



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

National Country Report

# **The Development of Social Entrepreneurs in Germany**

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# Development of Social Entrepreneurs (SE) in Germany

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For further information on the EFESEIIS project please check: [www.fp7-efeseiis.eu/](http://www.fp7-efeseiis.eu/)

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## **2. List of abbreviations**

BMFSFJ	Federal Ministry for Families, Senior Citizens, Women and Youths
BMJV	Federal Ministry for Justice and Consumer Protection
BMWi	Federal Ministry for Economic Affairs and Energy
SBI	Social Business Initiative
SE	Social entrepreneur
SI	Social innovation

### 3. Recommendations

(1) Germany lacks an unanimous definition of social entrepreneurs. A broad definition, including social entrepreneurial activities in their divers' manifestations, stretching through all legal forms and stages is advisable. Such an understanding should be shared by all actors ranging from the national and Laender policy level, through support organizations down to the grassroots level.

(2) A broad and inclusive understanding of social entrepreneurs could support an all-inclusive discussion by practitioners and academics of social entrepreneurs, support mechanisms for these actors, the dissemination of potentially included social innovations and their future role in the changing relationship between the state, economy and private sector. It is essential to broaden the circle of participating actors in this discussion to prevent an alienation of differing opinions which are potentially representing huge parts of social entrepreneurial activities. The debate should center on the changing relationship between the state economic and private sector and should furthermore go beyond the either purely positive hymn on social entrepreneurs or their negative condemnation.

(3) The legal forms under which SEs operate are repeatedly described as both, no obstacle or a major challenge. It would be advisable to either establish a special legal form under which the combination of public interest and profit orientation is supported and the administrative demand simplified. An alternative approach could be the increase of (pro bono) support institutions and mechanisms assisting SEs in their endeavor to find and establish a fitting legal form for their needs.

(4) Current research on social entrepreneurs has a strong focus on current developments while neglecting their historic predecessors and possible path dependencies. The trajectories of social entrepreneur development over time should be researched profoundly to deepen the understanding of these actors and their role in the emergence of basic legal stipulations of (non) profit organizations, the German welfare state and its future development possibilities.

(5) Social innovations are often described as defining characteristic of social entrepreneurs and important contribution for societal improvements. The concept and its role for social innovations remain, however, utterly vague. Therefore the innovative capacity of German SEs, but also German social organizations in general, should be surveyed systematically to go beyond the vague speculations of the role of these actors have as change makers and assumed main carriers of social innovations, to name a few.

(6) Regarding the establishment of an eco-system for social entrepreneur development the institutionalization of a broad, inclusive and unanimous definition is essential as well. Against the background of such a definition and the determination of social entrepreneur's envisioned role in the German welfare state and society, the eco-system support in the different realms can be systematically developed. A potential risk here is the further development of this eco-system without a prior consent on the understanding of social entrepreneurs and their role, which could lead to unsystematic, uncoordinated and exclusive support structures, instead of an encompassing assistance system.

## **4. Introduction**

This report aims at assessing the main features and developments of emerging social entrepreneurs in Germany. Therefore the report is divided into two main parts. In the first section general trends in social entrepreneurship research and a preliminary working definition as discussed in the academic discourse will be presented. Furthermore the development of SEs in the German context will be introduced. Concluding this first part a preliminary definition of social entrepreneurs for the German case will be presented.

The second part of this report will turn to the eco-system for social entrepreneurs, which discusses the contextual factors for SE's and their development. This section will pay special attention to key stakeholders in this environment. Although an eco-system consists of several aspects this reports limits itself to the four main fields. On the one hand the policy environment for social entrepreneurs divided into EU, national and Laender support (for) these actors. Furthermore, the financial sector and the support these actors provide for SEs in Germany over time. Following this, the educational realm and its role for the development of SEs, but also SE's role in the reform process of this sector will be discussed. As final pillar of the eco-system the changing German welfare state and its relation to SEs will be scrutinized. On basis of this report some preliminary recommendations for stakeholders were carved out which were put in front of the report.

The report bases on a survey of existing literature on SEs in general and on the German case in particular. The gained information were amended and tested through 16 expert interviews between May and September 2014 with divers' stakeholders and SE's operating under different legal forms and differing regarding their founding dates. A list of all conducted interviews can be found in the appendix. The expert interviews were analyzed through content analysis, extracting relevant information according to ex-ante fixed analytical categories (Gläser, Laudel 2008, p. 46).

## **5. Social entrepreneurs (SE) in Germany**

### **5.1. Development of social entrepreneurs in Germany**

Social entrepreneurs in Germany emerged in the context of a highly developed, highly regulated welfare state. 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, p. 13). These local private charity organizations were the forerunners of the modern Free Welfare Associations. The originally private initiatives developed into a system of five welfare associations (Wohlfahrtsverbände), which were granted privileged legal status and privileged public funding (Zimmer 2014, p. 5). Simultaneously, 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 provision developed at the community level. This public-private partnership in the realm of social service provision is still valid today and links private and public welfare institutions on all levels of government (Zimmer et al. 2005, p. 13).

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 2014; Evers, Schulze-Böing 2001; Zimmer 2014, p. 5), but also into the biggest private employers in Germany (Heinze et al. 2011, p. 86; Evers, Schulze-Böing 2001, p. 89; Evers, Schulze-Böing 2001, p. 122; Evers, Schulze-Böing 2001, p. 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, p. 122). This principle guarantees the Free Welfare Associations a privileged position within the growing market of social and health service supply by granting them privileged public funding and protecting them against competition (Evers, Schulze-Böing 2001, p. 122; Zimmer et al. 2005, p. 16).

SE's in Germany emerged in this highly regulated context and operate under divers' legal forms, such as foundations (Stiftungen), voluntary associations (Vereine), limited liability companies (GmbHs) and co-operatives (Genossenschaften). These legal stipulations 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, p. 4)<sup>1</sup>.

Moreover, SEs in Germany developed not only in relation to established welfare organizations, but they were also influenced by other socio-economic transformations. On the one hand the alternative, women's and environmental movement in the 1960s and 1970s gave important impulses for the establishment of SEs. These newly established *organizations* aimed at bringing a *fresh wind* into local politics, loosen congealed structures on the local level (Zimmer 1996, p. 50; Interview SE) and address societal needs that were not met by existing institutions (Birkhölzer, Kramer 2004). We find increasing numbers of divers SEs originating from these movements (Interview SE). 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, p. 133; Schwarz 2014a, p. 55).

Furthermore, the institutional changes of the traditional welfare system in the late 1980s and 1990s were a further driving force influencing the increased establishment of social entrepreneurs in Germany. This privileged position of the Free Welfare Associations came in recent years under increasing pressure. One line of criticism addressed the privileged, state-protected position of these associations, asking for the introduction of elements such as competitive tendering and contract management (Stiftungsverbund Westfalen 2005, p. 16). Public authorities reacted to these criticisms with new management trends, labeled managerialization and economization, as new steering mechanism (Evers 2005; Heinze et al. 2011).

Overall these developments led to the opening of the market of welfare provision for commercial providers which also enabled social entrepreneurs to engage in the provision of social and health service (Stiftungsverbund Westfalen 2005, p. 17). As a consequence we see a constant increase in social enterprises in the field of social welfare provision (Birkhölzer, Kramer 2004, pp. 114). They are

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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 2011, p. 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.

on the one hand hybrid organizations bearing characteristics of both traditional welfare organizations and economic enterprises, in the sense of a reformed form of existing organizations such as the Stift Tilbeck.<sup>2</sup> These actors, who emerge out of the traditional welfare sector, are often labeled social intrapreneurs. On the other hand they are newly established organizations such as the SeniVita company group<sup>3</sup> (Grohs et al. 2013, p. 316), operating under a public benefit status while being economically sustainable. The discussion of SEs in Germany is strongly interlinked with, and partly mirrors, the debate on the changing relationship between state, market and civil society. This debate is, however, far from being concluded (Schwarz 2014a, p. 50).

## 5.2. Discourse on social entrepreneurs

### *Development of the SE discourse*

The Anglo-Saxon, mostly neoliberal oriented debate on SE, which emerged in the mid-1990s has a clear focus on the application of business strategies and principles to solve societal, ecological and social problems (Schwarz 2014a, p. 45). This debate had a huge impact on the academic SE discourse worldwide. It remains a question whether these considerations fit the German case. Germany, differing from other European countries, such as Italy with the social co-operatives and the United Kingdom with its Community Interest Companies (Defourny, Nyssens 2006, p. 4), offers no distinct legal form for SEs, making it considerably more difficult to grasp the SE phenomenon.

Research focused on social entrepreneurship in Germany did only start in the mid-1990s and is still in its early stages (Jansen 2013, p. 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. 2011a, p. 22). This debate 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, p. 38; Schwarz 2014a). Only recently the issue reached the center of society, as for instance with debates on radio, such as on *Deutschlandfunk*,<sup>4</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>5</sup> (Jansen 2013, p. 35).

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<sup>2</sup>Stift Tilbeck is an organization registered as a company. Since 1998 it provides 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 September 29, 2014.

<sup>3</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 September 29, 2014.

<sup>4</sup>Wuttke (09.09.2013): Effektiv und Effizient: Sozialunternehmer in Deutschland. <http://www.deutschlandradiokultur.de/effektiv-und-effizient.976.de.html>, last accessed on September 29, 2014

<sup>5</sup>Pennekamp (05.04.2014): Hier werden aus arbeitslosen Migranten Geschäftsleute. Das Frankfurter „Social Impact Lap“ will Unternehmertum fördern.



The discourse on social entrepreneurs developed in Germany in correspondence with three (inter-) national caesuras. First of all the Nobel Prize which was awarded to Mohammad Yunus in 2006 for his Grameen Bank<sup>6</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>7</sup> and the Schwab<sup>8</sup> Foundations in Germany: both are umbrella organizations supporting the development of social entrepreneurs. Their establishment represents a significant impulse, especially as they provided resources for social entrepreneurs and create public awareness (Glänzel, Schmitz 2012, p. 7). Other big German foundations, such as the Mercator<sup>9</sup>, the Vodafone or the Bertelsmann foundation<sup>10</sup> followed this initiative. And finally 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 awareness that new ideas for potential links between the market and the state were needed and facilitated a discussion of social entrepreneurs in academic and political circles (Evers, Schulze-Böing 2001, p. 122).

### *Ambiguities of the SE debate*

As discussed previously a unanimous definition of SEs for the German case is still missing. Moreover, in the current debate the understanding of third sector organizations and social entrepreneurs overlap in multiple ways, aiding the vagueness of the concept (Evers 2005; Bode et al. 2002). It is often unclear where third sector organizations end and social entrepreneurs begin. Additionally, due to the missing clarity of the SE concept, a broadly accepted differentiation between social entrepreneurs, social entrepreneurship and social entrepreneurial activities does not exist. This ambiguity leads repeatedly to confusion in discussions among academics, practitioners and stakeholders in regard to the actual object of discussion. Moreover, this situation hinders goal-oriented debates on the establishment of a supportive eco-system for social entrepreneurial activities, social entrepreneurs or social enterprises respectively. The main question often remains: what are we talking about (Interview FG)?

### *Core topics and core groups in the discourse on SE*

A recent study on the discourse on social entrepreneurship showed that there are two main groups participating in discussions on SEs in Germany: 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 only sporadic institutional relations with social entrepreneurs (Ney et al. 2013, p. 292). Fundamentally the participants in the German debate still try to grasp the essence (definition) and function (social service provision, role in transforming the welfare state, diffusion or provision of social innovations) (Ney et al. 2013, p. 293). The division into two core groups in this discourse relates to the dominance of a few agenda setters in this debate, with Ashoka

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<sup>6</sup> <http://www.grameen-info.org/>, last accessed on September 29, 2014.

<sup>7</sup> <http://germany.ashoka.org/>, last accessed on September 29, 2014.

<sup>8</sup> <http://www.schwabfound.org/>, last accessed on September 29, 2014.

<sup>9</sup> <https://www.stiftung-mercator.de/en/>, last accessed on September 29, 2014.

<sup>10</sup> [http://www.bertelsmann-stiftung.de/cps/rde/xchg/SID-D1D28C68-712CA8AF/bst\\_engl/hs.xml/87048\\_87055.htm](http://www.bertelsmann-stiftung.de/cps/rde/xchg/SID-D1D28C68-712CA8AF/bst_engl/hs.xml/87048_87055.htm), last accessed on September 29, 2014.

being one of the most important (Schwarz 2014a, p. 45). The Asoka and the Schwab foundation have significantly influenced the public perception of SEs, far more than the academic or grassroots debates (Schwarz 2014a, p. 45).

One topic of disagreement should be added. In the context of discussions on the transformation of the German welfare state and the potential role SEs might have in it, some scholars perceive social entrepreneurs as the bearers of hope (Ney et al. 2013, p. 286) to solve the problem of welfare provision in times of shrinking budgets (Evers, Zimmer 2010). Others are far more critical towards social entrepreneurs. The latter perceive the churches and the state as sole responsible agents for welfare provision. In this perception SE's are often attributed with a negative image (Achleitner et al. 2011a, p. 12; Schwarz 2014a).

### **5.3. Defining social entrepreneurs for the German case**

#### General assessment of SEs

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 defining social entrepreneurs there are some characteristics which are common in all debates. These general categories describing SEs can be subsumed under two major schools of thought which were first introduced by Anderson and Dees in 2006: on the one hand the social enterprise school of thought and on the other hand the innovation school of thought (Anderson, Dees 2006). Proponents of the social enterprise school of thought argue that SEs use commercial activities in support of their social, societal and ecological mission (Anderson, Dees 2006). Supporters of this understanding are divided among themselves. One group argues that SEs are fully self-funded organizations (Alter 2002; Haugh, Tracy 2004; Nicholls 2006) while another group proposes that they have hybrid financial structures (Bode, Evers 2004; Evers 2005; Heinze et al. 2013). Proponents of the innovation school of thought perceive SEs as change makers in the social sector. In this understanding innovation is a central defining aspect referring to new services, new methods of production, new production factors, new forms of organization and new markets (Mulgan 2007). This perception is strongly advocated by support foundations such as Ashoka and Schwab.

#### Assessing German social entrepreneurs

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 (Scheuerle, Glänzel 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 economic activities to address them (Birkhölzer, Kramer 2004, p. 110). Differing from other European countries social entrepreneurs use diverse legal forms under which they operate. They seem to prefer the public benefit status with its included tax-benefits.

### *Financial situation*

All of these social entrepreneurs pursue economic activities. But unlike businesses the profit-orientation is replaced by a social mission. Accordingly the financial composition of social entrepreneurs is heterogeneous. It ranges from organizations earning a profit, to those 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 2011, p. 47). The MEFOSE<sup>11</sup> survey found that SEs have hybrid financial structures, with, in general three or four sources (Thomas Scheuerle, Gunnar Glänzel 2012, p. 42). Interestingly the diversity of sources does not vary according to organizational size. However, with increasing size, the percentage of performance based funding deriving from the social insurance system and public authorities gains importance (Thomas Scheuerle, Gunnar Glänzel 2012, p. 40). Self-generated profits and financing through bank investments play in the Germany case, a rather marginal role (Thomas Scheuerle, Gunnar Glänzel 2012, p. 40). 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.

### *Innovative capacity*

Entrepreneurial character is supposed to be distinguished by its capacity for innovation<sup>12</sup>. Capacity for innovation is understood either as innovation of a product or as the innovation of a process (Grohs et al. 2013, p. 316), but also as their capacity to diffuse innovations or connect innovations with business principles (Gebauer, Ziegler 2013, p. 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, Schmitz 2012, p. 48). So far no systematic evaluation on social innovations in the social sector and/or SEs exists (Thomas Scheuerle, Gunnar Glänzel 2012, p. 10). In a survey on SEs the MEFOSE study touched upon social innovations and their relations to SEs and found that 31% of the surveyed described their products and services as innovations, 30.7% as addition to the existing offers and 38.2% as in competition with the existing services and products (Thomas Scheuerle, Gunnar Glänzel 2012, p. 48). However, all of these categories can include innovations in the social sector and further studies addressing the role of SI for SEs are needed, especially against the background of the in the German context prevailing perception that SEs are automatically innovative.

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<sup>11</sup> The MEFOSE study was conducted by a consortium of several German universities over two years (2010-2012) and was the first large scale attempt to assess the phenomenon of social entrepreneurs in Germany.

<sup>12</sup> We understand social innovations in accordance with the broad definition proposed by the Wilco project. Social innovations are ideas which are turned into practical approaches, and 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 (Welfare innovations at the local level in favor of cohesion (WILCO) 2014, p. 2). The Wilco project was 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 September 29, 2014.

### *Social mission*

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 is part of the social category did change, however. In the 19<sup>th</sup> century inclusion aimed at the poorest in 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, p. 121). This has changed as today's inclusive measures include the support of educationally deprived groups by social entrepreneurs, 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 seems to diversify in general over time. 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, p. 20; Bundesministerium für Familien, Senioren, Frauen und Jugend (BMFSFJ) 10/6/2010). A study assessing this change of the social category of social entrepreneurship would be highly beneficial.

### *The role of networks*<sup>13</sup>

Social entrepreneurs in Germany are network actors, in the sense that all of them rely on their personal networks into the existent eco-system to set up their operations and realize their goals. From the gained data one working hypothesis emerged: a well-developed and furnished eco-system for SEs seems to be a little use, if the actors do not have the necessary networks into this eco-system. Although the interviewees do not explicitly define networks, implicitly these networks are described as gateways to important resources<sup>14</sup>.

Actors use their existing networks to develop a social entrepreneurial initiative<sup>15</sup> (Interview SE<sup>16</sup>). If the actors are fortunate and fit the categories SE support organization's demand, they can become a member of the limited number of well supported SEs (Interview SE) and enter the small scene of social entrepreneurs and their supporters. Once they are a part of this circle the professional

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<sup>13</sup> Networks are generally not perceived as defining factor of social entrepreneurs. However, in course of the interviews they were repeatedly mentioned as crucial factor and as such we included them and their potential role in this section.

<sup>14</sup> In this sense networks have strong overlaps with a mobilizing structure, as described on the social movement literature. A mobilizing structure in social movement literature refers to collective vehicles, informal, as well as, formal through which people mobilize and engage in collective action (McAdam et al. 1996). It includes pre-existing (professional) groups, movement organizations and formal and informal networks among potential activists (Caren 2007). In short, gate ways and possibilities to mobilize relevant resources and supporters. In this sense the networks of social entrepreneurs can be understood as their existing mobilizing structure.

<sup>15</sup> This is by no means a new development, but rather a very old phenomenon. The role and the accessibility of networks for newly emerging actors is however something which has to be considered.

<sup>16</sup> Cases in which information is validated by two or more actors in the same category are not separately marked.

network of the facilitator is at their command and SEs can integrate these networks into their own. However, there are several problems associated with this development scheme centered on networks.

One problem arises if the social entrepreneurial activity does not fit the facilitator's demands, due to differing preferences, as currently occurring for instance with the neglect of co-operatives in the German SE discourse. SEs in Germany are often perceived as individual actors by SE support organizations who can function as change makers for a society (Ashoka 2/25/2013). This is a perspective coined by a small number of SE support organizations, does however not necessarily reflect the German reality. In such situations SEs operating under the legal form of a co-operative have a hard time forging necessary networks to the SE community, and hence gain necessary resources. Moreover, it is precisely the networks of the SE facilitators enabling them to coin the official and public discourse on SEs and hence establish the guidelines for SEs to enter this small circle. Moreover, a preliminary analysis of the conducted interviews suggests that a certain *habitus* is necessary to forge these networks, something not all actors were fortunate to be socialized with (Interview SE). In these situations SEs struggle on the local level to gain resources, are however not able to forge networks with facilitators who can provide access to sustainable organizational solutions.

Furthermore, to forge networks certain resources such as time and finances have to be available to participate in important events of the SE and associated SI scene or travel to meeting points, to name a few. What though if the actors do not possess these necessary resources? Again they are left to develop sustainable structures with their existing network, often unable to connect to the small group of SE supporters.

And finally, the SE scene in Germany appears to be a rather closed community, regarding the agenda setters who strongly influence the official and public debate (Interview SE, stakeholder, FP). There are several initiatives by foundations to broaden this circle and include more diverse perspectives on SEs and the development of social innovations as well, as for instance by the Vodafone Foundation. So far, however the interviews suggest that these attempts are not yet quite fruitful and the circle, especially of agenda setters, remains rather closed.

This network centered development approach of SEs, although a common phenomenon in all spheres of socio-political life, bears some risks. The strong dominance of a closed network circle of SEs and SE supporters can turn the envisioned aim of an inclusive society in exactly the opposite: an exclusive (support) group, which only admits actors fitting ex ante selected criteria which are however determined by the small group of SE supporters themselves, who had the right networks to influence the debate.

## German SEs in a nutshell

In sum, German SEs can be understood as being oriented in their activities towards a social mission. They operate under a broad range of legal forms. There is yet no study documenting which legal form social entrepreneurs in Germany prefer. A general problem for SEs is that the public interest status is relatively seldom awarded to entities earning their own income on the market. To achieve both, a public interests orientation and the earning of a profit, SEs often turn to complex legal constructs, combining several of the aforementioned legal stipulations (Freiburg, Dienst 9/11/2014). However, the elaboration of practical legal models, fitting each SE individually demands expertise and resources, both of which SEs generally are short of, are required. Therefore they, more often than not, depend on pro bono support by facilitators and experts from the eco-system for SEs. SEs aim at establishing financial sustainable structures, consisting of hybrid financial sources, resting on income generation on divers markets, membership fees, donations and volunteers support. To achieve their goals SEs strongly rely on their personal networks. Innovative capacity of SEs remains a buzzword with necessary substantiating data still missing.

## **6. German eco-system for social entrepreneurship**

Social entrepreneurs are embedded in an environment which can provide opportunities supporting their development. This environment can, on the other hand, also hinder social entrepreneur's development by putting up obstacles and hindrances. One of the main characteristics of this environment is the highly developed and regulated welfare state. However, in this environment other factors such as political and financial support and the assistance of foundations, as key stakeholders for third sector development are also decisive factors. Therefore this sections turns to the support of key actors differentiated according to fields: support from the polity and the financial sector. Before concluding this section will turn to the role of the education system in the support of SEs. Aim of this section is to assess the main features of the environment in which SEs are embedded in and how it hinders and/ or supports SE development.

### **6.1. Support for social entrepreneurs by policy elites**

The political environment is often perceived as an influential factor in supporting SEs development (Vollmann 2008). Therefore this section assesses the support policy elites provide for SEs. The policy environment and hence the attributed support for SEs various, however, according to the layer of the political system. To scrutinize these divers' impulses, the different layers - EU level, national government level, and Laender level - are discussed in a top-down approach (EU, national, Laender) in turns.

### 6.1.1. EU support for social entrepreneur development

Since the aim of the EFSEIIS project is to provide practical advice to SE stakeholders, the trajectory of EU support for these actors cannot be discussed in detail. This report limits itself to the assessment of the most recent and for the German case relevant developments.

#### *EU perspective on social entrepreneurs*

The EU favors a broad definition of SE to account for the multi-facets of the sector and avoid a rigid SE construct delineating essential aspects in certain (geographic) regions. Such a description allows covering the diversity within the SE sector of the member countries and their capacities for innovation. On the EU-level social entrepreneurs receive increased attention. The EU commission (European Commission 10/25/2011), for instance, emphasizes SEs higher productivity and competitiveness, due to the existing *better* work environments and the therefore higher commitment of their employees (Communication from the Commission to the European Parliament, the Council 2011)<sup>17</sup>. For the EU commission social entrepreneurs use social innovations to address so far unmet (social) needs and thereby contribute to *intelligent* growth (European Commission 10/25/2011)<sup>18</sup>.

#### *EU support for social entrepreneurs*

The European Union, through its EU strategy 2020, is committed to establish an *innovative Union*<sup>19</sup>. With the 2020 strategy the union encourages new, integrating and to employment directed growth (European Commission 10/25/2011). In this context social entrepreneurs are understood as decisive actors supporting the development of the envisioned innovative union (European Commission 10/25/2011). Social entrepreneurs are able to receive funding and support from a broad range of programs, such as the European Regional Development Fund. Such funds assist social entrepreneurs in divers' ways, they are, however, primarily directed to SE's activities (program support) and do not provide organizational support (Gebauer, Ziegler 2013, p. 23). This alignment of funding is in line with most of the existing funding programs which are favoring program support over organizational support, leading to a strong orientation of SEs on program funding instead of the development of sustainable organizational structures (Interview SE).

Furthermore, in 2011 the European Union adopted the umbrella concept of the Social Market Act, and within it the Social Business Initiative (SBI) (European Commission 2012). The SBI is supposed to contribute to the aims of the EU 2020 strategy and thus the development target of an inclusive Union. Designing the Social Business Initiative experts from all European countries were invited to participate and contribute. For Germany five experts, four predominately from the organized civil society (social entrepreneur, SE support organization, welfare organization, scientist) participated and one from a national ministry, who rarely participated, illustrating the enduring rather little support, integration and concern for social entrepreneurship concepts on the German national policy level (Interview stakeholder, PS). Motivation for the SBI was the acknowledgement of the existence

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<sup>17</sup> Both aspects are mentioned, are however not substantiated by statistics or further research.

<sup>18</sup> In this report it is also not further specified what defines intelligent growth.

<sup>19</sup> A precise definition of the envisioned aim of an innovative Union is not further discussed in the report.

of major obstacles hindering the development of SEs across Europe. The SBI aims at establishing an eco-system facilitating SE's development by, among other things, providing financial support and increased visibility for SEs (European Commission 2012). The SBI is directed, in the German case, the Laender, making the SBI one of the existing 18 priority development foci (Förderschwerpunkte) of EU programs. The Laender select from these 18 foci four areas which receive 75% of the EU funding while the remaining 25% are divided among the remaining 14 development foci (Förderschwerpunkte) (European Social Fund<sup>20</sup>; Interview stakeholder, PS).

#### *Problems associated with EU support for social entrepreneurs*

However, so far only one Land selected the SBI as one of their preferred working areas, hinting to one of the essential problems of EU-support directed to the Laender and national level in the German context. SE development and the establishment of an adequate eco-system seem to remain of lower priority on the national and Laender policy level. Germany has not established a lobby group for SEs and hence only a rather small and static group of actors, consisting of social entrepreneurs, a few foundations and scientists, raise in Germany awareness for the benefits and support of SEs and lobby on their behalf national and Laender policy elites (Interview stakeholder, PS). The integration of EU-support programs and structures into Laender and national support schemes for SEs does therefore largely depend on the engagement of this small group of advocates and their network.

Another major obstacle for social entrepreneurs to use EU support, as for instance the SBI, is the high administrative demand these programs carry (Interview stakeholder, PS). SE's in Germany are on average rather small, i.e. do not exceed five employees, and largely depend on program funding, while their organizational structure is often underdeveloped due to the shortage of financial support for sustainable organizational development (Interview SE). The high administrative demand of EU support programs disables SEs with little administrative resources to apply for these programs. Against this background some stakeholders even discourage SE's to apply for such funds, avoiding an alignment of the organizational structure on program support (Interview stakeholder PS).

#### *EU support schemes: strong impulses for SEs development in the national context?*

EU support for German SEs, especially on the local level, did improve in recent years, most obviously through the EU 2020 strategy. However, the awareness for these support schemes and their usage is still little and depends on a small groups of self-proclaimed advocates and their network. Although the EU 2020 strategy aims at improving and further developing a sustainable eco-system for SEs the program falls short due to the prioritization of program over organizational support and the high administrative demands it carries. In sum, the EU Commission gave important impulses to encourage SE development and institutionalization of a sustainable eco-system. The impulse seem however to carry major obstacles for SEs or depend on the encouragement of a lobby group, which formally does not exist.

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<sup>20</sup> [http://www.esf.de/portal/generator/1018/op\\_bund.html](http://www.esf.de/portal/generator/1018/op_bund.html), last accessed September 26, 2014.



### 6.1.2. National government support for social entrepreneurs

Social entrepreneurs received direct and indirect support from the German national government throughout history. The EFESEIIS project is interested in equipping current stakeholders with relevant recommendations for the establishment of a sustainable eco-system for social entrepreneurship, therefore this section focuses on support from the national policy level for SEs in the phase of the newer developments of SEs in Germany.

#### *National government perception on social entrepreneurs*

In 2012 the federal government defined social entrepreneurs as actors founding social organizations out of their individual citizen engagement to address social challenges with innovative and entrepreneurial approaches (Deutscher Bundestag 10/5/2012). According to this definition the federal government estimates that around 100 SEs exist in Germany (Deutscher Bundestag 10/5/2012). Indirect government support for social entrepreneur’s development was regularly provided, so 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 and it is beyond the scope of this report to reconstruct the development of such support schemes and its impact on SEs<sup>21</sup>.

#### *Milestones in the development of national government support for SEs*

Only comparatively late did the German national government initiate direct support for the development of social entrepreneurs, more or less simultaneously with the introduction of the prominent Agenda 2010 in 2003. Against expectations this political support was however not accompanied by equivalent financial support (Gebauer, Ziegler 2013, p. 19).

**Figure 1: Timeline of support for SEs related to national policy elites**



<sup>21</sup> The systematic reconstruction of such indirect government support and its impact on SE’s development would be an important contribution. In this way recent direct attempts to support SEs and the previous indirect supports could be compared and thereby a comprehensive analysis of an adequate eco-system could be provided.

## The initial spark

First signs of an integration of social entrepreneurs in the political debates and potentially into policy support schemes appeared in 2000. In June of that year chancellor Schröder supported by McKinsey<sup>22</sup> and the ProSieben Sat1 Media AG founded the *startsocial* competition with which they awarded and supported emerging social entrepreneurs (Latham & Watkins LLP 2013, p. 29). In 2003 this initiative was transformed into a registered association (Start Social e.V.) to institutionalize direct support for social entrepreneurship and raise awareness for this actor group<sup>23</sup>. This politico-economic support for and the established linkages of national policy elites and social entrepreneurs were further strengthened through the transition of the patronage of the association from Schröder to the newly elected chancellor Merkel in 2005.

## The Sylter Memorandum

The concept entered the public and academic discourse more broadly following the Sylter Memorandum, which focused on social entrepreneurship (Sylter Runde 4/18/2004). The Sylter Circle is a forum in which experts from diverse areas come together and discuss sociopolitical topics<sup>24</sup>. The forum, following their meetings, publishes a document, the Sylter Memorandum, which includes recommendations and expertise for among others, policy makers. The Sylter forum on social entrepreneurship in 2004 was organized by an entrepreneur and an economy professor, present was also Konstanze Frischen, which in the same year founded Ashoka Germany (Sylter Runde 4/18/2004; Schwarz 2014a, p. 52). The published recommendations were strongly oriented on Ashoka's definition of and perspective on social entrepreneurs (Interview SE). The Sylter Memorandum paved therefore the way for Ashoka's perspective on social entrepreneurs into the political, public and academic debate (Interview SE) which, in the following years, they influenced far stronger than the emerging academic discourse (Schwarz 2014a, p. 52).

## Government support campaigns

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 sustainable entrepreneur* (DNP)<sup>25</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

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<sup>22</sup> McKinsey is still an important supporter for SE development in the German case. It provides diverse resources, such as funding and expertise for emerging SEs by supporting the Ashoka Fellowship program, a program of one of the key organizations assisting social entrepreneurs. Moreover, McKinsey continuously supports the Start Social e.V., one of the pioneers in the establishment of an eco-system of SE.

<sup>23</sup> <http://www.startsocial.de/ueber-uns>, last accessed on April 15, 2014.

<sup>24</sup> <http://www.sylter-runde.de/>, last accessed in September 26, 2014.

<sup>25</sup> <http://www.nachhaltigkeitspreis.de/sonstige/english-summary>, last accessed on April 15, 2014.

Youths (BMFSFJ) (Bundesministerium für Familien, Senioren, Frauen und Jugend (BMFSFJ) 10/6/2010; Gebauer, Ziegler 2013).

As part of the BMFSJ campaign, the ministry held a multistakeholder dialogue in 2011 which was followed by a multistakeholder conference in 2013 (Deutscher Bundestag 10/5/2012). For both events around 200 actors and experts working on social innovation and social entrepreneurship were invited to carve out concrete proposition for the dissemination and support of social entrepreneurial activities (Bundesministerium für Familien, Senioren, Frauen und Jugend (BMFSFJ) 2/27/2013). The multistakeholder conference is supposed to continue on a regular base<sup>26</sup>. Furthermore, the BMFSFJ initiated in the spring of 2010 an intensive exchange regarding the topics of SE and SI between the ministry, the federal working group for non-governmental welfare services (Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege (BAGFW) and central associations of the non-governmental welfare service (Deutscher Bundestag 10/5/2012). Since their initiation the meetings continue on a regular base. Thereby the BMFSFJ attempts to encourage the development of social intrapreneurship in the traditional welfare sector as well as the dissemination of social innovations. Moreover, it can be understood as an attempt to broaden the prevailing SE discourse and include a more diverse range of perceptions and actors in the debate.

#### *National policy and economy cooperation support for SE development*

Furthermore, as part of the National Engagement Strategy the BMFSFJ initiated in cooperation with the Development Loan Corporation (Kreditanstalt für Wiederaufbau (KfW) in 2011 a pilot economic development scheme for social entrepreneurs supposed to run from January 2012 till January 2014 (Bundesministerium für Familien, Senioren, Frauen und Jugend (BMFSFJ) 10/25/2011). This development schemes provides emerging social entrepreneurs with needed capital resources and thereby attempts to close an institutional gap in the financial support for SEs<sup>27</sup>.

#### *Evaluation of the milestone impulses*

However, despite the efforts by the BMFSFJ, 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 are perceived as such (Gebauer, Ziegler 2013, p. 22). After 2010, in course of the national engagement strategy of the BMFSFJ, selected social entrepreneurs were financially supported by the ministry. Although the support for SEs is still unsystematic the assistance of the BMFSFJ was rather focused on social entrepreneurs, in accordance with the Ashoka Germany definition. Among the supported SEs were the wellcome gGmbH, Iq consult, the Violence Prevention Network e.V. and Arbeiterkind e.V. (Deutscher Bundestag 10/5/2012), of whom all are Ashoka Fellows or have strong overlaps with Ashoka (Ashoka Germany 2014). Thereby the aforementioned influence of Ashoka's perception of SEs in the public and political debate is further consolidated. Although the SE definition of the federal government is rather broad this strong focus on Ashoka fellows carries the danger of a

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<sup>26</sup> So far it is still unclear in which intervals these conferences will be held.

<sup>27</sup> Currently there is no official evaluation of the program available for the public.

rather narrow perception of social entrepreneurs and social entrepreneurial activities, by policy makers and the public opinion. Such a narrow understanding of SE puts newer developments which, for instance work, under the legal form of cooperatives in a disadvantaged position.

#### *Impulses from the transition of the national government in 2013/2014*

In September 2013 the national election led to a transition of the national government. The position of the emerging coalition government towards social entrepreneurs and social innovations was a hot discussed topic in the social entrepreneurship scene. For the first time support for SE development was integrated into the national government coalition agreement (Bundesregierung 12/17/2013, p. 112). In this agreement the political parties clearly state that they are committed to support the institutionalization of civic entrepreneurial activities and the reduction of existing hurdles, as for instance arising from the existing legal forms. Furthermore, SE as topic remained in the BMFSFJ, was however relocated into the department for non-governmental welfare services and social work (Bundesministerium für Familien, Senioren, Frauen und Jugend (BMFSFJ) 2014). This can tempt observers to assume a further intensified exchange between social intra- and entrepreneurs in the future developments, the concrete development remains, however, subject to speculations. In 2014 the Federal Ministry for Economic Affairs and Energy (BMWi) invited experts from the social entrepreneur scene to a meeting attempting to better understand the topic and, where applicable, possibilities for an integration (Interview stakeholder, PS). Among the actors were representatives of the Ashoka foundation and Ashoka fellows. Cautious voices argue that this meeting was an attempt of the Ashoka network to pave the way of Ashoka's SE understanding in the BMWi, potentially leading to a further contraction of possibilities for SES deviating from Ashoka's definition (Interview stakeholder, FP).

Moreover, cautious voices in the SE scene are rather reluctant to evaluate this de jure commitment as a major improvement in the SE assistance by the national government, arguing that such verbal commitment has to be followed by concrete steps. For instance, during the Vision Summit 2014<sup>28</sup>, a conference which brings together experts on SE and SI from different fields, it was criticized that the State Secretary of the Federal Ministry of Economy and Energy left the event immediately after her opening speech. Thereby the ministry would express that, beside the verbal commitment, no concrete steps for SE support would be existing.

#### *Increasing support for SEs from national policy elites?*

In sum, since the beginning of the millennium direct non-governmental support for SEs increased immensely. Currently SEs are mostly supported by the national government as part of institutionalized civic engagement. However the attempts to institutionalize exchange between the traditional welfare organizations and the newly emerging SEs as carriers of SIs increased, most recently through the relocation of the topic within the BMFSFJ. Although a broad definition is propagated by the national government, the actual support is concentrated on SEs in accordance with the Ashoka perception, carrying the danger of an alienation of the official perspective from the vast majority of social entrepreneurial activities on the grassroots level in Germany.

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<sup>28</sup> <http://www.visionsummit.org/events/10-11092014.html>, last accessed September 18, 2014.

### 6.1.3. Laender support for social entrepreneurs

As discussed before EU support schemes are often directed to the local level, their usage depends however on the resource base of social entrepreneurs and the engagement of self-proclaimed advocates. Laender governments on the local level have their own initiatives with which they support social entrepreneurs (Evers, Schulze-Böing 2001).

The Laender show in recent years increasing interest in the topic. For instance, 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>29</sup>.

However support for social entrepreneurs is far more diversified and unsystematic on the Laender than on the national level. The situation of SEs in the Laender context varies from Land to Land and is, more often than not, strongly depending on the network of the particular SE or its supporter. For instance, the Project Arbeit in North Rhine-Westphalia has a rather long history in assisting SEs<sup>30</sup>. In course of this process it established a broad network, including connection with the Laender and local administration, Laender policy makers and the local economy. Through these networks the organization is able to connect emerging SEs with policy makers and Laender administration and secure material and non-material support for them (Interview stakeholder, PS). This strong dependency on networks is, however, disadvantageous for emerging SEs who do not have these or the *wrong* networks<sup>31</sup>. This can lead to situations in which local SEs, although recognized by policy elites on the Laender level and/ or even awarded by them for their social impact, are unable to establish a sustainable organizational and financial structure (Interview SE). Thereby, in the long run social entrepreneurial activities can be discouraged rather than encouraged because engaged actors are left alone in the bureaucratic jungle.

## 6.2. Financial support for social entrepreneurs

Financing of social entrepreneurs is a classical problem they face in their development and is frequently described as one of their major obstacles (Achleitner et al. 2011a; Schwarz 2014b; Vollmann 2008; Ashoka 2/25/2013). The MEFOSE study found in their survey of 1700 potential SEs<sup>32</sup> that 48% described a sustainable financial foundation as central challenge and biggest threat for their development (Thomas Scheuerle, Gunnar Glänzel 2012, p. 41). Social entrepreneurs operate under a broad range of legal forms, often even hybrid forms, in divers' areas. This enormous plurality of the sector leads to specific needs for SEs and their development, needs which are not necessarily congruent with the demands of non-profits or classic businesses. Therefore the existing financial eco-

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<sup>29</sup>[http://www.mais.nrw.de/08\\_PDF/004/europa\\_und\\_internationales\\_pdf\\_dateien/Doku\\_Soziales\\_Unterneh\\_mertum\\_2012.pdf](http://www.mais.nrw.de/08_PDF/004/europa_und_internationales_pdf_dateien/Doku_Soziales_Unterneh_mertum_2012.pdf), last accessed on September 29, 2014.

<sup>30</sup> <http://www.nrw-projektarbeit.de/home.html>, last accessed on September 17, 2014.

<sup>31</sup> Wrong networks refer in this context to relations with other actors which provide resource, do however not support their endeavor of establishing sustainable economic structures.

<sup>32</sup> The MEFOSE definition of social entrepreneurs is not congruent with the working definition applied in the EFESIIS project. Therefore the statistics should be treated as orientation.

system for non-profits and business does not necessarily address the demands and needs of SEs. This section gives a brief overview on the financing possibilities of SEs in Germany and illustrates on this basis the existing financial eco-system for SEs<sup>33</sup>. The focus of this section is limited to the most recent developments in this area as well.

#### *General financing sources for social entrepreneurs*

Generally internal and external financing has to be differentiated. Internal financing refers to earned income from (profit-oriented) business activities and own capital resources (Vollmann 2008; Spiess-Knafl 3/20/2012). Part of (profit-oriented) business activities are also social services provided and compensated by the government (Spiess-Knafl 3/20/2012). Traditionally these services were provided by the Free Welfare Associations (Evers, Schulze-Böing 2001, p. 122; Zimmer 2014, p. 4). In recent years this rather closed field was opened by public authorities and enabled social entrepreneurs to become alternative social service providers<sup>34</sup> (compare 2.). Financial support by public authorities for non-profits and other social service providers refers either to direct or indirect support. Indirect support regards mostly tax privileges (Spiess-Knafl 3/20/2012, pp. 60–62). Direct financial support is mostly granted in the form of project funding, neglecting the need of actors for resources to develop a sustainable organizational structure (Vollmann 2008, p. 41).

#### *External financing for social entrepreneurs in Germany*

External financing can be derived from a broad range of source. On the one hand a category best described as other income sources including, donations, price money, volunteer activities, fellowships and divers incomes like foundation capital (Spiess-Knafl 3/20/2012, pp. 71ff). Although it is regularly argued that Germany has a strong affinity to donate such foundation grants and donations amount only to 3.4% of non-profits income (Schwarz 2014b, p. 56). In recent years the financial support, especially in the form of price money and fellowships for SEs did increase significantly, with prominent examples such as the Ashoka fellowship<sup>35</sup> or the Social Impact Start,<sup>36</sup> to name a few.

Since many SEs in Germany work under the legal form of associations, membership fees have to be considered as a separate category of external financing, as well (Thomas Scheuerle, Gunnar Glänzel 2012). In the category of external capital stock Germany currently witnesses a diversification of the field. Banks, loan banks and other financial institutions solemnly interested in financial returns are, however, of little interest for SEs due to the high financial return demands (Achleitner et al. 2011a, p. 17). More recently financial institutions providing social responsible investment emerged in Germany. One model emphasizing the maximization of social returns by minimizing financial return is still in its early development stages. One of the most prominent representatives is the BonVenture<sup>37</sup>

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<sup>33</sup> This section cannot provide an in-depth discussion of the current financing situation of SEs. For a comprehensive discussion, compare Vollmann (2008) and Spiess-Knafl ( 3/20/2012).

<sup>34</sup> Cautious voices argue, however, that the market for social services is still rather closed for SEs, compare (Schwarz 2014b; Vollmann 2008).

<sup>35</sup> <http://germany.ashoka.org/de/fellowship-programm>, last accessed September 18, 2014.

<sup>36</sup> <http://socialimpact.eu/start>, last accessed September 18, 2014.

<sup>37</sup> <http://www.bonventure.de/en/home.html>, last accessed September 18, 2014.

organization. The second model focuses on the maximization of financial returns by fixing a minimal social return (Renz 2007). Moreover, grant-making foundations provide external income for SEs, as well. However, such financial support is often granted as project funding and hence disadvantages sustainable organizational development. More recently foundations started to change their funding approach towards a more sustainable and cooperative model (Spiess-Knafl 3/20/2012), project funding remains, however, in general the main funding practice in this area (Interview SE). Venture philanthropy in Germany is turning into an attractive alternative investment scheme, is, however, still in its infancy (Saccani 2008, p. 14), so are social capital markets, which are described by experts as an important preconditions for the development of SEs (Achleitner et al. 2011b, p. 20).

#### *The financial situation of SEs in Germany*

The MEFOSE study found in their survey that SEs on average have hybrid financial structure consisting of three to four sources (Thomas Scheuerle, Gunnar Glänzel 2012, p. 42). This plurality of sources does not vary according to organizational size. Moreover, the MEFOSE survey showed that with growing organizational size the percentage of performance based funding derived from the social insurance system and public authorities increases (Thomas Scheuerle, Gunnar Glänzel 2012, p. 40). Self-generated profits and financing through bank investment plays, on the other hand, especially in an international comparison, a relative marginal role (Thomas Scheuerle, Gunnar Glänzel 2012, p. 40).

#### *Financial development phases of social entrepreneurs in Germany*

If we try to assess the status quo of the financial eco-system for SEs in Germany, we should distinguish three (financial) development phases of SEs: first the pilot period in which social entrepreneurs establish themselves, secondly the early stages of financing and finally the stage in which SEs scale up (Freiburg, Dienst 9/11/2014).

#### *The pilot phase of SEs financial development*

During the pilot phase SEs on average establish their organizations. FASE, a financing agency for social entrepreneurs, estimates that they need investments of up to 50 000 Euros, which they mostly raise through donations, prizes, fellowships or private capital, often in form of loans from the extended family (Freiburg, Dienst 9/11/2014). Financial supporters for this early development stage of SEs are foundations, mostly in form of project funding, fellowships, such as the Ashoka fellowship, but also prizes as awarded by the Social Impact Labs. Since 2012 the before discussed joint program of the BMFSFJ and the KfW is available for SEs in their early development phase (compare 3.2.). However, although the program is supposed to support the establishment of SEs, this investment seems to be a resource SEs usually apply for once they elaborated a solid business plan.

#### *Problems financing SEs in the pilot phase*

Although increasing support is available for SEs in this early stage, common problems remain. On the one hand the beforehand discussed dependency of SEs on networks. If the entrepreneurs have little

or the wrong networks<sup>38</sup>, they might be stuck in the first development stage without being able to establish sustainable organizational structures (Interview SE, stakeholder, PS). Often in such cases SEs save themselves by continuously applying for project funding (Interview SE) without reaching a sustainable financial solution. Especially such short term project funding disables actors to invest their resources in the drafting of a solid business plan, which can, especially if not pursued full-time, take up to six months (Freiburg, Dienst 9/11/2014). Moreover, SEs, if interested in attracting investment for the second development stage, need to build up networks with potential investors (Interview SE), either to gain donations from such businesses or to receive their capital investment. This takes time but requires professional support and facilitators as well. Especially the latter two are still a rare offer by support institutions.

#### The second financial development phase of social entrepreneurs

During the second development stage SEs are supposed to develop (hybrid) financing structures in the range between 50 – 250 000 Euros (Freiburg, Dienst 9/11/2014). Only a rather limited number of financial institutions provide financing for this stage. Experts argue that it is still difficult to convince potential institutions to invest in social projects (Schwarz 2014b, p. 53). To convince such potential investors solid business plans are necessary and these demand resources and support of experts. The joint program of the KfW and the BMFSFJ is one of such financial programs. The applicant has to provide an elaborated business plan, however. The FASE (Finanzierungsagentur für Social Entrepreneurship) differs from this approach. FASE was established as a spin-off by the Ashoka gGmbH, with support of the Apax Foundation and the BMW Stiftung Herbert Quandt (Ashoka 2/25/2013, p. 26) and tackles especially this strategic gap in the financial support for SEs<sup>39</sup>. However, financial support institutions assisting SEs in this development stage are still a rare phenomenon.

#### The final financial development phase of social entrepreneurs

The final financial development stage refers to SEs who scale up their operational business, mostly in the range from 1 million Euros onwards (Freiburg, Dienst 9/11/2014). For this phase financial institutions such as BonVenture or Auridis can provide support. However, since the financial ecosystem in Germany, especially for the early development stages is still underdeveloped, only a little number of SEs are successful in reaching this phase. The MEFOSE survey showed that SEs in the first development stage are the most numerous with 103 out of 208. The survey found only 41 out of 208 SEs which are currently in the second stage, identifies, however, with 64 out of 208 SEs a little increase in their number for the third development stage<sup>40</sup>.

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<sup>38</sup> Wrong networks, just as illustrated above, refer in this context to relations with other actors which provide resource, do however not support their endeavor of establishing sustainable economic structures.

<sup>39</sup> So far FASE has only financially supported already awarded Ashoka fellows. FASE plans to extend their service to a broader range of SEs. It remains open, however, if FASE can turn into a financial institution providing support for SEs in general.

<sup>40</sup> These statistics give unfortunately no insight into and correlations to the age of the SEs.



### *Emergence of a financial eco-system for social entrepreneurs in Germany?*

In sum, we see a pluralization of the financial eco-system for SEs in all of their development phases. However, especially in the pilot phase SEs are still often confronted with crucial problems which put them at disadvantage for developing sustainable organizational structures. We find increasing number of support institutions which are aware of the problems and try to design their programs in correspondence with the needs of SEs, as for instance Ashoka, with their life-long fellowship support. However, such programs are only available for a small number of organizations and therefore are only a drop in the ocean. SEs still receive the biggest share of their financial support from German foundations manifesting their role as important stakeholders in an emerging eco-system for SEs. Moreover, support for the transformation from the first to the second financial development stage are still rare and institutions supporting the second development stage likewise.

### **6.3. The educational environment for social entrepreneurs and their role as educational service providers**

This subsection aims at giving an overview on the educational environment for social entrepreneurship and their possible role as providers of educational services. The discussion on the role of social entrepreneurs in education and social entrepreneurial education became a hot topic in recent years. This discussion was initiated and underpinned by two developments. This section will address both developments in turn, starting with the crisis of the welfare state, followed by the discussion of the importance of an educational environment for social entrepreneur development.

#### *The crisis of the educational system and arising impulses for SE development*

The German educational system came under major criticism in the aftermath of the PISA survey conducted by the OECD since 2000<sup>41</sup>. The study attested German students in an international comparison not only major deficits in divers subject areas (Payk 2009), but found also that social origin in Germany impacts massively on children's educational success (Evers 2013, p. 41). The Pisa shock was followed by pedagogical reforms and 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 education institutions. Already in 2002 some scholars argued that public education institutions could develop into social entrepreneurs (Evers et al.; Bode et al. 2002).

#### *The role of an educational environment for SE development*

The educational environment and here especially the (social) entrepreneurial education is supposed to be a crucial factor massively impacting the start-up rate and probabilities in a country (Schwarz 2014b, p. 232). In this context scholars regularly attest Germany a low entrepreneurial culture, leading to a lack of awareness for and potential of (social) entrepreneurial activities (Linklaters 2006,

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<sup>41</sup> <http://www.oecd.org/berlin/themen/pisa-internationaleschulleistungstudiederocd.htm>, last accessed September 19, 2014.

p. 23). In the Global Entrepreneurial Monitor for Germany, it is argued that the deficits in the (social) entrepreneurial education is one of the central obstacle for SE development in Germany, especially the insufficient mediation of creativity, independence and ample knowledge of the market system and entrepreneurship (Global Entrepreneurship Research Association 2007). This survey places Germany in the lower third (rank 31 out of 37) of the ranking regarding its start-up and entrepreneurial education in an international comparison (Global Entrepreneurship Research Association 2007, p. 22). Against this background GEM authors regularly argue for the implementation of a separate teaching module on SE on all levels of student's education (Schwarz 2014b, p. 223). These demands are supported by SE support organizations, such as Ashoka, who aim at the long term establishment of entrepreneurial activities and individual responsibility in the social realm to take on more responsibilities for the provision of social services and solution of social problems (Schwarz 2014b, p. 52).

#### *Incorporation of SE education in German educational institutions*

A closer look at the incorporation of (social) entrepreneurial education in the curriculum of the German education system on all levels supports this above described lacking integration<sup>42</sup>. Due to the federal structure of the education system, the concrete form of the curricula is subject to the Laender governments, and hence also the (social) entrepreneurial education (Schwarz 2014b, p. 233). Regarding the primary and secondary education, the Cologne Institute for Economic Research (IW) argues in a study basing on a survey of 155 school books and 55 curricula that only in 18% of the applied material independent entrepreneurial activities are discussed (Bundesarbeitsgemeinschaft Schulwirtschaft 2011). Although (social) entrepreneurial education has not entered the German curricula in the primary and secondary requirement education, electives supporting the entrepreneurial education of students emerged numerous over the last few years, for instance the BMWI supported program Junior (Junge UnterNehmen Initiiieren Organisieren Realisieren), the German start-up award for students or the Network for Teaching Entrepreneurship (NFTE), to name a few (Schwarz 2014b, p. 34). Furthermore, students, supported by their teachers, associations and foundations institutionalize their own social entrepreneurial activities, so for instance the student organized fashion label Uebel & Neiss<sup>43</sup> at a school in Leipzig. If we look at (social) entrepreneurial education at vocational schools the situation is quite similar to the primary and secondary education (Schwarz 2014b, pp. 234f).

Regarding entrepreneurship education at university Germany witnesses and increasing importance since the 1990s, with many university offering programs supporting start-ups out of university environments (Schwarz 2014b, p. 235). The main goal of these programs is to raise awareness for entrepreneurial activities and, where possible combine practical and empirical knowledge. However, although entrepreneurial education entered university, courses or study programs on social entrepreneurship are still rare, with pioneers such as the Leuphana University which establish a junior professorship for social entrepreneurship in 2009 (Leppert 1/18/2008; Schwarz 2014b). Most

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<sup>42</sup> For an in-depth discussion on the incorporation of (social) entrepreneurial education into the Germany education system, compare Schwarz (Schwarz 2014a).

<sup>43</sup> <http://www.gfzk.de/foryou?p=1652>, last accessed September 19, 2014.

courses dealing with SE are still located on economic chairs and are often externally financed or endowed, as for instance the KfW endowed chair for entrepreneurial finances at the university of Munic (Schwarz 2014b, p. 46).

#### *Emergence of an educational eco-system for SE development?*

In sum regarding (social) entrepreneurial education we see an increasing acknowledgment for the importance of its incorporation into the curricula at all levels of the German education system. However, in most case and on all levels it remains an elective subject, instead of a requirement or fixed incorporated topic. Moreover, teacher's education lacks behind this newer development and the topic has not been included in their education, putting them in the disadvantaged situation of, if they choose to, teach a subject, for which they not necessary have the required knowledge or skills. Moreover, often the teaching programs are externally financed and therefore not firmly institutionalized in schools and higher education institutions. Finally, one aspect remains undiscussed in most of these cases as well. The equipment of students with entrepreneurial skills and a greater awareness for SEs is only one side of the medal. The increased importance of social entrepreneurs in public, political and economic debates is not met by teaching programs encouraging students to critical question what role these newly arising actors should have in the German social welfare state. That means a connection of teaching programs on (social) entrepreneurship to course on the modernization and privatization of the German welfare state is missing, as well. Regarding the discussion on SE'S role as providers of educational services the debate has just started. It is evident, that we find divers' reform trends in the public school institutions, which 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.

#### **6.4. The role of the welfare state environment for social entrepreneurs**

The change in the welfare institutions and the emerging impulses for the emergence and development of social entrepreneurs was briefly discussed in chapter four. In this sub-section we want to draw attention to the welfare state institutions as enabling or hindering environment for the development of social entrepreneurs.

The MEFOSE survey found that 31% of the responding SEs were engaged in the provision of social services and 2.45% were engaged in the health sector (Thomas Scheuerle, Gunnar Glänzel 2012, p. 21). This means that more than one third of the surveyed SEs were active in realms which traditionally fall in the working area of the historically grown welfare organizations. This raises the question how supportive or hindering the existing welfare state institutions are for the development of SEs as additional or competing service providers.

As illustrated in chapter four, the German welfare state currently undergoes reform processes. The historic development of welfare provision enabled a strong welfare state with strong interrelations with the churches and privileges for the Free Welfare Associations (Schwarz 2014a, p. 57; Evers, Schulze-Böing 2001, p. 122; Zimmer et al. 2005, p. 16). The rather secured position of the Free Welfare position was weakened in recent years through the introduction of new principles and

payment procedures, to name a few (Evers 2005; Heinze et al. 2011; Zimmer et al. 2005; chapter four). These reform processes opened up space for new actors, social entrepreneurs being one of them, to engage in this sector, as the above mentioned figures illustrate. The above mentioned numbers of SEs engaged in social service provision and the correlation between growing organizational size and increasing income generation of SEs through the social insurance systems and other payments of public authorities (compare 3.2.) indicate that SEs are increasingly pushing into the sector. However, the question how supportive or hindering the existing welfare state arrangements for social entrepreneur's development are, remains. Expert's evaluations on this differ, with some emphasizing the space opening up for SEs (Zimmer et al. 2005; Evers 2005; Heinze et al. 2011) while others strengthen the still existing relative closeness of this area for SEs (Schwarz 2014a; Vollmann 2008). However, with the integration of the responsible ministry within the BMFSFJ for SEs into the realm of welfare state issues, we see attempts to further synergy effects between both realms. A conclusive judgment on the actual role of these institutions for the role of SE's development is at this point too early and requires further investigation.

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## 8. Appendix

**Figure 2: Table of conducted expert interviews**

<b>Category of conducted expert interviews:</b>	<b>Coding within report:</b>	<b>Number of conducted interview per category:</b>
Social entrepreneur	Interview SE	5
Stakeholder, economic support	Interview stakeholder, ES	1
Stakeholder, political support	Interview stakeholder, PS	2
Stakeholder, scientific perspective	Interview stakeholder, SP	3
Stakeholder, foundation perspective	Interview stakeholder, FP	4
Stakeholder, foundation perspective	Focus group, FG	1
<b>Total amount of conducted expert interviews</b>		<b>16</b>