



# **The State of Social Entrepreneurship in Germany**

**SEFORIS Country Report**

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## **About SEFORIS: Social Enterprise as FORce for more Inclusive and Innovative Societies**

SEFORIS is a flagship multi-disciplinary, multi-method international research project on social enterprise funded by the European Commission. Through the generation of robust evidence and internationally leading research, SEFORIS aims to better understand the role that social enterprises play in the EU and beyond in the development and evolutions of inclusive and innovative societies.

SEFORIS will investigate key processes through which social enterprises deliver inclusion and innovation (spanning a range of domains, from organisation and governance, over financing and innovation to behavioural change) as well as the contexts in which social enterprises thrive. In terms of methodology, we will start from policy and social enterprise practitioner questions and challenges together with critically scrutinizing existing academic literature. We use this first step to develop theoretical frameworks that then serve as a basis for thinking systematically about innovation and inclusion processes in context. This is followed by field and lab experimentation with social enterprises and in-depth case studies to expand and enrich our understanding of social enterprises. Unique longitudinal survey data will be collected across 9 distinct countries to test new (and at times counterintuitive) hypotheses to reach novel insights and generalizable conclusions. We engage policy makers and social enterprises throughout the research process to ensure that our research is relevant for them and can inform their practice.

### **The SEFORIS partnership**

SEFORIS is a consortium of 12 organisations from 10 countries including Belgium, China, Germany, Hungary, Portugal, Romania, Russia, Spain, Sweden, and the UK.

#### **Academic partners and research institutes:**

KU Leuven (Belgium), Hertie School of Governance (Germany), Autonomous University of Barcelona (UAB, Spain), University of Aveiro (Portugal), Centre for Economic and Financial Research (CEFIR, Russia), Stockholm School of Economics (Sweden), Aston Business School (United Kingdom)

#### **Social entrepreneur support and financing organisations**

Oksigen Lab (Belgium), i-propeller (Belgium), Non-Profit Incubator (NPI, China), Nonprofit Enterprise and Self-sustainability Team (NESsT, Hungary & Romania), and The Foundation for Social Entrepreneurs - UnLtd (United Kingdom)

#### **Advisors**

Organisation for Economic Co-operation and Development (OECD, France), Harvard Business School (HBS, USA) and the European Venture Philanthropy Association (EVPA, Belgium)

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## Executive summary

Germany is facing societal challenges: unemployment and skills shortage, inequality in education, increasing division between rich and poor, environmental challenges and health challenges that come with the aging society and the rise of lifestyle diseases. As a recent report has shown<sup>1</sup>, those challenges at the same time constitute opportunities for social entrepreneurship.

This German country report summarizes remarkable questions, findings and topics of debate to illustrate the current status of social entrepreneurship. It is based on literature and desk research as well as interactions with stakeholders. Some of the main findings are:

### 1. The strong welfare state as a differentiator

The strong welfare state in Germany has slowed down the rise of social enterprises compared to other countries with a more liberal welfare system such as the UK. The position and role of social enterprises within the welfare state is strongly debated in Germany until today and the ability of social welfare organizations and social enterprises to cooperate and / or complement each other's activities is perceived as highly important.

### 2. Awareness about social entrepreneurship is rising

Social entrepreneurship and social innovation are increasingly on the agenda of policy makers and are more and more present in public discourse. Various universities have recently started to offer courses in social entrepreneurship, there is increasing research effort to gain a better understanding of the phenomenon, and a funding program has recently been launched by the KfW.

### 3. Majority of social enterprises is not brand new

Social entrepreneurship in Germany is not a new phenomenon. Almost 50% of the social enterprises investigated in the Mercator study<sup>2</sup> were over 10 years old. However, the label "*social entrepreneurship*" is still quite new in the German context and many social entrepreneurs and social enterprises do still not identify themselves as such.

### 4. Focus of activities of social enterprises on social services

Most of the social enterprises in Germany are active in the field of education, work integration, societal inclusion and social services. However, there are strong indications that many social enterprises are active in the environmental area (such as sustainable energy or sustainable consumption). However, those enterprises tend to take a for-profit legal form and may therefore be more difficult to identify.

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<sup>1</sup>See Müller, Susan, Dominik Rüede, Kathrin Lurtz, Hartmut Kopf, and Peter Russo. 2013. Deutschland 2030: Herausforderungen als Chancen für Soziale Innovationen. World Vision Center for Social Innovation, Wiesbaden.

<sup>2</sup> See Jansen, Stephan A., Rolf G. Heinze and Markus Beckmann, eds. 2013. Sozialunternehmen in Deutschland. Springer: Wiesbaden for a general overview of the project

## 5. Need for more cooperation

There is a strong need for more cooperation between social entrepreneurs, established welfare organizations and policy makers. Willingness to cooperate, leading experts propose, will be decisive for social entrepreneurship in Germany to unfold its full potential.

## 6. New legal forms needed?

There are not yet particular legal forms for social enterprises in Germany. Some of the social enterprises take legal forms characteristic to the third sector, while others take private sector legal forms. The variety in legal forms also creates a measurement problem as particular social enterprises, such as those taking a private sector legal form, may tend appear as conventional enterprises.

## 7. Landscape for financing in movement

There are ongoing discussions about financing opportunities for social enterprises such as the potential of social impact bonds in the German context. Options for financing social innovation are currently strongly debated in the German context. While specialized actors like Ashoka have been active in financing for several years, throughout the last year other actors like the KfW have started to invest in social enterprises.

## 8. Measurement and scaling of social innovation

There are strong efforts to establish measurement and scaling options for social innovations that are currently not available. Impact measurement is closely connected with investment problems as social investors have difficulties to evaluate potential social or ecological impact of their investments.

## 9. Link between governance, legal form and hybridity

There are ongoing discussions about governance structures that may enable social enterprises to balance societal contribution and financial sustainability without drifting to either of both. However, until today social enterprises tend to float somewhere along the continuum from non-profit to for-profit forms of organizing.

# 1. Key facts and figure on social entrepreneurship

## 1.1 Definition, common understanding of social enterprise

There is not yet a legal definition of social enterprise in Germany. However, there is a consensus that social enterprises are to be understood as enterprises that are clearly oriented towards solving social or environmental problems as a primary goal<sup>3</sup>.

A recent study about Social Entrepreneurship conducted by the Center for Social Investment (CSI) Heidelberg<sup>4</sup> has defined 3 key attributes of social enterprises:

- Welfare orientation: Improving (environmental or social) welfare (as a primary goal in the narrow definition, secondary goal in broad definition)
- Innovation: innovation is particularly central for some of the organizations supporting social entrepreneurs such as Ashoka or the Schwab foundation. However, there is no clear consensus how innovation is defined in this context. In many cases, existing ideas are adopted to a new context or a new place. Innovations may also lie in the combination of social and economic goals or, new products, services or marketing strategies.
- Earned income: this characteristic is particularly important to differentiate social enterprises from common third sector organizations. However, in practice social enterprises do not always transcend the value capturing problem of generating (social) value that may not be directly transferable into financial returns. This is also closely linked with the particular sector social enterprises operate in. While enterprises active in the field of fair trade, alternative energy or sustainable agriculture may more easily capture financial value generated, enterprises working with homeless, elderly or children may have more challenges in capturing financial value from their activities.

The KfW program for financing of social enterprises defines social enterprises as “*small and medium enterprises that aim to address social challenges in Germany by taking an entrepreneurial approach and using an innovative business model*”<sup>5</sup>

## 1.2 Size

Generally, social entrepreneurship is not a new phenomenon in Germany. Almost half of the social enterprises investigated in the Mercator study<sup>6</sup> were more than 10 or up to over 30 years old. Turnover and number of employee tends to be significantly smaller than in traditional for-profit enterprises (see figure 1). However, it tends to increase with increasing age of the enterprise.

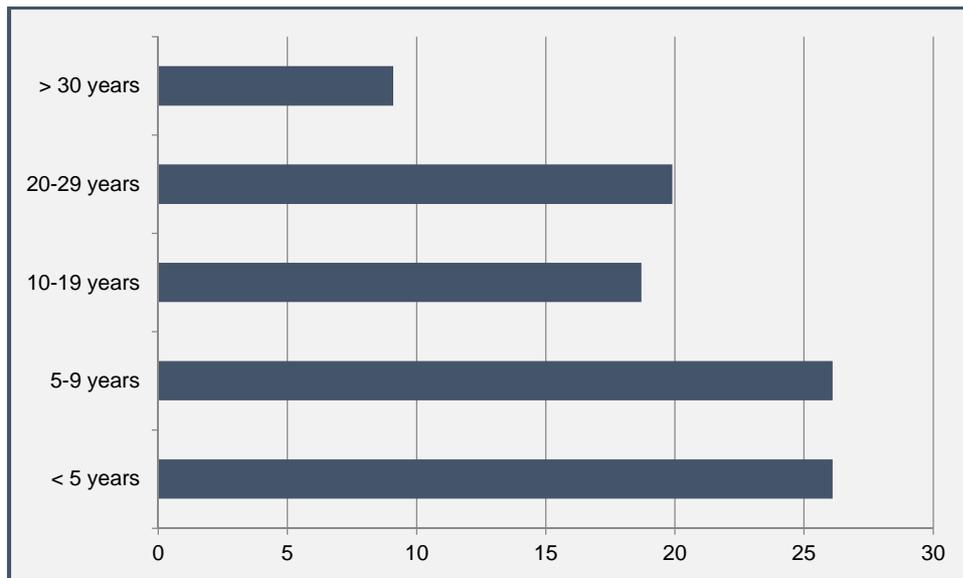
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<sup>3</sup> Scheuerle, Thomas, Gunnar Glänzel, Rüdiger Knust, and Volker Then. 2013a. Social Entrepreneurship in Deutschland - Potentiale und Wachstumsprobleme. Centre for Social Investment, CSI: Heidelberg.

<sup>4</sup> Ibid.

<sup>5</sup> Deutscher Bundestag. 2012. Antwort der Bundesregierung auf die Kleine Anfrage der Abgeordneten Ulrich Schneider, Britta Haßelmann, Beate Walter-Rosenheimer, weiterer Abgeordneter und der Fraktion BÜNDNIS 90/DIE GRÜNEN. GEM.

<sup>6</sup> Jansen, Stephan A., Rolf G. Heinze and Markus Beckmann, eds. 2013. Sozialunternehmen in Deutschland. Springer: Wiesbaden



**Figure 1: Age of social enterprises in Germany<sup>7</sup>**

### **1.3 Sectors and regions in which social entrepreneurs are active**

Social enterprises in Germany span across a variety of sectors such as

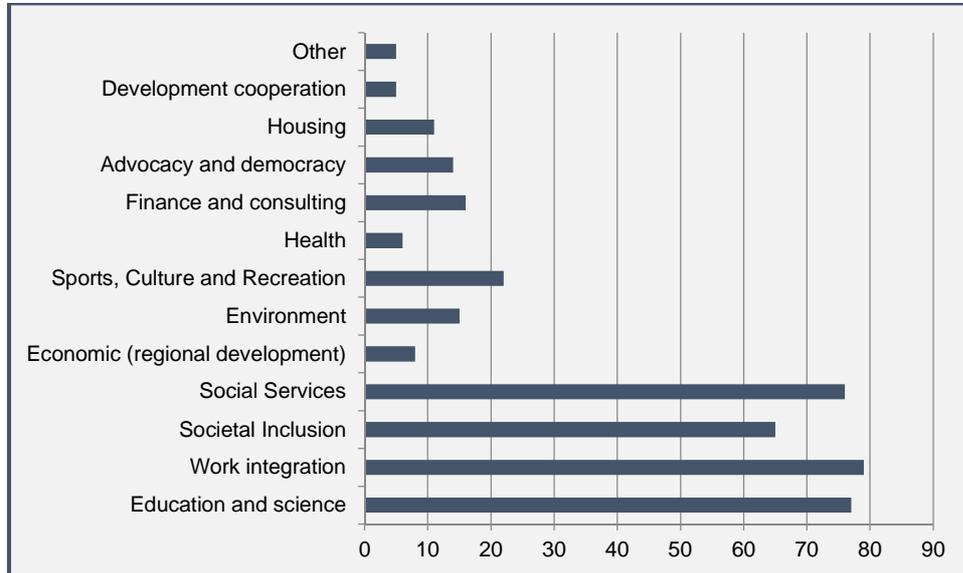
- Education and science (i.e. kindergartens, schools, qualification courses)
- Social services (i.e. addiction aid, counseling, children and youth, integration, social work)
- Work integration (e.g. for disabled, mentally ill, migrants)
- Societal inclusion (e.g. inclusion of disadvantaged groups)
- Regional development (e.g. regional currencies, strengthening of regional value chains)
- Alternative energy and environment (recycling and upcycling, environmental education, energy cooperatives)
- Sports, culture and recreation (i.e. reading clubs, tourism, access to cultural events, sports clubs)
- Health (i.e. medical care, translation of diagnostic findings, new treatments)
- Advocacy and democracy (i.e. intercultural exchange, initiatives against racism, strengthening of civil society, regional parliaments)
- Financing and consulting for social organizations (e.g. microfinance, fundraising, crowdfunding, volunteering, software development)
- Development cooperation (projects in the context of development cooperation, technology transfer)
- Sustainability / LOHAS (sustainable products and services, nutrition, certification, clothing)<sup>8</sup>

Most social enterprises in Germany are active in the field of education, work integration, societal inclusion and social services while less are active in the regional development, environment. This has also an impact on the predominant legal form as socially oriented

<sup>7</sup> Jansen, Stephan A., Rolf G. Heinze and Markus Beckmann, eds. 2013. Sozialunternehmen in Deutschland. Springer: Wiesbaden.

<sup>8</sup> Ibid.

enterprises tend towards taking a third sector legal form (e.g. cooperatives, foundations) while enterprises in the field of recycling or alternative energies may tend to take a market based legal form. However, the lower prevalence of the latter may also be caused by a measurement problem as it is often difficult to distinguish between classical enterprises and social enterprises that take a for profit legal form.



**Figure 2: Areas social enterprises in Germany are active in (N= 239)<sup>9</sup>**

#### 1.4 Recent developments in social entrepreneurship

Social entrepreneurship and social enterprises are gaining importance in the German discourse although the rather institutionalized welfare state system has slowed down the rise of social enterprises compared to other countries with a more liberal welfare state system such as the UK. Further, the problem of how to clearly distinguish social enterprises from other non-profit or for-profit organizations in the social sector has not yet been solved<sup>10</sup>.

An indicator of the increasing importance and of the political recognition of social entrepreneurship has been the “*nationale Engagementstrategie*”<sup>11</sup> (national engagement strategy) that has committed to support social innovation and social entrepreneurship. In this vein, the KfW, a government-owned development bank has launched a “*program for financing of social enterprises*”<sup>12</sup>.

<sup>9</sup> Jansen, Stephan A., Rolf G. Heinze and Markus Beckmann, eds. 2013. *Sozialunternehmen in Deutschland*. Springer: Wiesbaden.

<sup>10</sup> Ibid.

<sup>11</sup> Bundesministerium für Familie, Senioren, Frauen und Jugend. 2013. *Nationale Engagementstrategie*. Berlin.

<sup>12</sup> KfW. 2013. *Finanzierung von Sozialunternehmen. Weiter wachsen mit Beteiligungskapital*. Frankfurt.

## 2. General country context

### 2.1 Number of inhabitants and size of country

**Table 1: Number of inhabitants and size of country**

<b>Number of inhabitants</b>	80.219.69 (2011)	
<b>Size of country</b>	357,168 km2	

### 2.2 Top 5 societal challenges

A study recently published by the German Ministry for Education and Research<sup>13</sup> has summarized the main societal challenges in Germany that at the same time constitute opportunities for social innovations. While they introduce eight challenges, those are clustered into five areas: Labor market, education, income and wealth, environment and health.

**Table 2: Top 5 societal challenges**

<b>Labor market: unemployment and skills shortage</b>
Compared to other European countries Germany is particularly affected by long term unemployment. In 2006 and 2007, 40% of the total unemployed population was long term unemployed. Social innovations in this area could foster political representation of long-term unemployed, prevention of unemployment, qualification and mentoring, or work integration.
<b>Education: coupling of socio-demographic background and level of education</b>
There is a close coupling between socio demographic background and the level of education in Germany. While only 23% of children from non-academic backgrounds will complete a university degree, 83% of the children from academic backgrounds do so. Social innovation in this area could foster mentoring and support, new models of learning, and the like.
<b>Income and wealth: increasing division between rich and poor, failure to generate income to secure existence</b>
The German social security system is mainly funded through the contributions from employee liable for social insurance. Given the demographic development this system may not be sustainable over the next decades. Social innovations in this area include civil society initiatives that aim to address problems linked to this development.
<b>Environment: Coupling of resource use and economic growth</b>
The need to reduce emissions and to change to regenerative sources of energy like wind power or solar energy. This need may be addressed through social innovations such as off-grid solutions, education and awareness raising or local energy cooperatives.

<sup>13</sup> Müller, Susan, Dominik Rüede, Kathrin Lurtz, Hartmut Kopf, and Peter Russo. 2013. Deutschland 2030: Herausforderungen als Chancen für Soziale Innovationen. World Vision Center for Social Innovation, Wiesbaden.

**Health: healthcare provision (aging society) and lifestyle diseases**

The aging society and the rise of lifestyle diseases foster problems of care of the elderly and healthcare provision.  
Social innovation in this area could address the problem of social isolation, foster social cohesion or intergenerational housing.

**2.3 Overview of social policy, entrepreneurial and civil society landscape**

**Table 3: Overview of landscape**

<b>(Social) Policy Landscape</b>	<b>Entrepreneurial Landscape<sup>14</sup></b>	<b>Civil Society Landscape</b>
<p><b>SOCIAL EXPENDITURES</b> 26.2% of GDP<sup>15</sup> (2013)</p> <p><b>POLITICAL STABILITY AND ABSENCE OF VIOLENCE</b> Rank 71 in 2012 (0 lowest 100 highest)<sup>16</sup></p> <p><b>RULE OF LAW</b> Rank 92 in 2012 (0 lowest, 100 highest)<sup>17</sup></p>	<p><b>HIGH Global Entrepreneurship Monitor (GEM) SCORE</b></p> <ul style="list-style-type: none"> <li>- Physical infrastructure</li> <li>- Governmental programs</li> <li>- Protection of intellectual property</li> <li>- Firms interest in new products / services</li> </ul> <p><b>LOW Global Entrepreneurship Monitor (GEM) SCORE</b></p> <ul style="list-style-type: none"> <li>- Entrepreneurial education at primary and secondary schools</li> <li>- Labor market conditions</li> <li>- Social and cultural norms</li> <li>- Knowledge and technology transfer</li> </ul>	<p><b>Growing civil society sector</b> Increasing number of Foundations, GmbHs and other legal forms<sup>18</sup></p> <p><b>Broad range of activities</b> Social services, education, sports, arts, health, environment housing etc.<sup>19</sup></p> <p><b>Volunteers</b> 23 million volunteers 4.1.% of gross value creation<sup>20</sup></p>

Note: GEM stands for Global Entrepreneurship Monitor. The scores indicate nationwide attitudes, activities and characteristics which have a positive or negative influence on entrepreneurship. The scores for Germany are compared with the mean scores of the *innovation-driven* countries comparison group.

<sup>14</sup> GEM. Global Entrepreneurship Monitor 2013

<sup>15</sup> OECD. 2013. Social Expenditure - Aggregated data.

<sup>16</sup> World Bank Group. 2013. Worldwide Governance Indicators.

<sup>17</sup> Ibid.

<sup>18</sup> Priller, Eckhard, Mareike Alscher, Patrick J. Droß, Franziska Paul, Clemens J. Poldrack, Claudia Schmeißer, and Nora Waitkus. 2012. Dritte-Sektor-Organisationen heute: Eigene Ansprüche und ökonomische Herausforderungen. Berlin.

<sup>19</sup> Krimmer, Holger and Jana Priemer. 2013. ZiviZ-Survey 2012. Instrument und erste Ergebnisse. Berlin.

<sup>20</sup> Ibid.

### 3. Social enterprises in (an institutional) context

The German welfare system brings challenges as well as opportunities for social entrepreneurship. Social entrepreneurs encounter strong, established welfare organizations with firmly established structures. This has triggered discussions about the role social enterprises can or should take in this context. This particular context has triggered social intrapreneurship that spin out of established welfare organizations. While the traditional welfare system has recently faced criticism for being inflexible and stagnant, recent studies propose that social intrapreneurship in welfare organizations is, particularly in Germany, a phenomenon that goes hand in hand with the rise of social enterprises<sup>21</sup>

#### 3.1 Institutional and stakeholder landscape of social enterprises

“Efforts of individuals are not enough to implement social innovation. We need more cooperation between entrepreneurs, established welfare organizations and policy makers”

- Mark Speich, Vodafone Stiftung Geutschland

The context of the welfare state also mirrors in the cooperation of social enterprises with other actors. As Figure 3 shows, most enterprises collaborate with welfare organizations, followed by public organizations and foundations.

**Table 4: Collaborations of social enterprises<sup>22</sup>**

Who do you collaborate with?		
Welfare organizations	197	20.2%
Foundations	136	13.9%
Public organizations	172	17.6%
For-profit	92	9.4%
Media	111	11.4%
Political parties	70	7.2%
Employment agency	124	12.7%
Agencies	18	1.8%
No cooperations	5	0.5%
Others	51	5.2%
Total	976	100%

<sup>21</sup> Scheuerle, Thomas, Gunnar Glänzel, Rüdiger Knust, and Volker Then. 2013a. Social Entrepreneurship in Deutschland - Potentiale und Wachstumsprobleme. Centre for Social Investment, CSI: Heidelberg.

<sup>22</sup> Jansen, Stephan A., Rolf G. Heinze and Markus Beckmann, eds. 2013. Sozialunternehmen in Deutschland. Springer: Wiesbaden.

### 3.2 Key context dimensions for social entrepreneurs

Important context dimensions for social entrepreneurship in Germany are the established role of the welfare state (and with this public welfare organizations) and the role social enterprises can or should take in this context<sup>23</sup>. Further, the framework conditions for entrepreneurship in Germany (such as social and cultural norms and entrepreneurial education) have long tended to receive a bad evaluation while the less important framework conditions (e.g. physical infrastructure) tend to be evaluated positively<sup>24</sup>.

While for instance, individual economic success is highly valued, German society tends to be risk averse. Risk averseness is one of the major cultural factors impeding entrepreneurial activities and ultimately also influencing availability of funding for social enterprises.<sup>25</sup>

Another frequent problem for entrepreneurs is the strict legal requirements and the reporting needs that are often perceived to divert attention from entrepreneurial activities towards bookkeeping<sup>26</sup>.

### 3.3 Linkage between social entrepreneurs and inclusive societies

Particularly in the context of established welfare organizations work integration enterprises have long played an important role. However, social enterprises are seen as an important opportunity to broaden work integration offers and make them more effective. As the Caritas proposes: *„it would be wrong to not offer traditional work integration in the future, however, (...) they could become more affordable through entrepreneurial initiatives and reach even more people“*<sup>27</sup>

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<sup>23</sup> Scheuerle, Thomas, Gunnar Glänzel, Rüdiger Knust, and Volker Then. 2013a. Social Entrepreneurship in Deutschland - Potentiale und Wachstumsprobleme. Centre for Social Investment, CSI: Heidelberg.

<sup>24</sup> Brixy, Udo, Rolf Sternberg, and Arne Vorderwülbecke. 2013. Global Entrepreneurship Monitor (GEM) - Länderbericht Deutschland. Hannover.

<sup>25</sup> Ibid.

<sup>26</sup> Ibid.

<sup>27</sup> Blattmann, L. 2010. „Sozialunternehmer gesucht.“ neue Caritas, 20 ed.: Freiburg.

## 4. Organization of social enterprises in market and society

Social enterprises are frequently conceptualized as hybrid organizational forms that combine market and community logics<sup>28</sup>. Much of the discussions about governance structures of social enterprises in Germany are based on hybrid organizing and how to avoid mission drift towards the dominance of either market or community logics<sup>29</sup>.

### 4.1 Legal form of social enterprises

There is not yet an exclusive legal form for social enterprises in Germany. There are more than 20 legal forms, many of which are not suited for social enterprises. While some take legal forms characteristic for the third sector such as associations, cooperatives and foundations, others take the private sector legal forms such as GmbH. This also leads to problems in identifying and classifying what counts as a social enterprise<sup>30</sup>. In 2013, the gGmbH has been introduced as a limited liability company (GmbH) with a social mission (gGmbH). However, it is no legal form in its own right but is subject to limited liability company law.

The Mercator Study<sup>31</sup> has shown that many social enterprises in Germany draw on hierarchical, manager-focused governance structures (drawing on a market logic and legal forms such as the GmbH), while less social enterprises organize in a democratic and participatory manner linked to a community logic of organizing. However, although market driven governance structures may prevail, stakeholders are frequently included in decision making processes. While the governance non-profit organizations are centered on achieving its mission, the governance of for-profit enterprise focuses on generating shareholder return. Therefore, social enterprises with a for-profit legal form have to construct mechanisms to safeguard the mission while controlling for a reasonable shareholder return<sup>32</sup>.

Most of the social enterprises financed by the KfW program<sup>33</sup> take a market driven legal form (GmbH). However, also other legal forms (such as gGmbH or gAG) are entitled to apply.

### 4.2 Operational model of social enterprises

As to our knowledge, there is not yet comprehensive information on operational models of social enterprises in Germany. While the SELUSI project has explored operational models of social enterprises in other countries, the German context has not yet been studied.

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<sup>28</sup> See Mair, Johanna and Ignasi Marti. 2006. "Social entrepreneurship research: A source of explanation, prediction, and delight". *Journal of World Business*. 41(1): 36-44 and Mair, Johanna, Julie Battilana and Julian Cardenas. 2012. "Organizing for Society: A Typology of Social Entrepreneurial Models". *Journal of Business Ethics*. 111(3) 353-373.

<sup>29</sup> See Jansen, Stephan A., Rolf G. Heinze and Markus Beckmann, eds. 2013. *Sozialunternehmen in Deutschland*. Springer: Wiesbaden and Scheuerle, Thomas, Gunnar Glänzel, Rüdiger Knust, and Volker Then. 2013a. *Social Entrepreneurship in Deutschland - Potentiale und Wachstumsprobleme*. Centre for Social Investment, CSI: Heidelberg.

<sup>30</sup> Ibid.

<sup>31</sup> Jansen, Stephan A., Rolf G. Heinze and Markus Beckmann, eds. 2013. *Sozialunternehmen in Deutschland*. Springer: Wiesbaden.

<sup>32</sup> Schöning, Mirjam, Abigail Noble, Andreas Heinecke, Ann-Katrin Achleiter and Judith Mayer. 2012. *The Governance of Social Enterprises. managing your Organization for Success*. World Economic Forum.

<sup>33</sup> KfW. 2013. *Finanzierung von Sozialunternehmen. Weiter wachsen mit Beteiligungskapital*. Frankfurt.

One of the most frequent operational models in the German context is the employment model that has been frequently used by social welfare organizations in the area of work integration. Also frequently found can be fee-for-service models.

Entrepreneur support models, however, only recently started to emerge in Germany but are perceived as highly important for the further development of social entrepreneurship.

### 4.3 Important values for social entrepreneurs

“What I do in my work is meaningful. Not many people can say this.”

- Heidrun Mayer, Verein Papilio

Social entrepreneurs and their characteristics are described in a variety of ways. Most definitions emphasize that they are not (exclusively) driven by financial profit but rather by their motivation to solve societal or environmental problems, their strong attachment to values of sustainable development, democracy and their ability to mobilize other actors to join their efforts<sup>34</sup>.

Social Entrepreneurship is also becoming increasingly popular as a study course in German Universities such as at the University of Heidelberg, the Leuphana University in Lüneburg or the Hertie School of Governance<sup>35</sup>.

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<sup>34</sup> Szyperski, Norbert. 2014. „Social Entrepreneurship - wer unternimmt etwas in der Gesellschaft?“ Memorandum der Sylter Runde: Sylt.

<sup>35</sup> Schneider, K. 2009. Sozialunternehmertum. Etwas sinnvolles tun. Zeit online

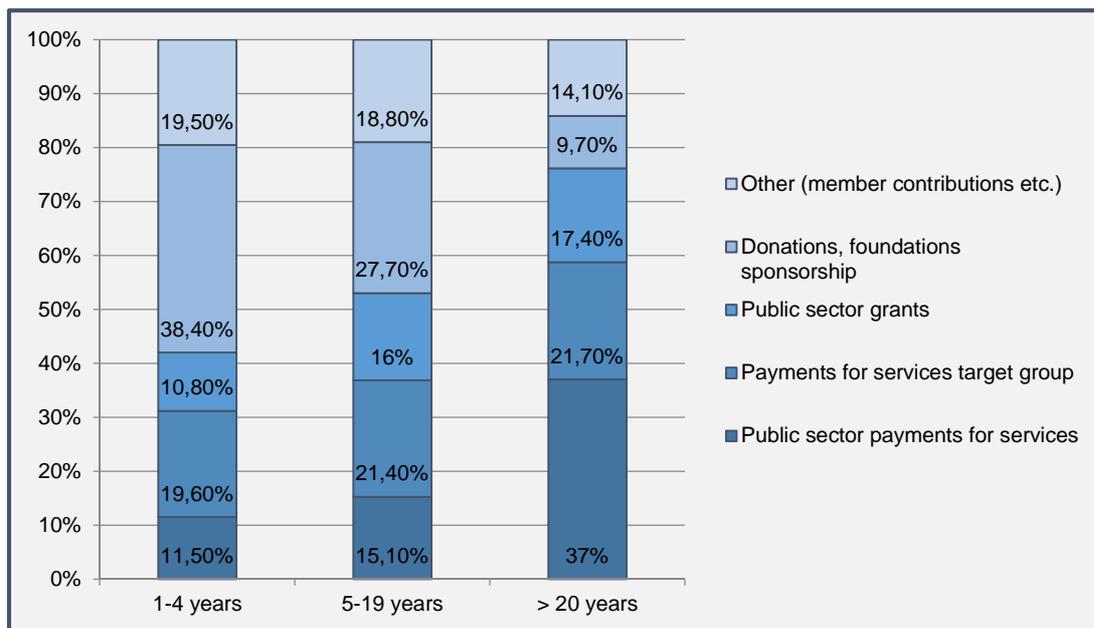
## 5. Financing of social enterprises

Financing of social enterprises, similar to their governance structures, often display a hybrid nature as in the financing is linked not (exclusively) to return of investment but to provide support to the organizations to reach their social mission. In many cases hybrid organizational structures develop when social enterprises split into for-profit and non-profit units that often also mirror the resource base<sup>36</sup>.

### 5.1 Sources of revenue and funding for SE

As the Mercator Study has shown, social enterprises have particular, often hybrid financing structure. The financing instruments used range from private donations, sponsorship and foundation funding to public-sector grants and income self-generated on the markets and quasi-markets. With increasing revenue and age of the companies, importance of member contributions and public sector grants tends to increase<sup>37</sup>.

There is also a strong differentiation in terms of the area social enterprises are active in. While social enterprises in the field of education or environment often have access to market or quasi-market resources (e.g. through fees), social services are often financed through public investment<sup>38</sup>.



**Figure 3: Financing structure of social enterprises in Germany<sup>39</sup>**

<sup>36</sup> Achleitner, Ann-Kristin, Judith Mayer, Wolfgang Spiess-Knafl. 2013. „Sozialunternehmen und ihre Kapitalgeber“. S.A. Jansen, R.G. Heinze, M. Beckmann, eds. Sozialunternehmen in Deutschland. Springer, Wiesbaden.

<sup>37</sup> See Achleitner, Ann-Kristin, Judith Mayer, Wolfgang Spiess-Knafl. 2013. „Sozialunternehmen und ihre Kapitalgeber“. S.A. Jansen, R.G. Heinze, M. Beckmann, eds. Sozialunternehmen in Deutschland. Springer, Wiesbaden and Scheuerle, Thomas, and Albrecht Bauer. 2013. Social enterprises as an investment? Frankfurt.

<sup>38</sup> Scheuerle, Thomas, and Albrecht Bauer. 2013. Social enterprises as an investment? Frankfurt.

<sup>39</sup> Ibid.

## 5.2 Financial crisis

“We are in deep crisis but at the same time the crisis is our biggest opportunity“

- Muhammad Yunus at the a BMW foundation conference

Decreasing public funds and financial shortages of municipalities, that are responsible for many social services in Germany, often lead to situations where only the most urgent problems are addressed. Long-term investments and prevention work is therefore often neglected.

## 5.3 New dedicated players

With social enterprises becoming increasingly important in the German landscape, a variety of new players keep emerging around them.

Already quite established are players like Ashoka, as well as dedicated foundations such as the Bertelsmann Stiftung and the Vodafone Stiftung.

However, policy makers and also traditional welfare organizations are becoming more interested in the concept, and as indicated above, there is an increasing tendency of public actors to support social entrepreneurship.

Venture philanthropy funds such as BonVenture fund companies and organizations with a social purpose in German-speaking countries. The fund seeks projects that are innovative with a strong social impact, are led by motivated and committed social entrepreneurs, and will be financially self-sustaining in the long term in the areas of social businesses, ecological impact and societal improvement.

Various policy recommendations have emphasized the need for new dedicated players in the area of social entrepreneurship such as “*social innovation fonds*” or transfer agencies that enable interactions between traditional welfare organizations, social enterprises and potential investors<sup>40</sup>.

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<sup>40</sup> Scheuerle, Thomas, and Albrecht Bauer. 2013. Social enterprises as an investment? Frankfurt.

## 6. Innovations of social enterprises

As the definition of social enterprises in Germany has frequently been linked to innovation (see also 1.), the particular nature of social innovation has been a recurrent subject of discussion and studies<sup>41</sup>. Frequently used is a definition from Zapf<sup>42</sup> who has defined social innovation as “*new ways to reach goals, particularly new forms of organizing, new regulations, new lifestyles, changing the direction of social change, solving social problems in better ways that are worthy being mimicked and institutionalized*”.

Foundations like Ashoka Germany or the Schwab foundation use social innovation as criteria for selection of their fellows. The Schwab foundation, for instance, proposes that the innovation can take the form of:

- A new product or service;
- A new production or distribution method;
- A new labor supply;
- The reformulation of an existing product for an underserved population; and/or
- New organizational structures or funding models<sup>43</sup>.

### 6.1 Innovation drivers and barriers

“*The willingness to cooperate between new and established players is remarkably low – on both sides*“

- Academic, Ashoka Germany

Ashoka Germany<sup>44</sup> have addressed the 10 major barriers for social Innovation in Germany

1. Lack of **venture capital**
2. Lack of **follow-up financing** for successful initiatives
3. Lack of **transparency in public funding**
4. Lack of **willingness to cooperate** in the established social welfare sector
5. Lack of **market places for imitators** of social innovations
6. Lack of **qualified personnel** in the social sector
7. Lack of **management knowledge** in social enterprises
8. Counter productiveness of **organizational culture** of social organizations
9. Lack of access to **support for social entrepreneurs**
10. Weak **political lobby** for social entrepreneurs

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<sup>41</sup> Jansen, Stephan A., Rolf G. Heinze and Markus Beckmann, eds. 2013. Sozialunternehmen in Deutschland. Springer: Wiesbaden.

<sup>42</sup> Zapf, Wolfgang. 1994. Modernisierung, Wohlfahrtsentwicklung und Transformation. Wissenschaftszentrum Berlin für Sozialforschung, WZB: Berlin.

<sup>43</sup> Schwab Foundation. 2014. Criteria for Selection into the Schwab Foundation Network.

<sup>44</sup> Höll, Rainer and Felix Oldenburg. 2014. Wie überwinden wir Hürden für soziale Problemlöser? Sechs Ansätze zur Verbreitung von sozialer Innovation und Social Entrepreneurship in Deutschland. Ashoka.

They propose six approaches to foster innovation such as:

1. **Transfer agencies** that bring together social innovation, financial resources and implementers so that innovation can grow through replication
2. **Social innovation centers** that foster interaction between local actors in the social sector, resources and decision makers
3. **Innovative finance:** combining existing ways of funding with new forms of collaboration between funders, building a financial market for social capital
4. **Impact oriented public funding:** prioritizing impact to foster social innovation
5. **Cooperation between welfare organizations and social entrepreneurs:** cooperation to foster scaling of social innovation
6. **Talent for the social sector:** Foster access for highly skilled leaders into the social sector

## 6.2 Typology of innovations

Zapf<sup>45</sup> differentiates different types of social innovations, such as social innovations within organizations (new forms of participation, new forms of training); new services (planning, design, education, consulting etc.); social technologies (combination of services and technologies to solve social problems), political innovation (e.g. reforms with social impact) and new lifestyles.

While there are many different approaches to what social innovation is or should be in practice<sup>46</sup> there is no generally accepted definition of social innovation in Germany. This is also closely connected to the problem of measurement of innovation. There are efforts to address this problem of measurement such as in the context of the TEPSIE project at the University of Heidelberg. Recent discussions, particularly in the academic context, have emphasized the innovative potential of social entrepreneurship to reconcile market and community logics<sup>47</sup>

Measurement of innovation is also strongly discussed in the context of funding and impact investment.

## 6.3 Innovation process

As there is no available data on typologies or measurement of social innovation, efforts to streamline and compare innovation processes have not yet been made. However, actors active in the field of social entrepreneurship emphasize the importance of interaction, collaboration and experimentation in the innovation process<sup>48</sup> and the capacity for continuous innovation<sup>49</sup>.

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<sup>45</sup> Zapf, Wolfgang. 1994. *Modernisierung, Wohlfahrtsentwicklung und Transformation*. Wissenschaftszentrum Berlin für Sozialforschung, WZB: Berlin.

<sup>46</sup> Jansen, Stephan A., Rolf G. Heinze and Markus Beckmann, eds. 2013. *Sozialunternehmen in Deutschland*. Springer: Wiesbaden.

<sup>47</sup> Scheuerle, Thomas, Björn Schmitz, and Martin Hölz. 2013b. „Governancestrukturen bei Sozialunternehmen in Deutschland“. S.A. Jansen, R.G. Heinze, M. Beckmann, eds. *Sozialunternehmen in Deutschland*. Springer, Wiesbaden.

<sup>48</sup> Senatsverwaltung für Wirtschaft Technologie und Forschung Landesinitiative Projekt Zukunft. 2013. *Innovations- und Kreativlabs in Berlin – eine Bestandsaufnahme Räume und Events als Schnittstellen von Innovation und Kreativität*. Berlin.

<sup>49</sup> Seelos, Christian, and Johanna Mair. 2012. *What Determines the Capacity for Continuous Innovation in Social Sector Organizations?* Rockefeller Foundation Report: Stanford Paccs.

## 7. Impact of social enterprises

### 7.1 Impact measurement

The measurement of social innovation continues to be a major issue in the discussions about Social Entrepreneurship in Germany. There are current efforts to develop measurement options for social innovation that are expected to be operational in two or three years' time<sup>50</sup>.

Impact measurement is closely connected with investment problems as social investors have difficulties to evaluate potential social or ecological impact of their investments. Some social entrepreneurs in Germany have therefore developed own measurement scales. While particularly policy makers, investors and the scientific community emphasizes the need to develop and standardize measurement of social innovations some social entrepreneurs emphasize that exaggerated reporting and documentation needs may affect their capacity to focus in generating social impact<sup>51</sup>.

### 7.2 Impact results and dimensions

Prominent in the German discussions about social innovation and social enterprises is the problem of scaling social innovation and thus the question of how many people can be reached. The discussion about scaling is driven by many foundations active in the field of social entrepreneurship such as the Vodafone Foundation, Bertelsmann Stiftung or Ashoka<sup>52</sup> and is also prominent in the scientific discourse<sup>53</sup>. This implies that the number of people reached is perceived as an important indicator of success of social enterprises. While earlier initiatives were centered on lighthouse-projects as exemplary initiatives that have a mostly local impact current discussions are concerned with the question how impact generated (such as job creation, health improvement, education etc) can be implemented on a larger scale.

### 7.3 Trends and developments related to social impact

Impact measurement is also a prominent issue in recent discussions about social impact bonds. As to our knowledge, there are not yet operative Social Impact Bonds in Germany. However, the appropriateness of social impact bonds in the German context is strongly debated. Success of social impact bonds will strongly depend of the willingness of public actors to embrace this form of investment<sup>54</sup>.

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<sup>50</sup> Scheuerle, Thomas, Gunnar Glänzel, Rüdiger Knust, and Volker Then. 2013a. Social Entrepreneurship in Deutschland - Potentiale und Wachstumsprobleme. Centre for Social Investment, CSI: Heidelberg.

<sup>51</sup> Ibid.

<sup>52</sup> See for instance: Bundesministerium für Familie Senioren Frauen und Jugend. 2013. Multistakeholder-konferenz zur

Förderung und Verbreitung von sozialen Innovationen in Deutschland, Berlin. *Bertelsmann Stiftung*. 2013. Skalierung sozialer Wirkung Handbuch zu Strategien und Erfolgsfaktoren von Sozialunternehmen, Gütersloh.

<sup>53</sup> Jansen, Stephan A., Rolf G. Heinze and Markus Beckmann, eds. 2013. Sozialunternehmen in Deutschland. Springer: Wiesbaden

<sup>54</sup> Glaser, Christoph. 2012. „Der Staat zahlt nur, wenn die Gesellschaft profitiert: Social Impact Bonds – ein Modell für Deutschland?“ *Stiftungswelt* Dezember 2012: 34-35.

## 8. Overview of studies

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Springer, Wiesbaden.  
<http://www.stiftung-mercator.de/social-entrepreneurship>
- Zivilgesellschaft in Zahlen (ZiviZ):  
ZiviZ-Survey 2012 - Zivilgesellschaft verstehen  
<http://www.ziviz.info/>
- The Theoretical, Empirical and Policy Foundations for Building Social Innovation in Europe (TEPSIE) Comparative Case Study Analysis  
<http://www.tepsie.eu/>
- Social Entrepreneurship in Deutschland - Potentiale und Wachstumsprobleme. Centre for Social Investment, CSI, Heidelberg.  
<https://www.kfw.de/PDF/Download-Center/Konzernthemen/Research/PDF-Dokumente-Studien-und-Materialien/Social-Entrepreneurship-in-Deutschland-LF.pdf>



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