



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

Literature Review

# The Development of Social Entrepreneurs in Germany

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# Development of Social Entrepreneurship (SE) in Germany

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## 1. Introduction

This report aims at clarifying and capturing the main features and developments of emerging social entrepreneurs in Germany. Therefore the report will start with a short introduction, presenting general trends in social entrepreneurship research and a preliminary working definition of social entrepreneurship. Subsequently the main development phases of social entrepreneurship, differentiated into earlier and newer experiences, will be presented. The third part will discuss the concept of social innovation and its relation to social entrepreneurship in Germany. In a fifth part, against the background of all presented findings, a tentative definition of social entrepreneurship for the German case will be presented. This will be followed by an overview on the discourse on SE's in Germany and an introduction of policy support for social entrepreneurs on the national and the EU –level. In a final paragraph the changes of main institutions in the area of welfare and education in relation to social entrepreneurs will be presented.

## 2. Development of Social Entrepreneurship (SE) in Germany

Research on the historic development of social entrepreneurship in Germany is still rare, because most studies focus on recent developments and functions of these actors. There are no comprehensive studies on their development in Germany depicting their historical trajectory, shedding light on their earlier historic experiences and forerunners. Furthermore, research has not focused on the development of the different legal forms under which these actors work in Germany and how both the legal forms and the actors influenced one another in their emergence. This hinders research on the development and status quo of social entrepreneurship tremendously and urges us to collect indicators and evidence on the early experiences, forerunners and transformations leading to the development of social entrepreneurship.

Differing from other European countries, such as Italy with the social co-operatives and the United Kingdom with its Community Interest Companies (Defourny, Nyssens 2004: 4), Germany has no special legal form under which social entrepreneurs are pursuing activities. Social enterprises are appearing in the legal forms of foundations (Stiftungen), voluntary associations (Vereinen), limited liability companies (GmbHs) and co-operatives (Genossenschaften). These legal stipulations which are today the main organizational forms of social entrepreneurship activities in Germany, were legally codified and for the first time laid down in the Civil Law Code and hence date back to the German Empire in the 19<sup>th</sup> century (Zimmer 2014: 4)<sup>1</sup>.

The development of these legal forms and the emergence of social entrepreneurs are strongly interlinked. As we will show below, differing from general assumptions, it is often the

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<sup>1</sup> Generally speaking, social entrepreneurs can also work under the legal form of a *Gesellschaft des bürgerlichen Rechts* (GbR), *Komanditgesellschaften* (KG) or stock corporations (AG) (Pöllath 2007: 46). However social entrepreneurs seem to prefer legal forms incorporating the public benefit aspect, such as registered public benefit associations, public benefit limited private companies or co-operatives.

initiative of social entrepreneurs that leads to public benefit initiatives and gives impulses for the development of the above outlined legal forms. Thereby they built the basis, not only for the legal foundation of social entrepreneur's activities, but also of non-profit activities in Germany in general.

We need to apply a minimal definition of social entrepreneurship, if we set out to capture the development of this great variety of actors. Although no consensus exists on a definition of social entrepreneurship, there are some characteristics which are common in all of these understandings. Social entrepreneurs try to realize social goals with their activities (Gebauer, Ziegler 2013; Jansen 2013)<sup>2</sup>. To achieve their social goals, entrepreneurs conduct economic activities (Dees 2006; Evers 2005)<sup>3</sup>. Their entrepreneurial dimension is linked with their innovative strategies and offered services and products (Gebauer, Ziegler 2013; Jansen 2013). Especially this innovative element is supposed to distinguish social entrepreneurs from other actors, particularly in the welfare sector (Gebauer, Ziegler 2013). Social entrepreneurs in Germany are supposed to be primarily active on their locality, mostly in areas related to the welfare state, however, in more than one sector (Glänzel et al 2012). These actors are assumed to identify a cause, a societal deficit or need which has not been addressed or overcome by an established institution and then engage in activities to address these (Birkhölzer, Kramer 2004: 110).

The development of social entrepreneurs in Germany is marked by several impulses: they develop out of the third sector, especially originating in established welfare organizations and they emerge as newly established SEs, one the one hand in the 1960s and 1970s and after the institutional changes of the traditional welfare organizations in Germany in the late 1980s and 1990s (Birkhölzer, Kramer 2004; Evers 2005; Heinze 2011). To capture these development processes, we have to include the evolution of organizational forms in the 19th century, such as co-operatives, welfare organizations, voluntary association and foundations building the basis of the welfare organizations. Complementary new socio-political impulses for the emergent social entrepreneurs originating in the alternative, women's and environmental movement of the 60s and 70s of the 20th century (Birkhölzer, Kramer 2004).

## **2.1. Early Experiences of social entrepreneurship: the development of legal forms for social entrepreneurs**

In the following sub-chapter we will describe the evolution of the legal forms in the 19<sup>th</sup> century under which social entrepreneurs are pursuing their activities in Germany even today: co-operatives, foundations, registered associations and limited companies. The development of each legal form and its relevance for social entrepreneurs will be discussed subsequently.

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<sup>2</sup> The meaning of "social" is not agreed upon and does, as we will show later, change over time.

<sup>3</sup> The meaning of economic activity is contested. Proponents of the earned income school such as Dees (2001) argue that independently earned income is crucial for social entrepreneurs while their critics, such as proponents of the social innovation school, such as the Ashoka foundation, argue that earned income is not the defining element (Gebauer, Ziegler 2013: 29f).

### ***Social entrepreneurs and co-operatives***

Legal stipulations for co-operatives were for the first time established in 1889. They aim at enhancing the economic undertakings of their members, such as small business owners, craftspeople or farmers. In Germany social entrepreneurs originally founded co-operatives with the goal of promoting an economy based on solidarity (Zimmer 2007: 53). Social entrepreneurs, acting as pioneers of German co-operatives are, among others, Friedrich Wilhelm Raiffeisen (1818-1888), Herman Schultze-Delitsch (1808-1883), Adolf Kolping (1813-1865) and Ferdinand Lassalle (1825-1864) (Harbrecht 2010: 55). Raiffeisen, for instance, was convinced that altruism and a Christian conviction alone are not enough to ensure sustainable pro-social activities. Therefore he established cooperative lending (Harbrecht 2010: 56) which was the headstone of the German Cooperative and Raiffeisen Confederation (DGRV).<sup>4</sup>

Co-operatives are economic businesses with social goals. These social goals had initially priority before economic aspects. This was so long no problem as members and beneficiaries were identical. As soon as these two groups started to drift apart it became more and more difficult to determine who was a beneficiary of economic profits (Birkhölzer, Kramer 2004: 112). Co-operations can act as social entrepreneurs. The legal form of a cooperative alone is not sufficient to sustainably ensure the intended social goals are pursued, since co-operatives can also have purely economic goals. Co-operatives prioritizing their social goals can apply for a public benefit status granting them tax privileges and tax exemption (Zimmer 2014: 9). The processes to qualify for a public benefit status is based on regulations providing much wiggle room. Therefore these regulations possibly hinder co-operatives to be both, oriented towards public interests and be economic sustainable, because the public interest status is rarely granted to financial sustainable actors.

Beside the difficulties regarding the qualification as a public interest co-operative, this legal form is accompanied by significant administrative demands. This constricts, especially very small and small entrepreneurs, particularly in the area of civic engagement, to work under this legal form. To address these issues in 2013 the Ministry of Justice published a draft for a new law for co-operatives which aims at simplifying the administrative efforts, primarily for such small enterprises (KoopEG 2013: 1) and would thereby enable newly establishing social entrepreneurs to use this legal form more frequently.

Due to several reasons, EU- interference being one of them, the legal form of co-operatives became revitalized in recent years and is applied today in organizations of elderly care or in the field of energy production (Zimmer 2014: 8).

### ***Social entrepreneurs and foundations***

Foundations are one of the oldest organizational forms for the support of social purposes. These legal entities are based on endowments<sup>5</sup>. Although foundations share some

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<sup>4</sup> Deutscher Genossenschafts-und Raiffeisenverband e.V. (DGRV): <http://www.dgrv.de/en/home.html>, last accessed at March 27, 2014.

<sup>5</sup> These endowments are not necessarily needed.

characteristics with social entrepreneurs, for instance their orientation towards common weal, they are not necessarily identical. Generally speaking, the legal form of a foundation favors the collection of assets more than the conduct of economic activities. Moreover, foundation law is subject to the Laender and some Laender inhibit entrepreneurial activities of foundations (Pöllath 2007: 50). Foundations have mostly an indirect function for the development of social enterprises by providing different kinds of resources (Birkhölzer, Kramer 2004). Initially these were primarily financial resources, in recent years however the provision of other resources has significantly increased. Among these resources are capacity building for emerging SEs, as for instance from the Vodafone Foundation<sup>6</sup>, the Schwab Foundation<sup>7</sup> or the Canopus Foundation<sup>8</sup>. The beginning of the support of social entrepreneurs by foundations is strongly connected to the emergence of a social enterprise discourse in the 1990s in Germany.

### ***Social Entrepreneurs and registered associations***

Legal stipulations for registered associations were for the first time laid down in the Civil Law Code in 1872. They were designed as a member-based organization. Through registration in the Association Register (Vereinsregister) maintained locally at count courts (Amtsgericht) the associations become legal units (Zimmer 2014: 7). In order to be eligible for registration, associations must pursue noncommercial activities and must also qualify for public interest status (Gemeinnützigkeit) (Zimmer 2014: 7).

Associations have two possibilities to conduct economic activities, either under the tax status of a *Zweckbetrieb* or under the status of an *economic company*. Earned income up to 45 000 Euro can be book as income of the *Zweckbetrieb* and receive a privileged taxation. Income over 45 000 Euros have to be booked under the tax status of an economic company and don't receive a privileged tax status anymore.<sup>9</sup> Associations which earn their own income are rather seldom since other legal forms which are easier to manage, such as co-operatives and private limited companies, are available (Zimmer 1996: 16).

Associations have basically three ways to fund their activities: seed money, membership fees, donations and earned income (Pöllath 2007: 53). The situation of social enterprises working under the legal form of an association and earning a profit is still highly under researched (Birkhölzer, Kramer 2004: 123).

### ***Social enterprises and private limited companies***

Legal stipulations for the private limited corporation were laid down for the first time in 1892. The private limited company (GmbH) is regulated by commercial law and primarily designed for organizing business activities (Zimmer 2014: 8). Private limited companies can qualify for public benefit status and thereby gain tax preferences and tax benefits. Besides official

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<sup>6</sup> Vodafone Foundation: <http://en.vodafone-stiftung.de/content/index.html>, last accessed on March 28, 2014.

<sup>7</sup> Schwab Foundation: <http://www.schwabfound.org/>, last accessed on March 28, 2014.

<sup>8</sup> Canopus Foundation: <http://canopusfund.org/en.html>, last accessed on March 28, 2014.

<sup>9</sup> [http://www.verbandsbesteuerung.info/leitfaden\\_kst.htm#1.3](http://www.verbandsbesteuerung.info/leitfaden_kst.htm#1.3), last accessed on April 15, 2014.

monitoring for tax purposes there is no state supervision of limited companies. Especially newly established social enterprises are often working under the legal form of public benefit private limited companies (gGmbHs), such as Bleed Clothing GmbH<sup>10</sup> which produces sustainable clothing or the Väter gGmbH<sup>11</sup>, a consultant company on the compatibility of work and parenthood for fathers.

So far there are no empirical studies on the percentage of (public benefit) private limited companies on social entrepreneurs in Germany.

Apart from foundations which have a rather supportive function for social entrepreneurs, all above described legal forms are still in use among social entrepreneurs. There is yet no study documenting which legal form social entrepreneurs in Germany prefer. Just as diverse as the legal forms under which social entrepreneurs appear is the composition of their income in Germany. It ranges from organizations earning a profit to ones which are making no profit at all, social entrepreneurs depending on donations, membership fees, committed stocks, private capital and mixtures between all of them (Pöllath 2007: 47).

## **2.2. Newer Developments of social entrepreneurship**

The following sub-chapter described the newer socio-political impulses supporting the development of social entrepreneurship in German. The first paragraph illustrates how social entrepreneurs developed out of the third sector due to the crisis of the welfare state starting at the end of the 1980s. The second paragraph describes how these actors emerged out of the alternative, women's and environmental movements of the 60s and 70s of the 20th century as practical social criticism, solution for mass unemployment and instrument for local development.

### ***The crises of the Germany welfare state and the emergence of social entrepreneurs from the third sector***

Welfare organizations currently start to turn to the practices of social entrepreneurs. They work under all of the aforementioned legal forms. In the second half of the 19<sup>th</sup> century hundreds of private charity organizations and social service institutions financed by donations and membership dues came into existence (Zimmer et al. 2005: 13). One of their main legal forms was and still is the registered (public benefit) association. These local private charity organizations were the forerunners of the modern Free Welfare Associations. To call the founders of these initiatives social entrepreneurs needs more intensive research, there are, however, indicators suggesting that some of the initiators of these initiatives should be understood as social entrepreneurs. For instance the theologian Lorenz Werthmann who founded the Caritas in 1897 can be understood as social entrepreneur. He was an active member of the citizenship and a self-confessed Christian who set out to establish a social association, initially self-sustainable and aimed at public benefits, in accordance with the

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<sup>10</sup> [www.bleed-clothing.com](http://www.bleed-clothing.com), last accessed on April 15, 2014.

<sup>11</sup> [www.vaeter-ggmbh.de,last](http://www.vaeter-ggmbh.de,last) accessed on April 15, 2014.



Christian values<sup>12</sup>. The originally private initiatives developed into a system of five welfare associations (Wohlfahrtsverbände), which was granted privileged legal status and privileged public funding (Zimmer 2014: 5).

Simultaneously, against the background of the increasing poor, at the local level institutions were set up to take care of those who were among the neediest. Against this background a culture of co-operation between public and private welfare developed at the community level. This arrangement between private and public actors in the social domain is still valid today and links private and public welfare on all levels of government (Zimmer et. al. 2005: 13).

Subsequently along with the growth of the German welfare state the welfare associations developed in the 1960s and 1970s into the most important providers of social and health services (Anheier 1992: 39; Evers, Schulze-Böing 2001: 122; Zimmer 2014: 5), but also into the biggest private employers in Germany (Heinze et al. 2011: 89; Evers, Schulze-Böing 2001: 122). The specific interpretation of the principle of subsidiarity in Germany was incorporated in the late 1960s into the country's social law (Evers, Schulze-Böing 2001: 122). This principle guarantees the Free Welfare Associations a privileged position within the growing market of social and health services by granting them privileged public funding and protecting them against competition (Evers, Schulze-Böing 2001: 122; Zimmer 2005: 16).

One line of criticism addressed the privileged, state-protected position of the associations, asking for the introduction of elements such as competitive tendering and contract management (Zimmer et al. 2005: 16). Public authorities reacted to these developments by implementing new steering mechanisms labeled „managerialization“ and „economization“ (Evers 2005; Heinze et al. 2011: 88). The idea was not to decrease the existing services but to make more effective and efficient use of existing resources and increase competition in the sector. The latter aspect led to the opening of the market of welfare provision for commercial providers which also enabled social entrepreneurs to engage in the provision of such service (Zimmer et al. 2005: 17).

As a consequence we see a constant increase in social enterprises in the field of social welfare provision (Birkhölzer, Kramer 2004: 114-117). Social enterprises emerging in this context are either hybrid organizations bearing characteristics of both traditional welfare organizations and economic enterprises, in the sense of a reformed form of existing organizations such as

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<sup>12</sup> Caritas: <http://www.caritas.de/diecaritas/wofuerwirstehen/geschichtedercaritas>, last accessed on April 15, 2014.

the Stift Tilbeck<sup>13</sup> or are newly established organizations such as the SeniVita company group<sup>14</sup> (Heinze et al. 2013: 316).

### ***The alternative, women and environmental movement and the emergence of social entrepreneurs***

The alternative, women's and environmental movement occurred in Germany in the 1960s and 1970s. From these movements initiatives emerged which aimed at bringing a *fresh wind* into local politics, loosen congealed structures on the local level (Zimmer 1996: 50) and address societal needs that were not addressed by existing institutions (Birkhölzer, Kramer 2004). The issues covered by these initiatives were divers and reached from alternative economic activities, to self-organized social support groups and socio-cultural centers. The direct impact and effect of these movements on the emergence of social entrepreneurship has so far not been quantified. We find increasing numbers of divers SEs originating from these movements. These trends can be differentiated in three dimensions: social enterprises as practical social criticism, as a solution for mass unemployment and as an instrument for local development (Birkhölzer, Kramer 2004: 133).

#### *Social enterprises as practical social criticism*

Social enterprises in this category have in common that they not only address a societal need, but that the solution does also imply alternative social, socio-economic or socio-political structures and/or institutions. Examples of such social enterprises are child-care facilities which enable men and women to pursue a career next to parenthood, self-governed enterprises establishing alternatives to the profit oriented modern way of production with all its side effects (Zimmer 1996: 50). Two subcategories are described in more detail: the self-help movements with their related enterprises and the emerging socio-cultural centers.

One example for self-help movements is the development of social enterprises integrating people with disabilities into the labor market. Today we can find two different kinds of these organizations: workshops for handicapped people and integration enterprises. In 1974 the German Laender Parliament passed a resolution which became the legal basis of the workshops for handicapped people in which handicapped people were employed. This concept had been criticized, since it did not provide the opportunity to integrate them into existing businesses but created separate organizations in which only handicapped people could find employment. Against this background a self-help initiative founded in 1979 the first integration enterprise. The new aspect about these enterprises was that handicapped people and non-handicapped people were working side by side (Birkhölzer, Kramer 2004: 114-126).

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<sup>13</sup>Stift Tilbeck is an organization registered as a company since 1998 providing social services in the welfare sector, especially for disabled and elderly people. Before it was transformed in the legal entity of a company it was part of the religious order, originally established in 1891 by Gertrud Teigelkemper. <http://www.stift-tilbeck-gmbh.de/rubric/index.php?rubric=Stift-Tilbeck-GmbH>, last accessed on April 9, 2014.

<sup>14</sup>SeniVita is a non-profit company (gGmbH) which was established in 1998 and provides services in the field of the welfare sector. Differing from Stift Tilbeck they have not developed out of traditional welfare organizations. <http://www.senivita.de/>, last accessed on April 9, 2014.

Integration enterprises are a prototype of social enterprises. They fund their activities through financial mixes. This mix consists either of earned income from sold goods and services, through a hybrid economic base, consisting of different income sorts or primarily through incomes generated on government markets (REHADAT 2013).

Another example are the socio-cultural centers which emerged from the alternative, women's and environmental movements. These centers are typical social enterprises with mixed financial resources. They were established on the local level to tackle the discomfort of citizens about the bourgeois culture, consisting primarily of city theaters, museums and concert halls (Birkhälzer, Kramer 2004; Zimmer 1996: 51). In 1979 the National Association of Socio-cultural Centers<sup>15</sup> was established in which 13 state associations with the relevant state socio-cultural centers are organized.

These centers primarily use the legal form of associations and are depending largely on the government market to earn their income.

#### *Social enterprises as remedies for mass unemployment*

Unemployment did establish itself as a permanent phenomenon at the end of the 1980s. Against this background local employment initiatives, employment and qualification companies (BQG)<sup>16</sup> as well as employment and regional development agencies were founded. Initially, all of these initiatives were set up as temporary and not sustainable solutions. Due to the structural changes in the industry the temporary character of these initiatives was revised. Today the most important form are the BQGs, which are mostly registered as either enterprises or non-profit enterprises. All of these social enterprises are based on a hybrid financial structure. We can also find an East-West difference in the composition of finances. BQGs located in Eastern countries are more dependent on government subsidies than Western ones (Birkhölzer, Kramer 2004: 126f).

The development of social enterprises in this area was strongly influenced by government policies. This support was not aimed directly at social entrepreneurs but at support for reintegration into the labor market in general (Evers, Schulze-Böing 2001).

#### *Social enterprises as instrument for local development*

The structural changes and the persistence of unemployment affected Germany unevenly and led to the economic decline of whole cities, such as Chemnitz and regions such as Brandenburg. Against this background in the 90s of the 20<sup>th</sup> century a new model of local development was established which tried to include the whole community in the process: a community based local development. What emerged from this were community based enterprises aimed at coordinating development at the local level. These enterprises were basically functioning as development agencies (Birkhölzer, Kramer 2004: 146-149). These social enterprises are among the newer forms of social enterprises and are still in the process

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<sup>15</sup> Bundesvereinigung Soziokultureller Zentren: <http://www.soziokultur.de/bsz/>, last accessed on April 15, 2014.

<sup>16</sup> The German name of employment and qualification companies is Beschäftigungs- und Qualifizierungsgesellschaft (BQG).

of developing. Social enterprises play an increasingly important role in local and regional development beyond community based enterprises (Balgar, Jänke 2009). For instance the citizen platform *Menschen verändern ihren Kietz/ organizing Schöneide*<sup>17</sup>, where several citizen and initiatives joint together to develop their city district Vossler 2007: 133). Therefore they jointly designed a local development strategy and found a hybrid financing strategy consisting of funds from private foundations and economic companies. The role of SEs in the regional development is still a research desiderate.

### 3. Social enterprises and innovation

This paragraph discusses the meaning and importance of social innovation for social entrepreneurs in Germany. The debate on social innovation started in the mid -1990s (Jansen 2013: 72). Understandings of social innovation are divers. In a broad sense as defined by the WILCO project<sup>18</sup> it can be understood as ideas turned into practical approaches, which are new in the context where they appear and attract hopes for better coping strategies and solutions and are marked by a high degree of risk and uncertainty (Evers 2014: 2). Regarding social entrepreneur's social innovation is often understood not only as a defining aspect but also as part of the entrepreneurial character of their activities (Gebauer, Ziegler 2013; Heinze et al. 2001). This entrepreneurial character is then marked by its capacity for innovation. Capacity for innovation is understood either as innovation of a product or as the innovation of a process (Heinze et al. 2013: 316), but also as their capacity to diffuse innovations or connect innovations with business considerations (Gebauer, Ziegler 2013: 20). The data basis regarding not only innovations of social entrepreneurs, but also innovations of third sector organizations in general is rather non-existent (Glänzel et al. 2012: 48). Therefore it is difficult to assume innovation as a characterizing feature of social entrepreneurs, since it is not substantiated how social entrepreneurs are innovative and how important social entrepreneur's innovations are for the sector.

The dissemination of social entrepreneur's innovation seems to primarily rest on fairs, such as the *vision summit* which since 2007 takes place annually<sup>19</sup> or as a special section on regular fairs such as the *Aufschwung*<sup>20</sup>, an annual fair as well. This is not the first time that social topics are disseminated through the format of fairs. One of the prominent forerunners is the ConSozial,<sup>21</sup> an annual fair for the distribution innovative practices in the social sector. The difference lies in the stronger emphasize of the fair format to distribute social entrepreneur's innovations.

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<sup>17</sup> People changing their city district, organizing Schöneide: [www.organizing-berlin.de](http://www.organizing-berlin.de), last accessed April 15, 2014.

<sup>18</sup> The Wilco project funded by the European Union is all about researching and investigating social innovations. The project aims to examine, through cross-national comparative research, how local welfare systems favor social cohesion. Special attention is paid on the missing link between innovations at the local level and their successful transfer and implementation to other settings. [www.wilcoproject.eu](http://www.wilcoproject.eu), last accessed on April 23, 2014.

<sup>19</sup> Vision Summit: <http://www.visionsummit.org/events/10-11092014.html>, last accessed on April 16, 2014.

<sup>20</sup> Aufschwung: <http://www.aufschwung-messe.de/>, last accessed on April 16, 2014.

<sup>21</sup> ConSozial: <http://www.consozial.de/index.php?section=1>, last accessed on April 16, 2014.

#### 4. Attempt of a definition of social entrepreneurship in Germany

Against the background of the above outlined developments regarding social entrepreneurship we can make a tentative attempt to define social entrepreneurship in the German context.

Differing from other European countries social entrepreneurs use diverse legal forms under which they work. They seem to prefer the public benefit status with its included tax-benefits. All of these social entrepreneurs pursue economic activities. But unlike to businesses the profit-orientation is replaced by an orientation to social goals. Accordingly the financial composition of social entrepreneurs is heterogeneous. One can differentiate them into the profit oriented model, focusing on income generated on all market, the participative oriented model, basing on volunteer engagement, and the fundraising oriented model, financing its activities through donation and a mix of all three dimension (Glänzel et al. 2012: 60). Generated income through the sale of goods and social services are of subordinate importance in this composition, whereas membership fees, donations and government support seem more relevant. The latter aspect could explain why most Germany social entrepreneurs still try to gain the public benefit tax status, even if it brings along difficulties to maximize their profit – simply because their activities are primarily not earning a profit.

Entrepreneurial character is supposed to be distinguished by its innovative features. However data regarding these innovative aspects are rare and hinder an inclusion in a tentative definition.

Social entrepreneurs try to realize social goals with their activities. The meaning of social is, however, not fixed and does change over time. In the 19<sup>th</sup> century the social dimension was aimed to establish an inclusive Christian society. Today social entrepreneurs still strive to establish an inclusive society by addressing certain societal needs. For whom inclusion is provided or what part of the social category is did change, however. In the 19<sup>th</sup> century inclusion aimed at poor workers and the poorest in the society through the provision of for instance financial support and housing. Generally speaking social inclusion in Germany has primarily been tackled through measures aiming at the inclusion into the labor market (Evers, Schulze-Böing 2001:121). This has changed as today's inclusive measures include the support of educationally deprived groups, such as Arbeiterkind.de, Farid Vatanparast or parent-child initiatives, such as the Väter GmbH. Moreover the social category does also include sustainable (environmental) development and does seem to diversify generally speaking. These developments did not only prompt scholars but also the Laender Government in its report on the National Engagement Strategy to suggest talking of societal instead of social goals (Gebauer, Ziegler 2013: 20; National Engagement Strategy 2012). A study assessing this change of the social category of social entrepreneurship would be highly beneficial.

## 5. Discourse on social entrepreneurship in Germany

In the following sub-chapter we will illustrate briefly the discourse on social entrepreneurship and social entrepreneurs in Germany.

Research focused on social entrepreneurship did only start in Germany in the mid-1990s and is still in its early stages (Jansen 2013: 35). The first ten years of research were characterized by exchange on experiences and controversies regarding a common understanding of social entrepreneurship (Achleitner et al. 2007: 22). The latter expanded the spectrum of research continuously without establishing a commonly agreed definition. The scientific discourse engages multiple disciplines such as economics, sociology, law and political science (Jansen 2013: 38). Only recently the issue reached the center of society, as for instance with debates on radio, such as on *Deutschlandfunk*,<sup>22</sup> one of Germany's most prominent radio broadcasting channels for current socio-political developments, or with increasing amounts of articles in nationwide daily newspapers, such as the *Frankfurter Allgemeine Zeitung*<sup>23</sup> (Jansen 2013: 35).

The reason why a discourse on social entrepreneurship developed in Germany is linked to three major impulses. First of all the Nobel Prize which was awarded to Mohammad Yunus in 2006 for his Grameen Bank<sup>24</sup>, one of the forerunners of social enterprises. This created awareness, at least among professionals, for this potential new form to create social inclusion. Secondly the establishment of the Ashoka<sup>25</sup> and the Schwab<sup>26</sup> foundation in Germany: both are umbrella organizations supporting the development of social entrepreneurs. They represent a significant impulse, especially as they provided resources for social entrepreneurs and creating public awareness (Glänzel et al. 2012: 7). Other big German foundations, such as the Mercator<sup>27</sup>, the Vodafone or the Bertelsmann foundation<sup>28</sup> followed this initiative and started to follow this lead. These later foundations focus primarily on the nexus between social entrepreneurship and innovations. And thirdly the need to economize the welfare provision due to the budget cuts in the late 1980s and 1990s in the field of welfare provision. These budget cuts raised the awareness that new ideas on potential links between the market and the state were needed and facilitated a discussion of social entrepreneurship, at least in professional circles (Evers, Schulze-Böing 2001: 122). A study on the discourse on social entrepreneurship showed that there are two main groups participating in these discussions: on the one hand a core group of organizations and actors in direct contact with SEs or social entrepreneurs itself. On the other hand a group on the margins of the discourse which has

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<sup>22</sup> Wuttke (09.09.2013): Effektiv und Effizient: Sozialunternehmer in Deutschland.

<http://www.deutschlandradiokultur.de/effektiv-und-effizient.976.de.html>, last accessed on April 9, 2014

<sup>23</sup> Pennekamp (05.04.2014): Hier werden aus arbeitslosen Migranten Geschäftsleute. Das Frankfurter „Social Impact Lab“ will Unternehmertum fördern.

<sup>24</sup> <http://www.grameen-info.org/>, last accessed on April 15, 2014.

<sup>25</sup> <http://germany.ashoka.org/>, last accessed on April 15, 2014.

<sup>26</sup> <http://www.schwabfound.org/>, last accessed on April 15, 2014.

<sup>27</sup> <http://stiftung-mercator.de/kompetenzzentren/wissenschaft/social-entrepreneurship.html>, last accessed on April 28, 2014.

<sup>28</sup> [http://www.bertelsmann-stiftung.de/cps/rde/xchg/SID-D1D28C68-712CA8AF/bst\\_engl/hs.xsl/87048\\_87055.htm](http://www.bertelsmann-stiftung.de/cps/rde/xchg/SID-D1D28C68-712CA8AF/bst_engl/hs.xsl/87048_87055.htm), last accessed on April 28, 2014.

only sporadic institutional relations with social entrepreneurs (Nye et al. 2013: 292). This study argues that the German discourse is characterized by five general questions regarding social entrepreneurs: (1) whether it is an old or a new phenomenon, (2) who is responsible for innovations, (3) what the difference between a narrow and a broader concept of social entrepreneurship is, (4) if social entrepreneur's contribution is innovation or the diffusion of innovations and (5) what the bottleneck is in Germany, the deficits in innovations or a good diffusion of existing innovations (Nye 2013: 293f)?

One topic of disagreement should be added. Some scholars perceive social entrepreneurs as the bearers of hope (Nye et al. 2013: 286) to solve the problem of welfare provision in times of shrinking budgets while others are far more critical towards social entrepreneurs. The latter perceive the churches and the state as responsible agents for the welfare provision, especially due to the public-private partnership in the welfare provision in which churches play a crucial role and understand SE's as attributed with a negative image (Achleitner et al. 2007: 12f).

## **6. Support for social entrepreneurs on the EU and national government level**

The following paragraph will give an overview of the development of support for social entrepreneurship not only by national governments but also on the EU-level.

### **6.1. National government support for social entrepreneurs in Germany**

Government regulations did indirectly support the development of social entrepreneurship, as for instance in the area of the integration of disabled people into the labor market. The effect of such indirect government support has, not been systematically researched. The German government did only comparatively late start to directly support the development of social entrepreneurs, more or less simultaneously with the introduction of the prominent Agenda 2010 in 2003. This government support was not accompanied with comparative (financial) support (Gebauer, Ziegler 2013: 19).

However, in June 2000 chancellor Schröder with the help of McKinsey and the ProSieben Sat1 Media AG founded the *start social* competition with which they awarded and supported emerging social entrepreneurs (Pro Bono Annual Review 2013: 29). In 2003 this initiative was transformed into a registered association to institutionalize the support for social entrepreneurship<sup>29</sup>. The emerging linkages between politics and social entrepreneur support were further ensured when the newly elected chancellor Merkel took over the patronage of the association in 2005.

Since then we find two major government campaigns supporting social entrepreneurs on the national level. On the one hand, the special award for *sustainable social entrepreneurs* which was granted for the first time in 2009 under the umbrella of the award for the *German*

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<sup>29</sup><http://www.startsocial.de/ueber-uns>, last accessed on April 15, 2014.

*sustainable entrepreneur* (DNP)<sup>30</sup>. Unfortunately the award was stopped in 2012 since no suitable candidates were available. This initiative was located in the economic sector, supported by the Federal Ministry of Economics. On the other hand, social entrepreneurship was perceived as professional institutionalization of individual engagement for the common good and as such in 2010 included into the National Engagement Strategy of the Federal Ministry for Families, Senior Citizens, Women and Youths (BMFSFJ) (Gebauer, Ziegler 2013: 21). However there exists not consent on the political level what role social entrepreneurs should have in the overall social development of Germany. Therefore the support for social entrepreneurs is still unsystematic and very different initiatives and organizations perceived as social entrepreneurs and are supported (Gebauer, Ziegler 2013: 22).

The interlock between social entrepreneurs and politics did not stop with chancellor Schröder's initiative. For instance, a representative of the sub-department of engagement politics of the Federal Ministry for Families, Senior Citizens, Women and Youths (BMFSFJ), is also a member of Social Impact a famous social entrepreneur in Germany<sup>31</sup>. Moreover, the Länder governments have their own initiatives with which they support social entrepreneurs (Evers, Schulze-Böing 2001). The Ministry for Work, Integration and Social Affairs of North Rhine Westphalia (NRW) initiated a conference at the EU to introduce and support SE initiatives in (NRW)<sup>32</sup>.

## **6.2. Support of EU-policies for German social entrepreneur development**

On the EU-level social entrepreneurs are receiving increased attention. For instance, they were perceived by the Bureau of European Policy Advisors of the European Commission (BEPA) as important actors to achieve the EU aim of an innovative Union 2020. In course of this program social entrepreneurs are understood as actors in a broad range of programs such as the European Regional Development Fund, which are supporting social entrepreneurs in divers' ways. This support however is primarily connected to SE's activities and not towards their organizational support (Gebauer, Ziegler 2013: 23).

In 2011 the European Union adopted the umbrella concept of the Social Market Act a Social Business Initiative (EU 2013). It was acknowledged that across Europe important barriers hindering the development of social entrepreneurs exist and this initiative aimed to develop an eco-system facilitating their development. German social entrepreneurs are supposed to benefit directly and indirectly from the EU policies. Studies substantiating these claims are still missing.

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<sup>30</sup> <http://www.nachhaltigkeitspreis.de/sonstige/english-summary>, last accessed on April 15, 2014.

<sup>31</sup> <http://socialimpactlab.eu/partner/christoph-linzbach>, last accessed on April 15, 2014.

<sup>32</sup> [http://www.mais.nrw.de/08\\_PDF/004/europa\\_und\\_internationales\\_pdf\\_dateien/Doku\\_Soziales\\_Unternehmen\\_2012.pdf](http://www.mais.nrw.de/08_PDF/004/europa_und_internationales_pdf_dateien/Doku_Soziales_Unternehmen_2012.pdf), last accessed on April 15, 2014.



## **7. Change of main institutions in welfare and education**

Recent studies on social entrepreneurship in Germany show that most of these actors and the relevant business principles can be found within the welfare sector (Glänzel et al. 2012: 7).

The main institutions in the welfare sector changed due to several reasons and led to a revival and emergence of social entrepreneurship. The increasing presence of social entrepreneurs in the welfare sector does change these institutions as well. How exactly these actors are incorporated into the existing structures and hence how these institutional arrangements change is still under researched in social science (Heinze et al. 2011: 86). The following paragraph will illustrate how the change of the main institutions in the field of social welfare provision and education supported the development of social entrepreneurs, but also how these new actors influenced the change of these institutions simultaneously.

### **7.1. Development of the welfare institutions, crisis of the welfare state and the emergence of a new context for the provision of social services**

The German welfare state was long perceived as the ideal type of the conservative welfare state model, with a dominant social security principle, decentralization of residual benefits and corporatist service structures (Heinze et al. 2011: 86; 2013: 2). These institutional arrangements date back to the late 19<sup>th</sup> century.

In the second half of the 19<sup>th</sup> century hundreds of private charity organizations and social service institutions financed by donations and membership dues came into existence (Zimmer et al. 2005: 13). One of their main legal forms was and still is the registered (public benefit) association. These local private charity organizations were the forerunners of the modern Free Welfare Associations. Originally they were independent from government directives. The private initiatives developed into the system of five welfare associations (Wohlfahrtsverbände) which were granted privileged legal status and privileged funding (Zimmer 2014: 5).

Simultaneously to the emergence of these private charity organizations, against the background of the increasing poor, institutions were set up at the local level to take care of those who were among the neediest. A culture of co-operation between public and private welfare developed at the community level. This arrangement between private and public actors in the social domain is still valid today and links both actor groups on all levels of government (Zimmer et al. 2005: 13).

Subsequently along with the growth of the German welfare state the welfare associations developed in the 1960s and 1970s into the most important providers of social and health services (Anheier 1992: 39; Evers, Schulze-Böing 2001: 122; 2012; Zimmer 2014: 5), but also into the biggest private employer in Germany (Heinze et al. 2011: 89; Evers, Schulze-Böing 2001: 122). The specific interpretation of the principle of subsidiarity in Germany was incorporated in the late 1960s into the country's social law (Evers, Schulze-Böing 2001: 122). This principle guarantees the Free Welfare Associations a privileged position within the growing market of social and health services by securing them with public funding (Evers, Schulze-Böing 2001: 122; Zimmer 2005: 16).

From the late 1970s onward, against the background of economic crisis and increasing rates of unemployment, cost containment became the main paradigm of social policy (Borgazza, Defourny 2001: 352). The crisis was characterized by a sharp increase in expenses while the public income stagnated, a development which, in the near future, is supposed to intensify due to the demographic and socio-political changes (Heinze et al 2011: 87; 2013: 2). Against this background the privileged position of the German Free Welfare Associations has increasingly been reduced.

One line of criticism addressed the privileged, state-protected position of the associations, asking for the introduction of elements such as *competitive tendering* and *contract management* (Zimmer et al. 2005: 16). Public authorities reacted to these developments by implementing new steering mechanisms labeled „managerialization“ and „economization“ (Evers 2005; Heinze et al. 2011: 88). The idea was not to decrease the existing services but to make more effective and efficient use of existing resources and increase competition in the sector. The latter aspect led to the opening of the market of welfare provision for commercial providers (Zimmer et al 2005: 17) which also enabled social entrepreneurs to engage in the provision of such service.

Established welfare organizations reacted to these changes in multiple ways, ranging from the introduction of selected economic principles, such as internal management, to the foundation of new companies, which are then often perceived as social enterprises (Heinze et al. 2011: 89). The changed context conditions did also enable a constant increase in social enterprises in the field of social welfare provision (Birkhölzer, Kramer 2004: 114-117).

Despite the process of economization of existing organizations, the privatization of parts of the social service provision and the emergence of a new actor, the social entrepreneur, the biggest share of social service provision is still done by the traditional welfare organizations (Evers, Schulze-Böing 2001: 122; Heinze et al. 2011: 89). Some scholars such as Borzaga and Defourny argue that although the privileged position of welfare organizations has been decreased and competition has been introduced, the institutional arrangement is still favoring the traditional actors and pushing social entrepreneurs in a niche where they primarily engage in new activities, like work integration or the provision of social services that are not part of the traditional organization's repertoire (Borzaga, Defourny 2001: 355).

A categorization of the provided social services by social entrepreneurs is rather difficult. Social entrepreneurs often engage in activities which are part of more than one sector, such as SeniVit providing elderly care, support for disabled people and education relevant in the field.

Nevertheless, social entrepreneurs in Germany are engaged in the traditional welfare activities such as elderly care, child and youth care, in education, labor market integration, sustainable ecological development and ecological protection, financial services, economic regional development, fair trade and advocacy (Glänzel et al. 2012: 7). One should keep in mind that social entrepreneurs are by their nature challenging institutions. They address a

societal need, so far unanswered or unsolved by established institutions. The proposed solution does, however, also imply alternative social, socio-economic or socio-political structures and/or institutions and thereby focuses on institutional change.

## 7.2. Social entrepreneurs and education

The discussion on the role of social entrepreneurs in German schools is a rather new topic and was initiated by a crisis, as well. Differing from the economic crisis triggering the change in the welfare institutions, in education it was the awareness that social origin in Germany impacts massively on children's educational success (Evers 2013: 41). The following pedagogical reforms led also to discussions about a change in the institutional set up of schools and here, especially, what role the market should play in these public institutions. Already in 2002 some scholars saw a chance that public institutions, including schools could develop into social entrepreneurs (Evers et al. 2002). For sure is, that we find diverse reform trends in the public school institutions, they all have in common that they strive for more independence. To capture the role of social entrepreneurs in this process more research in the area is needed. Nonetheless, the topic of social entrepreneurship in the curricula of educational institutions is on the rise. Examples for this increasing importance are the start of university programs on social entrepreneurship, such as at the Leuphana University in Lüneburg.<sup>33</sup> So far this master program is still a pioneer. But its establishment indicates also the entrance of the issue into official curricula.

## 8. Conclusions

This report shows that the absence of a special legal form for social entrepreneurship brings along difficulties. It is hard to capture the phenomenon in Germany since it manifests under diverse legal forms. Furthermore it is exactly this plurality of legal forms what makes it particularly difficult to distinguish social entrepreneurs from non-profit organizations, especially those working in the social sector.

Moreover, as became evident, research on social entrepreneurship in Germany is still a new topic. So far recent research primarily focuses on new and therefore rather small actors. The history and development of social entrepreneurship in Germany, however, is still highly under researched and a big blind spot in the academic literature.

But this report shows as well that the awareness for social entrepreneurship increases rapidly. One strong indicator for this is the growing support the issue and such actors receive from private and political foundations, such as the Mercator or the Vodafone foundation. But also its increasing presence in public discourses, such as newspapers, journals or even on the radio. Only time can tell if this rather positive trend will keep its promises – we certainly hope so.

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<sup>33</sup> <http://www.leuphana.de/news/publikationen/leuphana-magazin/titelstories/soziales-unternehmertum-studieren.html>, last accessed on April 28. 2014.

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