finally, in the NPG paradigm, innovation goes beyond the economic efficiency perspective and focuses on multi-actor collaboration. NPG is believed to compensate for some of the deficiencies of hierarchies and failures of competitive markets from the previous regimes. Some suggest that the aim is to transform the public sector into an arena for collaboration, where public sector organizations must work together across organizational and institutional boundaries and make room for users, citizens, civil society organizations and private firms in producing welfare. Innovation is understood as bringing together a plurality of relevant actors to solve shared problems and thus enhance the production of public value in terms of visions, policies, strategies, or services. Thus, citizens are empowered and considered co-creators in the collaboration processes. It is in these collaborative efforts that social enterprises are considered *one* of many relevant actors as they are perceived a bridge-builders between sector and actors.

But what is public sector innovation and what is social enterprise?

**A3) Definition of PSI**

Now that we have an understanding of how the concept of innovation has shifted through time and governance paradigms, let us clarify more precisely the meaning of PSI. Here, I believe it is helpful to discuss each component of the concept in turn.

*Definition of the public sector*
Referring to Osborne (2006) I understand the public sector as “those parts of the economy that are either in state ownership or under contract to the state, plus those parts that are regulated or subsidized in the public context” (Osborne, 2006).

*Definition of innovation*For many, public sector innovation can be considered an oxymoron as the public often is perceived as rigid and slow-moving. And this might be a fair perception, especially since the concept of innovation is probably most commonly associated with the private sector. However, in the last decade or so the myth of the innovative private sector and the rigid public sector has indeed been debunked (Mazzucato, 2013) as more evidence has shown an innovative nature in the public sector.

Innovation can be defined as

the development and implementation of new and promising solutions that break with common wisdom and existing practices in a particular context (Mulgan & Albury, 2003; Hartley, 2005; Torfing, 2016).

Public sector innovation includes innovation in many public areas such as e.g., in policy goals as well as new ways of producing and delivering services with a new form and content (Torfing, 2016).

But why are we talking about PSI? The reason for that is because innovation in the public sector is a response to problems with failing policies, regulatory fiascos, planning disasters, poor and declining service quality, and unsolved economic and social problems. Therefore, PSI is motivated by an interest in creating new and better solutions that outperform previous concepts and practices (Hartley, 2005).

**A4) PSI typologies**

Now that we have established understanding of PSI, I will now visit PSI typologies identified by the extant literature. These will be important for the upcoming analysis of the role of SE in PSI in Europe as they allow us to identify the roles of SE in PSI.

The seminal work of De Vries, Bekkers and Tummers (2016) identified five PSI typologies through a thorough systematic review. However, more recently, in 2022, Cinar and colleagues conducted a new review, extending the work from 2016, which now includes seven typologies, which I will briefly touch upon in the following.

***(1) Service innovation*** entails that a novel service can be implemented and delivered to a group of existing users, or that an existing service is provided to a new user group.

***Process innovation***emerges in two forms **(2) *administrative process innovation***– i.e., the creation of new ways, methods, and forms of undertaking tasks within the organizations. Such innovations are closely related to the redesign of operational routines. And **(3) *technological process innovation*** involving the application of technology, which can range from digital forms to automated algorithms.

***(4) Conceptual innovation***which is the development of new world views that challenge assumptions that underpin existing service products, processes, and organizational forms.

***(5) Governance innovations***– such innovations are political in nature and are meant to democratize the public sector through new participation mechanisms for citizens.

***(6) Systemic innovations***entailing new and improved ways of interacting with other organizations and knowledge bases to co-deliver public services. This in turn increases interaction between public sector organizations, civil society and businesses. Requires cross-boundary activities outside the public sector innovation.

***(7) Social innovation***which was introduced into the field of PSI by Mulgan (2006) as a broad and cross-sectoral concept aiming to meet social needs of disadvantaged groups and target underlying reasons for social problems.

In the discussion of SEs role in PSI in Europe, I will use these typologies to identify the historical and currant role SEs have had and can have in PSI.

**B) Social enterprise**

Let us now focus more closely on social enterprise (SE).

Many here, have probably never heard of SE. However, an emphasis has been put on the role of SE as one of several devices to tackle social and economic challenges and to provide better solutions to meet citizens’ demands. Social enterprise mainly operate at local levels and the social enterprise sector is quite small in scale, in this lecture though we will look at their actual and potential roles in PSI.

There is not a unified definition of SE. Yet, broadly speaking SE is considered an organization that sells goods and/or services for a social mission rather than seeking the maximization of investor or shareholder returns.

It is widely recognized that SEs have a double – or sometimes triple – bottom line. Meaning that they seek to have a social, economic, and often environmental impact in the community that they operate in. As such SEs can be considered so-called “hybrid organizations” as they operate at the intersection of the public, private and third sector, combining social, commercial, and non-profit strategies. In other words, they collaborate with and incorporate features of all three economic sectors (Billis 2010; Tracy et al. 2011).

Although the phenomenon lacks a clear definition, in the European context, researchers have sought to develop key indicators to identify SE activity. These indicators have been established by the EMES European Research Network (a research group established to focus on SE). However, these indicators should not be interpreted as a set of conditions that organizations must meet to be categorized as SE, but rather, but are rather ideal types. The ideal type consists of three dimensions, namely an economic, a social and a participatory governance dimension. In the following I will present the three dimensions.

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| IDEAL TYPE |
| Economic dimension | **Social dimension** | **Participatory governance dimension** |
| SEs are directly involved in the production of goods/services to people on a continuous basis | One of the main aims is to **serve/benefit the community** or specific groups of people  | **High degree of autonomy**: SEs are created and governed by a group of people. May depend on public authorities, but are not managed by them |
| Those who establish the SE assume the risk inherent in the initiative | SE initiatives are a result of collective dynamics, I.e., **launched by a group of people or CSOs** | **Decision-making power** is **not based on capital ownership**, rather “one member one vote” |
| The activity carried out in the SE requires a minimum amount of paid workers | A **limited profit distribution** avoiding profit-maximizing behavior | A **participatory nature**, which involves various parties affected by the activity |

Although the term “social enterprise” began to be widely used in the mid-1990s, organizations corresponding to what we now call SE has existed well before that as several countries have witnesses entrepreneurial dynamics in the third sector.
Two typical SE trajectories have been identified in the extant literature. The first trajectory is non-profit organizations who have become more business-like. The novel development here is that these new non-profits become more entrepreneurial which can entail for example operating partly in the market. The second trajectory is that cooperatives expand beyond mutual interest and become so-called social cooperatives. What’s new here is that instead of seeking members’ interest, cooperatives look to satisfy the interests of their target group. The trajectories are context dependent, and they often evolve based on the institutional framework within the national context (Defourny & Nyssens, 2010).

B) The Role of SEs in Contemporary European Welfare States

In most European countries, third sector organizations, already played a significant role in the provision of welfare services well before WWII. However, in the 1950s they became even more important setting up initiatives to combat housing and poverty problems. Many of these organizations were inspired by a Christian charitable tradition, while others were inspired to enhance participation and mutual aid principles.

In the late 1960s and 1970s, there was a quest for more democracy and equality in all spheres of life which led to a blooming of civil society movements addressing major societal issues both through advocacy and service provision.

Yet, the economic downturn in the late 1970s and 1980s led to the persistence of structural unemployment in many European countries. And, in a context where the need to reduce state budget deficits was high, there was also a lack of active integration policies to tackle the increasing exclusion of some groups from the labor market and other parts of society.

Third sector organizations were at the forefront of experiments regarding atypical forms of employment. It was during this period that the philosophy of innovative SEs emerged.

In the following, as said, I will focus on the role of SE in PSI related to work-integration. When comparing European welfare states, a common framework that has proved to be fruitful is that of Esping-Andersen’s (1990) welfare state regimes.

*Southern-Europe*

In Southern Europe (including countries like Italy, Spain, and Portugal), the welfare spending is in general lower than in other welfare models. Additionally, the provision of social services financed by the state is considered underdeveloped. Here, families are considered key actors in welfare provision. Additionally, Church-related charitable organizations have also played central roles in welfare provision.

In this context, it is not surprising that in the late 1980s new, local co-operative initiatives emerged as a response to unmet needs. The concept of SE made in fact its first appearance in the early 1990s in Italy conceptualizing the activities that responded to unmet needs, especially in the work integration field. Such initiatives, known as *work integration social enterprises*, or WISEs, which were pioneers in promoting the integration of excluded people on the labor market through a productive activity. In fact, the first WISEs actually implemented labor policies before they came into institutional existence.

This innovative social enterprise philosophy clearly emphasized empowerment and integration, as the aim was to offer disadvantaged workers a chance to work while at the same time supporting them in gaining control of their own lives. Here, the social enterprise idea is closely linked to the co-operative movement or trajectory, and in 1991 the Italian Parliament created the pioneering law and legal form of “social co-operative”. The emergence of SEs in these countries was clearly a bottom-up phenomenon. Today SEs are growing in numbers and are of economic and social importance in this context, especially in terms of employment and number of users (Poledrini & Borzaga, 2021).

*The corporatist welfare model*

In the countries belonging to corporatist model, namely Belgium, France, Germany, and Ireland, non-profit private organizations (which often are regulated and financed by the public) play an important role in the provision of social services (Salamon et al., 2004). Also, these welfare states faced high rates of unemployment, which led to entrepreneurial activities in the voluntary sector seeking to integrate disadvantaged groups into the labor market. In fact, public organizations started to rely heavily on such initiatives for the implementation of such labor-inclusion activities (Defourny & Nyssens, 2012).

In the last 10-15 years a new generation of SEs linked to the discussion of innovation in the public sector has emerged in countries such as Germany and Belgium. Also, these organizations seek to solve social problems through economic activities. They are rooted in the idea of welfare creation through innovation processes, and these new SEs are seen as bridges between the three economic sectors as they often promote cross-sectoral collaboration.

In Germany, the new generation SEs are rooted in the private sector; however, this has made the relation between SEs and the public sector fuzzy (von Ravensburg, Mildenberger & Krlev, 2021). On the one hand, municipalities are experiencing that they no longer can afford to maintain certain services, which has opened a room for actors such as SEs. On the other, many German SEs delivering welfare services are facing some institutional obstacles. For example, there is a certain amount of skepticism regarding the idea that business-type SEs deliver welfare services. Additionally, when compared to the EMES conceptualization mentioned earlier, in Germany *participatory governance* is not yet recognized as an issue for thorough debate (Karré, 2021; von Ravensburg, Mildenberger & Krlev, 2021).

*Liberal welfare model*

In the liberal countries there is a lower level of welfare expenditure. Although there existed various social programs with universal coverage in the post-war years, this landscape was challenged in the 1970s and 1980s by NPM reforms introducing quasi-markets. In the quasi-market, service is open to organizations form the public, private and third sector – including SEs. And, compared to the other welfare models, the liberalization of the state is more advanced here.

Work-integration social enterprises, or WISEs, have also constituted a prominent role in the UK. However, while 1980s saw the rise of many WISES with their innovative work-inclusion strategies because of widespread unemployment, the stabilities of such initiatives have been hampered due to policy priorities and funding arrangements. Still SEs as *community businesses* for local community development have been considered effective in supporting communities.

After the economic crisis in 2007-08 affecting many welfare states, The Government envisioned a role for SE in public service reform. Indeed, when the Conservative-led coalition government gained power in 2010, the introduction of “Big Society” fostered an important role for voluntary, community and SE organizations in delivering services. However, a government shift placing the policy focus on Brexit has shown that SEs working in welfare services are being reduced (Aiken et al., 2021). In the UK there is a high level of public services delivered by independent private or third-sector organizations. Yet only a small proportion of these services are delivered by SEs (Aiken et al., 2021). Yet, scholars raise questions about the future trajectories of SEs in PSI due to a period of public austerity and recession (Aiken et al., 2021).

*The Social Democratic Welfare Model*

The Social-democratic welfare regime (often called the Nordic model) is characterized as the welfare model with the highest welfare expenditure in Europe. These countries can be considered state friendly as they have a large public sector providing universal services to its citizens – a model which has proven to be successful and robust. In these countries there is a specific division of labor between the three economic sectors: The welfare state delivers welfare, the private sector ensures production and creates jobs, and the third sector advocates interests and shape the societal agenda.

Similar to other European countries, the Scandinavian countries also have a tradition of a co-operative movement, but more specifically workers’ or farmers’ co-operatives (Hulgård, 2004). While arguably not *as* affected by the economic downturn in the 70s-80s, still the Scandinavian countries also experienced social and economic challenges, which fostered entrepreneurial dynamics in the third sector. Interestingly, the Scandinavian countries have taken somewhat different trajectories with regard to SE.

As an example of the Social-democratic welfare model, I focus here on Sweden. In the 1980s context, characterized by the emergence of social challenges, new dynamics emerged in the third sector. Although not defined as SE, the first new worker co-operatives were initiated by actors within the field of mental care after the Psychiatric care reform in 1989.

However, the first time SE was mentioned in Sweden was in the mid-1990s, and in Sweden work-integration social enterprises were some of the first SEs that self-identified as SE. Although they could be characterized as work-integration initiatives, they often had a broader social aim. In the years following, and due to a policy interest to use the SE model as labor-market tools for on-the-job-training, a heavy weight on work-integration became focus. In 2013 almost 300 WISEs were identified in Sweden, which is quite a low number compared to Italy where 1915 WISEs were registered in the year 2000. Today, WISEs struggle to survive in Sweden, especially those targeting the most vulnerable groups (Gawell, 2021).

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|  | Southern-European model | Corporate model | Liberal model | The Social-democratic model |
| Ex. of countries | **Italy**, Spain, Portugal | Belgium, **Germany**, France, Ireland | **UK** | Denmark, Norway, **Sweden**,  |
| SEs’ role in PSI (historical perspective) | Pioneers in developing WISEs that served the community combining different types of stakeholders | Implemented work-inclusion activities through WISEs, which public organizations relied heavily on. | WISE-initiative flourished, but were later hampered due to unpredictive public funding | Experience with entrepreneurial dynamics in the 1970s-80sFirst mentioned in mid-1990s |
| SEs’ role in PSI (today) | SEs are growing in numbers. Are considered key players in the welfare system and an important sector of the economy | German government acknowledges the importance of SE to foster PSI, but institutional obstacles and skepticism can make it difficult | Politicians have been promoting the role of SE in service delivery. SEs deliver only a small proportion of service provision in the UK.  | Policy interest in using SE as labor-market tools.Comparatively speaking, small in number and scope. |

C) SE in PSI in Europe

Now that we have sketched out the experience with SEs in Europe, I will discuss more specifically the role of SE in PSI in Europe. I will draw on the links between SE and their innovative dynamics established in the extant literature (e.g. Defourny & Nyssens, 2012) and reviewed here. Important to underline before moving on, is that the roles identified here are not a definite nor an exhaustive list of SEs’ roles in PSI. Rather, it is meant as an overview of roles that SEs *can* fill or *have* filled in PSI.

First, third sector organizations (including SEs) have had the role of ***service inventors***, inventing new services or solutions to social issues to meet with the challenges that welfare states have not been able to respond to. SEs have organized the provision of social services exemplified here by the WISEs. Indeed, such initiatives have been one of the more prominent innovative public solutions that SEs have contributed with. With a look at the PSI typologies presented earlier, this type of innovation resembles that of *service innovation* (Cinar et al. 2022; De Vries, Bekkers and Tummers, 2016). As we have seen, the role of SEs as a service innovator has been present in all welfare state models – especially in times when the public sector has not been able to meet citizens’ needs. However, this role is most prominent in the Southern-European, the corporate and the liberal models where welfare expenditure is lower.

Secondly, due to their hybridity, SEs may also have the role as a bridge between sectors in PSI projects as they manage to involve several actors who are often partners of the same project. And, although this does not necessarily revolutionize the production process, it does however often transform the way in which the activity is organized. This new way of organizing the production of welfare services resembles the PSI typology of *systemic innovations*, creating new, and improved ways of interacting with other organizations and knowledge bases to deliver public services. Here an emphasis is put on the increased interaction between public sector organizations, businesses, and civil society. In all the welfare models, SEs have had a role of a *systemic innovator* yet this role is present to a larger degree in the Southern-European countries. Institutional obstacles in countries like Germany, and the clear division of labor between sectors found in the Scandinavian countries, might make it difficult to enlarge this role in these contexts.

Thirdly, and based on my discussion, we have seen that SEs are not just actors filling gaps of the market or the state, they also influence their institutional environment, and they contribute to shaping institutions, including public policies. For examples, these actors didn’t find existing policies adequate to tackle problems of social exclusion in the late 1980s. Innovative initiatives such as WISE emerged as a protest against established policies and pointed at the limits of institutional public practices (Defourny and Nyssens, 2008). According to the PSI typologies, this type of PSI resembles that of *concept innovation* where new understandings challenge assumptions that underpin existing service productions. While this holds true at least for the case of Italy and the Southern-European context, this role might be difficult for SEs to play in a universal welfare state that has proven to be so successful and robust.

Collectively these innovative efforts and PSI contributions discussed here, may also be included in the broader and seventh typology added by Cinar et al., *social innovation* which entails a cross-sectoral concept aiming to meet social needs of disadvantaged groups and which targets underlying reasons for social problems. Based on the comparison of the four welfare state regimes, we find that SEs – at least – can play a role in social innovation in all four models as we have seen that SEs operate across sectors aiming to meet the needs of disadvantaged groups.

Finally, SEs may also have the role of innovating certain production factors in welfare provision. Not only do they satisfy social needs (in the example of unemployed people, a job), but also relations between social groups as the target group is not considered as an underling agent, but instead is mobilized with other stakeholders in the entrepreneurial process. The role of innovating production factors leading to the empowerment of users, resembles the typology *governance innovation* as SEs can introduce new participation mechanisms for citizens and new ways to increase transparency and accountability within services. This role in PSI we find in all four welfare state models, yet whether there are any country-specific variations, we cannot conclude today. However, *one* explanation for identifying this role in all four welfare models can be that one of the core dimensions or indicators of SE is that of participatory governance. So, by nature, SEs *can* be a governance innovator.

Finally: the conclusion

Let us first look back at the definition of PSI:

the development and implementation of new and promising solutions that break with common wisdom and existing practices in a particular context (Mulgan & Albury, 2003; Hartley, 2005; Torfing, 2016).

We have now seen that SEs *can* have a role in PSI. They *can* speed up growth and strengthen social cohesion at a local level. In several European countries, SEs *have* proved to be an innovative organizational form. They have in some instances demonstrated to be *better* able than public agencies, private businesses, and traditional non-profit organizations to match the needs of disadvantaged people.

The idea that arose in the 1980s of adopting more entrepreneurial activities with social content, and thereby directly involving not only workers but civil society, seems to have met with success in certain instances, improving the provision and efficiency in the public sector. Indeed, SEs *can* provide alternative and fairer ways of exchanging public goods and services, that also have a community impact (Pearce, 1993).

However, the SE sector is still small in scale, and in some European countries, they have marginal impact – we can therefore talk about geographical differences across European countries. Based on the insights provided here today, SEs will likely play a larger role in PSI in Southern-European countries than in the Scandinavian.

Furthermore, when talking about the development and implementation of new and promising solutions that break with established practices and that transform the public sector into an arena for collaboration, this transformation is not being led by SEs, which some consider still being in an early stage (Nicholls, 2010).

Nevertheless, due to a period of public-sector austerity and recession, a war in continental Europe and a so-called global energy crisis, the trajectories of the role of SE in PSI may change.