JEOD
JOURNAL OF ENTREPRENEURIAL AND ORGANIZATIONAL DIVERSITY

Volume 7, Issue 1 (2018) 61-87 | Published online 19 September 2018

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The Janus face of participatory governance: How inclusive governance benefits and limits the social innovativeness of social enterprises

ABSTRACT

According to Schumpeter, the creativity and motivational ability of distinguished entrepreneurs drive innovation in enterprises. It is the individual entrepreneur who comes up with new ideas and paves the way for their realization. Conversely, social enterprises are regarded as making decisions in a collaborative manner and in close participation with stakeholders. Accordingly, the question arises as to how participative governance and the loss of the individual business leader's importance is reflected in the innovativeness of social enterprises. Does collaborative decision-making hamper the development of innovative solutions or do social enterprises benefit from their capacity to innovate? This question guided a cross-case analysis of four social enterprises, and the results are presented in this paper. The investigation revealed that participatory governance can have different consequences for the innovative strength of social enterprises. While the involvement of internal stakeholders (members, employees) appears to be beneficial for developing novel solutions but generates limited social impact, close collaboration with external stakeholders, such as local communities or regional authorities, is less advantageous with respect to identifying new trends, ideas, and opportunities. However, the involvement of external stakeholders in decision-making is beneficial concerning the safeguard of community interests and the legitimization of social enterprise activities. The results suggest that a balanced involvement of both internal and external stakeholders would be beneficial for enhancing the social innovativeness of social enterprises.

KEY-WORDS

SOCIAL ENTERPRISE, PARTICIPATORY GOVERNANCE, SOCIAL INNOVATIVENESS, INTERNAL AND EXTERNAL STAKEHOLDERS, CROSS-CASE ANALYSIS

Acknowledgments
This study was carried out by means of the EU funded research project RurInno ("Social Innovation in Structurally Weak Rural Regions: How Social Entrepreneurs Foster Innovative Solutions to Social Problems"). I would like to acknowledge our interviewees for sharing their insights and experiences, our local partners for their openness and support, and Matthias Fink and colleagues at the Institute for Innovation Management at the Johannes-Kepler University Linz (Austria) for the pleasant collaboration. Further thanks go to Gabriela Christmann and the Leibniz-Institute for Research on Society and Space (Germany) for making this long-term research possible, to the European Union for funding the project under the Horizon 2020 MSCA RISE 2015 funding scheme (Grant agreement No. 691181), and to the anonymous reviewers for their very helpful comments and advice.

JEL Classification: L31, O35 | **DOI:** http://dx.doi.org/10.5947/jeod.2018.004

1. Introduction

Scholars of the social enterprise research network, EMES, describe participatory governance as one of the three dimensions of social enterprises (Defourny and Nyssens, 2010; 2013). According to them, social enterprises can be distinguished from other enterprises by considering the different interests of stakeholders in decision-making processes, instead of concentrating decision-making power in the hands of a single business owner or capital owners. However, participatory governance can have consequences for the capacity of a social enterprise to develop new ideas and establish innovative solutions. According to Schumpeter (2016 [1929]), developing innovations is a distinguished capacity of the entrepreneurial personality; it is the intellectual and motivational capability of the individual businessman, rather than the enterprise as an organization, that drives innovation. Against this backdrop, a decision-making process that takes into account the interests of different stakeholders could impair the innovative power of an enterprise. If developing innovative ideas requires the creativity of a single entrepreneur, it is questionable how such ideas can be developed and implemented by a group of people or in close consultation with stakeholders. Whereas the entrepreneur would easily pave the way for a novel idea, debates among stakeholders may slow down the innovation process. Innovative ideas are unusual and might evoke opposition in collective decision-making bodies.

However, one could also argue the reverse. Participatory governance could strengthen innovative power because the involvement of a larger number of people might enhance the pool of innovative ideas and stimulate creative problem-solving (Pestoff, 2014). The involvement of multiple stakeholders can bring together complementary experiences and competencies that build a fertile ground for generating ideas (Borzaga and Sacchetti, 2015). Moreover, participatory governance can provide room for testing and improving ideas before they are implemented.

The contradictory perspectives on the relationship between participatory governance and the innovativeness of social enterprises have received little attention in the empirical social enterprise research. The aim of this study was to close this gap by investigating the interrelation between these aspects by conducting four case studies. The purpose of this paper is to reveal the forms of participatory governance and innovative orientation and action in social enterprises and determine whether and how the former affects the latter. This topic touches on a field of research with heterogeneous and often inconsistent understandings of terms and notions. Therefore, it is pertinent to clarify the relevant terms. *Corporate governance* is understood as "a process of strategic institutional-decision-making, and the authority to determine whom they involve and how and to whom they render account." (Kim, 2008: 33). The question is who among the stakeholders—that is, among "anyone who effects or is affected by company's activities" (Colenbrander et al., 2017: 547)—has the authority and the decision-making power? We talk of *participatory governance* when all relevant stakeholders, or a significant number of them, within an organization or its environment are involved in the decision-making process, rather than a single entrepreneur or a small group of managers or capital owners. The *innovativeness* of social enterprises, in turn, refers to the organization's capability to develop novel solutions that have a greater potential to satisfy unmet social needs and solve societal problems than the means already at hand (Phills, Deiglmeier and Miller, 2008; Howaldt and Schwarz, 2010; Moos et al., 2010). This understanding addresses both aspects of the compound term *social innovation*. While the term *novel solutions* refers to the newness and otherness of developed services or products, *social needs* and *societal problems* substantiate the term as social and distinguish it from other forms of innovation, such as economic or technological technological innovation (Christmann, 2014). An innovation can be social because it addresses social needs, provides a socially acceptable and ethical solution, or evokes social change within a societal environment (Bock, 2012; 2016).

The question of how does participatory governance enable or limit social innovativeness in social enterprises will be addressed in six steps. First, this paper will explore the state of social enterprise research with regard to participatory governance and social innovative practices. While participatory governance is vigorously debated, the relationship between organizational governance and innovativeness is rarely examined in this field of research. The literature review is followed by the adoption and refinement of an approach that guides the investigation. After the applied methods and selected cases are presented, the type and scope of participatory, democratic governance will be discussed. The results reveal that stakeholders participate in the decision-making processes in each of the investigated social enterprises. While two of them involve stakeholders from inside the organization (members, employees), but no external stakeholders, the other two enterprises involve external stakeholders (e.g., representatives of local communities), but no employees or members. In the next step, for each of the four social enterprises, the capability to develop social innovative solutions will be disclosed. This allows for connecting the findings in Section 6 and yields an interesting result: While the participation of internal stakeholders is beneficial for innovativeness, but produces a limited social impact, the close involvement of external stakeholders hampers the development of novel solutions, but has a greater impact on rural communities. The paper concludes with the discussion of the findings and the remaining gaps and open questions for further studies.

2. Participatory governance and innovation in social enterprises: State of the research

Both participatory governance and social innovation are highly relevant topics in the social enterprise research. This section will shed light on the literature in this field and on how scholars have conceptualized and investigated the relationship between the two phenomena.

2.1 Participatory governance in the social enterprise research

The investigation of governance arrangements in social innovation processes (González and Healey, 2005; Novy, Hammer and Leubolt, 2009; Parés, Ospina and Subirats, 2017) and nonprofit organizations (Stone and Ostrower, 2007; Lang and Roessl, 2011) has become a flourishing field of research in recent years. The same is true for governance in social enterprises. One reason for this attention is that social enterprises call for a different governance structure as compared to for-profit enterprises. In commercial businesses, the owners or financial investors usually have ultimate decision-making power. The shareholders steer the enterprise either directly by managing the organization or indirectly by appointing managers, who report to a board of directors representing the interests of the owners (Milgrom and Roberts, 1992; Huybrechts, Mertens and Rijpens, 2014). Unlike commercial ventures, social enterprises follow mainly social goals and are committed to different groups, like clients, members, employees, or communities. Balancing such a multitude of stakeholder interests requires the involvement of stakeholders in decision-making and the implementation of a participatory governance structure. This is why researchers like Jacques Defourny and Marthe Nyssens regard participatory governance as one of the main attributes of social enterprises. According to them, social enterprises can be distinguished from commercial businesses not only by their pursuit of social goals but also by their shared decision-making and the active involvement of stakeholders (Defourny and Nyssens, 2010; Pestoff and Hulgård, 2016).

Participatory governance not only distinguishes social enterprises from their commercial counterparts but differentiates a social scientific perspective on social enterprises from a more economic understanding, as well as a European tradition from a rather Anglo-American tradition. According to Defourny and Nyssens, social scientists and many European researchers understand a *social enterprise* mainly as a specific type of organization with strong roots in the third sector, while Anglo-American researchers and those from a business administration background tend to highlight the phenomenon as a specific practice embedded in the prevalent business landscape. As a practice, *social entrepreneurship* means fulfilling social goals by entrepreneurial means, regardless of whether this is executed by a third-sector organization or a large corporation as part of its social responsibility strategy (Defourny and Nyssens, 2010; Pestoff, 2014).

The works on social enterprise governance can be classified into three groups according to their specific focus on the organization and its environment. While many scholars deal with the relationship between the organization and its external stakeholders (1), others focus on the organization itself and the participation of its workforce (2), and a third group focuses on the role of the legal framework in the governance of social enterprises (3).

1. Works on the social enterprise–stakeholder relationship discuss the importance and constraints of balancing the interests of stakeholders and provide theoretical explanations for stakeholder participation. According to Colenbrander et al. (2017), involving multiple stakeholders is imperative for the survival of social enterprises. It can provide them with expertise, legitimacy, and access to resources, and help them identify social needs. Pestoff (2014) adds that involving external stakeholders can help to balance economic and social activities and prevent social enterprises from mission drift. Huybrechts, Mertens and Rijpens

(2014) describe the co-optation of stakeholders by the board of a social enterprise as a typical way of ensuring stakeholder involvement. However, according to Spear, Cornforth and Aiken (2009), participatory governance also bears risks, such as finding board members with the right skills and experience, who act in the interest of the social enterprise and not just in their own interests. Another challenge is keeping the board members active and avoiding "the iron law of oligarchy"—a state where a democratic organization is dominated by a small group of elite members (Michels, 1915; Spear, Cornforth and Aiken, 2009). Other works have searched for theoretical explanations of multiple-stakeholder involvement. Borzaga and Sacchetti (2015) show that stakeholder involvement does not just serve normative purposes but can also help to prevent losses if the exclusion of relevant stakeholders would bear social costs. Applying the resource dependency theory and new institutionalism, Huybrechts, Mertens and Rijpens (2014) demonstrate that stakeholder involvement provides access to resources (financial means, power, and information) and ensures social legitimacy. It can be concluded that in the first strand of literature, stakeholder involvement refers to actors in the *environment* of social enterprises, while internal stakeholders remain unconsidered.

2. Internal stakeholders are the focus of the second group of articles. The research on workforce participation has been guided by the assumption that enterprise ownership by employees would increase the survival probability of the social enterprise and work against alienated labour (Vanek, 1970; Ridley-Duff and Ponton, 2013). Ridley-Duff and Ponton (2013) develop a framework for evaluating the scope of workforce participation, which ranges from no involvement at all to democratic participation. This is further refined by distinguishing 10 areas of workforce participation, from skills development to wealth sharing (Ridley-Duff and Ponton, 2013). A test of the framework using two social enterprises as examples reveals that workforce participation is not meaningful in all fields of activity, such as in operations management, where expert knowledge and guidance by managers is advantageous (De Normanville, Wren and Ridley-Duff, 2015). Works on workforce participation, however, share with the first strand of literature the focus on one type of stakeholder (employees), while external stakeholders are not considered.

3. In the third group of contributions, participatory governance is not regarded simply as an organizational concept but also as a legal and political one (Spear, Cornforth and Aiken, 2009; Colenbrander et al., 2017). From this perspective, the implementation of participatory governance models also depends on the existence of appropriate legal frameworks. According to a mapping report of the European Commission (2015), as of 2015, 16 European countries had implemented "tailor-made legislation," meaning laws that "are favourable for social enterprises through enabling legal provisions" (Colenbrander et al., 2017: 544). In a case study of a Dutch social enterprise, Colenbrander et al. (2017) show that the enthusiasm for the implementation of participatory governance models is limited

if tailor-made legislation is missing. The scholars call for a legal framework according to which registration as a social enterprise requires multi-stakeholder or employee ownership with divisions of voting and profit rights as well as information and monitoring rights.

2.2 Participatory governance and social innovation in social enterprises

While participatory governance is fiercely debated, the question of how this form of governance is reflected in the ability of social enterprises to develop innovative solutions attracts comparably little attention. Scientific works only sporadically address the link between participatory governance and social innovation. Where this happens, authors assume that a positive relationship exists between the degree of stakeholder participation and innovative power (Pestoff, 2014; Pestoff and Hulgård, 2016). Borzaga and Sacchetti (2015) offer a first explanation for the assumed innovative power of multi-stakeholder social enterprises. According to them, multi-stakeholder governance paves the way for networks of "actors with complementary experiences and competences […], whereby cooperation leads to increasing knowledge and understanding of persistent issues, and to the generation of ideas and possible solutions" (Borzaga and Sacchetti, 2015: 19). The way in which innovation emerges within such a "system of innovation" is *interaction* (Edquist, 2005 [1997]; Borzaga and Sacchetti, 2015). Thus, the secret of enhanced innovativeness through participation would be recruiting competent stakeholders, who act in the interest of the enterprise. Winning over competent stakeholders, however, is a challenging undertaking, as Spear, Cornforth and Aiken (2009) show.

There are two possible reasons for the limited attention to the relationship between participatory governance and innovativeness in social enterprises. On the one hand, the social entrepreneurship school centres the individual entrepreneur and disregards participatory government arrangements. On the other hand, the EMES school of social enterprise research highlights participatory governance, but pays little attention to social innovation as an outcome of social enterprises (Defourny and Nyssens, 2013). Against this backdrop, Defourny and Nyssens (2013) propose linking social innovation more directly to the participatory dimension and to the involvement of multiple stakeholders. This is in line with scholars like Frank Moulaert, who regards "social innovation as a governance change with more bottom-up participation […] and collective decision making systems" (Moulaert et al., 2013: 1). In general, Defourny and Nyssens (2013) see the biggest intersection between these two conceptions where social innovation is understood as a process and not merely as an outcome. However, an exclusive orientation toward social negotiation processes threatens to lose sight of the creative and entrepreneurial dimension of social innovation.

All in all, numerous conceptual and empirical works in the social enterprise research deal with participatory governance and provide a solid foundation on which the current study was built. However, the prior research also has its shortcomings. Works on participatory governance either deal with external stakeholders and ignore workforce participation or focus on the involvement of internal stakeholders and exclude stakeholders from the organization's environment. Another issue is that the consequences of stakeholder participation for the ability to generate and implement innovative ideas have received scant attention. When this relationship is addressed, the authors either reduce social innovation to a social negotiation process, without paying attention to its creative aspect, or they simply assume that a positive relationship exists, without providing any empirical evidence. The literature is still missing a systematic investigation into how participatory governance is reflected in the innovative power of social enterprises. The need for a systematic analysis of the relationship between governance characteristics and the entrepreneurial and social dimension in social enterprises has been repeatedly highlighted (Pestoff, 2014; Pestoff and Hulgård, 2016).

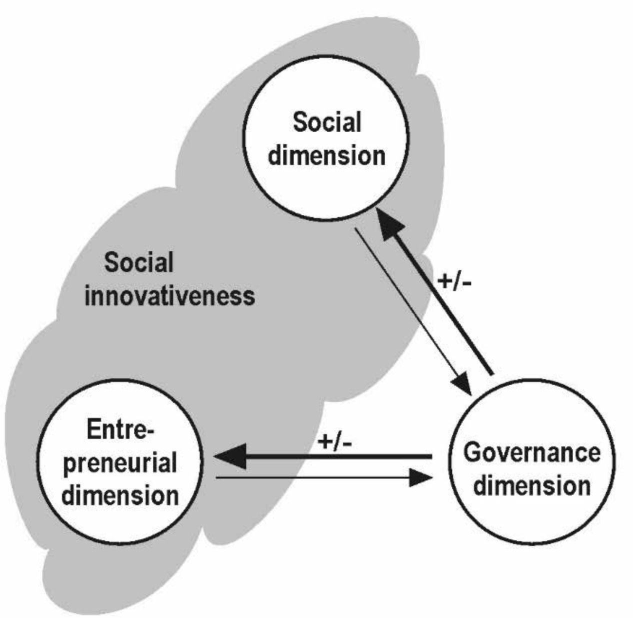
3. Approach

Given these gaps and shortcomings, this study was aimed at investigating empirically the relationship between participatory governance and the ability of social enterprises to develop social innovation solutions. This necessitated an approach that would take into account the terms in question and the relationships between them. Among various conceptions, the EMES model provided an appropriate framework (Defourny and Nyssens, 2010; 2013). It recognizes a social enterprise as a distinct organization, it can be applied to participatory governance and social innovation, and it provides assumptions about the relationship between them, although some modifications are needed, as will be demonstrated in the following.

The EMES approach entails a set of three main indicators that help to distinguish social enterprises from commercial enterprises and other types of organizations. The indicators do not provide a binding definition but describe an ideal type, in the sense of Max Weber (Defourny and Nyssens, 2010). According to the EMES approach, social enterprises are organizations that have an *entrepreneurial dimension* (continuous production of goods or distribution of services, bearing economic risks, having paid workers), a *social dimension* (working for the benefit of the community or society, initiative launched by civil society actors, limited profit distribution), and a *participatory governance dimension* (high degree of autonomy, decision-making independent of capital ownership, involvement of stakeholders) (Defourny and Nyssens, 2013). It is important to note that this model regards the three main categories as independent indicators. Social enterprises can meet the criteria to different extents. In doing so, the occurrence of one dimension does not necessarily entail the occurrence of another dimension. This complementary relationship is different from the Earned Income School of social enterprise research, where economic and social criteria mark the extremes of a continuum and have an inverse relation (Pestoff, 2014; Pestoff and Hulgård, 2016).

A weakness of the EMES model is that social innovation is absent from its set of indicators and subcategories. However, even though the founders of the EMES model preferred to abstain from making social innovation a central criterion for social enterprises, this characteristic can be integrated in the model without harming it. Following the initially given definition, social innovativeness is a compound term that stands for the ability of organizations to develop new and novel services and products in order to satisfy unmet social needs and solve social problems. The first part of the definition locates social innovation in the entrepreneurial dimension of the EMES model, and the latter in the social dimension. Social innovativeness is a capability of social enterprises that comprises both a social mission and entrepreneurial thinking. Figure 1 depicts this in the form of a cloud, surrounding the social and entrepreneurial dimension. The double character of social innovativeness also means that the empirical study not only investigates one link but two—one relationship between the governance and social dimensions and one between the governance and entrepreneurial dimensions. In Figure 1, both relationships have a plus and a minus sign to indicate alternative assumptions. Following Schumpeter and the assumption that innovativeness is a personality trait of entrepreneurs, a negative relationship between participatory governance and social innovativeness would prevail. According to the alternative hypothesis, the involvement of multiple stakeholders in decision-making would lead to a "system of innovation" (Edquist, 2005 [1997]). In this case, a positive relationship between participatory governance and social innovativeness would emerge. This study focused on the effect of participatory governance on social innovativeness (bold arrow), even though an inverse effect of social innovation strength on the form of governance was also possible.

Figure 1. Theoretical approach, based on the EMES model (Defourny and Nyssens, 2013)



With regard to the subsequent operationalization, the entrepreneurial thinking/innovativeness, social mission/social innovativeness, and participatory governance dimensions require further clarification.

The *entrepreneurial dimension* is relevant to this research because the ability to innovate is regarded as a core characteristic of entrepreneurship and an important criterion in the performance of an enterprise. In the entrepreneurial dimension, the focus is on the ability to create new combinations (Schumpeter, 2006 [1939]), while the social aspect of social innovativeness remains an element of the social dimension. Multitudinous measurements have been developed with the aim of detecting innovative strength. However, many of them refer to customers' adoption of new developments, focus on the innovation capacity of regions or nation states (Krlev, Bund and Mildenberger, 2014; Bund et al., 2015), or regard innovativeness *a priori* to be a personality trait of an entrepreneur (Hurt, Joseph and Cook, 1977; Goldsmith and Foxall, 2003). For our purposes, the conception of *organizational innovativeness* is more appropriate. Moos et al. (2010: 1) define this as "the ability of a firm to continuously generate and implement innovations". When it comes to measurement, the authors distinguish between input and output orientations. While an input orientation refers to the ambition to search for new and novel solutions and to undertake ongoing research and development activities, an output orientation refers to the ability to *implement* innovative solutions, demonstrated by the existence of innovative services and products (Moos et al., 2010). Both the input and output aspects will be reflected in the operationalization of social innovativeness in Section 5.

The differentiation between the input and output orientations also guided the measurement of the *social dimension* of social innovativeness. We distinguished between the social mission of innovation processes and the social impact of innovative products and services. The social mission refers to the question of how much of the motivation behind current innovation activities is "to benefit the community" (Defourny and Nyssens, 2010: 43), as opposed to satisfying only entrepreneurial interests, and the ambition of social enterprises to effect social change with their innovation activities. While the social mission is an element of the input respectively process orientation, social impact is an aspect of the output respectively product orientation. On the one hand, social impact refers to the extent to which an implemented innovative service or product addresses the whole community and not just particular groups; on the other hand, it refers to social changes provoked by the service or product in a community or society. The process and output dimensions reflect the two groups of social innovation measurements identified by Antadze and Westley (2012) and Dainiene and Dagiliene (2016).

The *governance dimension* refers to the multi-stakeholder ownership of social enterprises and their information and monitoring rights (Defourny and Nyssens, 2010; Colenbrander et al., 2017). Of vital importance is the democratic involvement of stakeholders in strategic decisions. Adopting Colenbrander et al.'s (2017: 547) definition of a stakeholder—"anyone who effects or is affected by company's activities"—we considered internal (employees, members) and external stakeholders (local authorities, clients, members of rural communities), and investigated the extent to which both are involved in decision-making. Finally, participatory governance is a normative term as far as it is understood as an attempt to avoid hierarchical structures and making decisions over people's heads. Participatory governance lends a political dimension to the definition of social enterprises, thus complementing the social and entrepreneurial dimensions.

4. Methodology

The aim of the study was to uncover whether and how participatory governance affects the capability of social enterprises to develop and implement novel solutions to social challenges. A cross-case analysis was appropriate for investigating the relationship between participatory governance and social innovativeness in social enterprises. A qualitative analysis of a select number of cases would allow us to assess the relationship between the independent and dependent variables (participatory governance and social innovativeness, respectively) across cases and explore the causes of different patterns of relationships (Eisenhardt and Graebner, 2007). We applied the cross-case analysis as a causally analytical methodology, which "produces limited generalizations concerning the causes of theoretically defined categories of empirical phenomena… common to a set of cases" (Ragin, 1989: 35). A qualitative methodology was more suitable than a quantitative procedure because it would enable an in-depth analysis of the causes of relationships and the observation of actual practices of participatory governance and innovation processes, rather than basing the research on information about formal regulations and reported practices. Since stakeholder involvement and innovation ability are highly desirable concepts, there was a danger that statutory regulations and information given by social entrepreneurs in questionnaires would differ considerably from actual practices. Thus, to manage the problem of desirability, we used participatory observations and collected qualitative data in ethnographic field studies.

We selected four cases of social enterprises and their respective regional environment. As compared to using only one or two cases, four cases provide a better empirical knowledge base for a cross-case analysis (Richter, 2017). The main selection criterion was the legal form of the enterprise. Social enterprises are not a homogeneous group of organizations with only one possible legal status; they have a variety of organizational characteristics and legal forms (Defourny and Nyssens, 2017). Choosing case enterprises with different legal statuses enabled us to vary the type and degree of stakeholder involvement because legal forms correspond with differences in stakeholder participation. Furthermore, selecting social enterprises with different legal statuses would mean varying the independent variable (stakeholder involvement) and observing whether differences in stakeholder involvement correspond with differences in the social innovative strength of social enterprises (dependent variable)—that is, whether patterns of relationships appear. Among the four selected social enterprises, two had the legal status of cooperatives, one of a limited company with charity status, and one of a foundation (see Table 1). Apart from this, the selected organizations were supposed to be social enterprises in the broad sense of being independent organizations pursuing social goals by entrepreneurial means. The social enterprises are located in Mid-West Ireland, Northeast Poland, Upper Austria, and Central Greece, thus representing the social enterprise approaches in different parts of Europe. While the Irish and Polish enterprises operate in the field of regional development, the focus of the Austrian enterprise is on technology education, and that of the Greek enterprise on new products and methods in agriculture.

The research was part of an EU-financed research and training project carried out between February 2016 and March 2018. During long-term field trips, a group of researchers including the author investigated the functioning of the four social enterprises. The field research included participatory observations of everyday practices and of key events, such as team gatherings and board meetings. The observations were constantly documented with the help of field notes. Apart from observations, we conducted expert interviews with managers and internal and external stakeholders, such as employees, members, clients, local authorities, and members of rural communities. Additionally, we collected documents, such as charters, bylaws, and strategy papers, which were of particular value in terms of providing factual knowledge. In total, we collected and analysed 50 qualitative expert interviews, 111 pages of field notes, and 27 documents across the four case studies (see Table 1).

Table 1. Overview of the four case studies and the collected empirical data

Case study	Legal status	Location	No. of expert interviews	Pages of field notes	No. of analyzed documents
SE 1	Cooperative	Upper Austria	11	32	9
SE 2	Cooperative	Central Greece	11	16	4
SE 3	Limited company with charity status	Mid-West Ireland	12	33	8
SE 4	Foundation	Northeast Poland	16	30	6
		Total:	50	111	27

Governance arrangements were determined by way of participatory observations, expert interviews, and document analyses, while social innovativeness was investigated via participatory observations and expert interviews. The expert interviews assisted in consolidating observations and filling information gaps where organizational practices could not be immediately observed. The interview guidelines helped the interviewer ensure that the relevant topics were mentioned, while leaving room for taking different paths and addressing additional topics raised by the interview partners. The guidelines consisted of topical blocks with initial open questions, such as "How are decisions made at your organization?" and "How do you develop new ideas, offers, and products?". If the initiated narration did not address further relevant topics, more detailed questions were raised, such as "In how far are stakeholders involved in decision-making processes?" or "Who has the right to make decisions?". Interviewing persons with different roles, and potentially divergent perspectives, allowed us to countercheck information and strive to obtain data that represent the diversity of perspectives.

The analysis of the empirical data was executed in three steps. First, each case was reconstructed separately with regard to the characteristics in question. The picture was successively completed by uncovering relevant information and evidence from the collected documents, field notes, and interview transcripts. In this way, the findings could be counterchecked and consolidated by means of different empirical sources. Second, the cases were compared along the relevant dimensions. Here, the focus was on identifying patterns of relationships between participatory governance and social innovativeness. In the third step, an in-depth analysis of the empirical material was undertaken to find empirical evidence of underlying causes explaining systematic variations in social innovativeness depending on the type of participatory governance.

5. Results

This section presents the results of the analysis, starting with the *formal* governance regulations of the four social enterprises, then moving on to governance *practices* involving stakeholders in the decision-making, and concluding with the capacity of social enterprises to develop and implement social innovation solutions.

5.1 Formal regulations of stakeholder participation

Each of the social enterprises has chosen a legal status that allows for the participation of different types of stakeholders in the decision-making. SE 1 and SE 2 have the status of cooperatives, and they involve their members in entrepreneurial decisions. SE 3 is a limited company with charity status, and SE 4 is a foundation. Both SE 3 and SE 4 possess supervisory boards, which are supposed to guarantee the participation of several stakeholders. While in SE 1 and SE 2, the central stakeholders are part of the organization itself, in SE 3 and SE 4, stakeholders come from the environment of the organization and involve community groups, local and regional authorities, and business communities. The organizations also differ in terms of the involvement of employees. In SE 1, the members are both employ*ers* and employ*ees*. As such, they are fully involved in all important decisions. A degree of participation is also envisaged for the employees in SE 4, who have a representative on the executive board. In contrast, SE 2 and SE 3 do not grant their staff members any formal decision-making rights.

In most of the organizations, stakeholder participation is limited to fundamental decisions, such as changes in statutes and decisions about strategic plans or substantial investments, while decisions about regular operational issues are the responsibility of the management team. This is supposed to ensure that the stakeholders' interests are respected and the decisions are made effectively and with high expertise. However, SE 1 is an exception regarding the delegation of operational decisions to management. In this cooperative, the 14 members decide about operational issues collectively. More specific topics, such as human resources development or public relations, are delegated to internal sub-groups, but not to external management. This circular method is part of SE 1's "sociocratic governance" model. Another characteristic of this model is that decisions are made on consensus (i.e., only if all members agree). This is supposed to prevent decision-making processes from producing winners and losers, and to strengthen the cohesion of the group. In the other three social enterprises, decision-making bodies decide on the basis of a simple majority. Every cooperative member in SE 2 and board member in SE 3 has one vote, while on the executive board of SE 4, the votes are weighted. There, the executive officer has 50 percent of the voting power, while the other half of the voting power is equally distributed among the representatives of the employees and external stakeholders (see Table 2).

5.2 Participatory governance in practice

On the basis of the formal organizational structures, it could be concluded that the social enterprises intensively involve stakeholders in their decision-making processes. However, it is known that with organizations, actual practices may differ from the formal structure (Scott and Davis, 2007; Preisendörfer, 2016). For example, the formally declared involvement of stakeholders in decision-making might be bypassed in practice in order to act faster and be more flexible. Since the analysis of the interrelation between participatory governance and innovative power requires an understanding of the actual practices, rather than ideal regulations, we reconstructed and assessed the extent of the stakeholders' participation in decision-making as an actual practice.

At SE 1, we observed discrepancies between the governance practices and the high standards imposed by the sociocratic governance model. Decision-making under equal conditions is partly undermined by informal groups among the 14 members and employees, where members exclusively share information and opinions, which can influence the final decision-making, even though the consent procedure avoids bigger disruptions. Even more influential is the founder of the enterprise, who can be regarded as a *primus inter pares*. While formally having the same rights as every other member, he exerts his influence by setting topics on the agenda and by exercising more authority in discussion rounds. Apart from these minor limitations, the governance model of SE 1 ensures that its members and employees enjoy a high degree of participation ("*Sociocracy means joint governance. […] And that's how we live it.*"[1]). However, participatory governance is limited to a small group of member-employees and does not extend to local or regional stakeholders.

In SE 2, an in-depth observation of governance practices revealed greater risks for participatory

1 Member of SE 1, interviewed by the author, March 10, 2016.

governance, due to the different interests of management on the one hand, and the majority of the members on the other hand. While the executive officer argued for the expansion of the organization, for taking loans, and for investing in better production facilities, the members of the cooperative avoided taking credit and preferred slow expansion. This resulted in tensions between management and members and in the members' reduced involvement in operational decisions and strategic planning. However, the solo attempts of the manager cease where the statute of the cooperative ensures participatory rights and democratic decision-making. The 70 members are determined to make use of their rights—not least because "*Greece is the birthplace of democracy*"[2]. There exists a lively discussion culture and a board that strives to balance between the members and management. External stakeholders, such as local authorities, are not formally involved, but decision-makers from these bodies are among the 70 members, thus maintaining contact between the organization and the local and regional governments.

In SE 3, the involvement of stakeholders from the organizational environment is crucial for everyday practice. The management regularly consults the board and maintains trustful relationships with board members. Moreover, the management involves board members not only in the final decision-making but also throughout the decision-making process and in the identification of needs and wants ("*Our board structure made a lot of very strong sub-committees [...] and that strategy sub-committee. You're evolving from what you're listening to, you know, what are communities' needs.*"[3]). This joint governance arrangement is meant to provide the organization with legitimacy and relieve the management of burdens that the enterprise is facing. The 40 employees, however, are less involved. They are informed at regular team meetings, but do not participate in the development of strategic plans or final decisions.

The case of the largest gap between formal governance arrangements and actual practices was observed in SE 4. While governance bodies, such as the board of stakeholders and the executive board, fulfil their statutory duties, the actual decision-making power is concentrated in the hands of the chief executive officer, called "president" in Poland. The president develops strategic plans, puts topics on the agenda, and makes internal and external stakeholders follow his ideas. The president can be regarded as a charismatic leader, who infects people with his visions, resoluteness, and courage ("*He has always found people that follow him. And everyone has fulfilled his or her role properly.*"[4]). Other stakeholders besides the charismatic leader have little aspirations to exert an influence on the enterprise. They fully trust his competence and shaping power ("*He gives us jobs, he gives salaries. What more could we want?*"[5]).

[2] Members of SE 2, interviewed by the author, March 14, 2017.

[3] Executive manager of SE 3, interviewed by the author, April 28, 2016.

[4] Representative of a local partner organization of SE 4, interviewed by the author, February 15, 2017.

[5] Staff member of SE 4, interviewed by the author, January 23, 2017.

Table 2. Formal regulations and actual degree of participatory governance in social enterprises (qualitative scale of participation reaching from no participation to a low degree, moderate degree, and high degree of participation)

Criteria		Social enterprise case study			
		SE 1	**SE 2**	**SE 3**	**SE 4**
Formal regulations	Legal status	Cooperative	Cooperative	Limited company with charity status	Foundation
	Stakeholders involved	Members, employees (internal)	Members (mainly internal)	Local communities, public authorities, business community (external)	Local and regional authorities, business club, NGO, employees (internal and external)
	Decision-making procedures and bodies	Decisions made on consensus in the coordination circle; no external delegation of decisions	Majority decisions on the board and the general assembly (one member, one vote); operational decisions delegated to management	Majority decisions on the board; operational decisions delegated to management	Operational decisions delegated to executive board; weighted share of votes on the executive board
Participatory governance in practice	Degree of participation of stakeholders **from within the organization**	**High degree of participation** (Sociocratic governance model ensures high level of participation among the member-employees, although the intensive exchange between core members evokes discrepancy between ideal and practice)	**Moderate–high degree of participation** (Reduced involvement of members in operational decisions and strategic planning; However, members defend democratic rights when it comes to principal decisions)	**Low degree of participation** (Employees get informed, but are not involved in decision-making)	**Low degree of participation** (Little aspirations of employees to exert an influence on decisions)
	Degree of participation of stakeholders **from the organizational environment**	**No participation**	**Low degree of participation** (Several local and regional decision-makers are ordinary members of the cooperative)	**High degree of participation** (Close coordination between stakeholders on the board and management)	**Moderate degree of participation** (Stakeholders trust the charismatic leader and delegate responsibility)

Table 2 summarizes the results of the participatory governance analysis. While the upper part of the table provides information on formal governance arrangements, the lower part shows the actual degree of stakeholder participation as determined by means of on-site observations. The comparison of formal governance arrangements revealed that social enterprises—depending on their legal status—either involve internal or external stakeholders, but rarely both. The different relevance of internal and external stakeholders made it advisable to assess the degree of participatory governance separately for the two groups. The assessment confirmed the inverse proportion of stakeholder participation from within the organization and from the organization's environment. While the two cooperatives (SE 1 and SE 2) involve members and employees in the decision-making, external stakeholders are not at all involved (SE 1) or involved to a limited extent (SE 2). By contrast, the enterprise with charity status (SE 3) and the foundation (SE 4) invite local authorities and communities to participate, but rarely employees or members.

5.3 Social innovativeness of social enterprises

How well do social enterprises succeed in developing novel solutions to social challenges—that is, how strong is their social innovativeness? To answer this question, a set of indicators was developed that was founded in the theoretical thoughts explicated in Section 3. All in all, social innovativeness was captured by four qualitative indicators—two measuring the innovative strength and two the social dimension. Innovativeness was distinguished as input and output orientations (Moos et al., 2010). In the input orientation, innovativeness is articulated in the ambition of social entrepreneurs to search for the new and the better and in the extent of present research and development activities, while the output orientation refers to the proven ability to implement innovative services or products. For the social dimension, we investigated, first, the extent to which current innovation activities address the community and aim to contribute to social change and, second, the social impact of existing services and products. Altogether, the four indicators are defined as follows:

1. Ambition to search for new and better solutions and current research and development activities (innovative spirit);
2. Proven ability to implement innovative services or products (proven innovativeness);
3. Motivation to counteract social challenges and foster social change (social mission);
4. Relevance and impact of existing innovative services or products in communities (social impact).

Subsequently, it will be demonstrated how each of the four social enterprises align with the four indicators. At the end of this section, the results will be summarized in a qualitative assessment of social innovativeness (see Table 3).

The outstanding innovation of SE 2 is that the cooperative was among the first in Europe to cultivate and process a new field crop. With this product innovation, SE 2 ensures the survival of small family farms suffering from the collapse of the tobacco market and the ongoing economic crisis in Greece. In terms of actual economic *and* social innovation, SE 2 succeeded in covering the whole value chain until the final product, rather than only producing raw products. This led to a change in the mind-set of the farmers toward more entrepreneurial thinking and acting. Until today, SE 2 pursues many innovation activities. The farmers are constantly experimenting with new cultivation methods and the management develops new final products and ways of marketing. However, regarding the innovative spirit, we observed some discrepancies between the management and the members. While the former showed a remarkable future and opportunity orientation, the latter were torn between great hopes and a strong aversion to risk. The cooperative defines in its statute the goal of contributing to the sustainable social and economic development of the region[6]. Apart from this, in practice, societal goals did not seem to be a priority. When the interview partners were asked about the aims of the cooperative, references to the success of the organization and its products prevailed[7].

Since 2010, SE 1 has operated open technology laboratories in rural regions to provide space for experimenting, acquiring skills, developing new ideas, and meeting creative people. The rural open laboratories, which had previously existed mostly in bigger cities, expanded and can be found today in more than 20 locations in different European countries. With the rural open laboratories, SE 1 follows the social mission of attracting young and ambitious people to live in the countryside to counteract the brain drain that many rural regions are facing. However, the open laboratories address select groups of creative people, rather than whole communities. Another social goal is to develop meaningful forms of work according to the motto "*let joy in, leave pressure out*"[8]. In order to fight alienation from labour, SE 1 developed the new organizational model of the self-employment cooperative. The innovative spirit is not limited to the open laboratories and new organizational forms. We observed an ongoing process of developing new projects and testing ideas. The members of SE 1 are forward-looking and curious about new developments. Crossing sectoral and geographical borders and collecting ideas in different contexts is part of their everyday work.

The central innovative project of SE 4 is a theme village—a traditional settlement and open-air museum—where school classes, tourists, and local people are invited to learn about traditional rural life and handicrafts. The theme village provides income from tourism in a mono-structural region shaped by agriculture, and it employs people with low job prospects and mental disabilities. The theme village was among the first developments of its kind in Poland, and it became a role model for many similar projects. We observed constant efforts to implement new ideas in the theme village and its surroundings, such as the establishment of an office for industrial design and a restaurant that uses fresh vegetables from an adjoining garden. From an outside view, the

6 Statute of SE 2, June 21, 2012.

7 Interviews with members of SE 2 on May 11, 2016, March 14, 2017, and April 1, 2017.

8 Member of SE 1, interviewed by the author, March 10, 2016.

novelty of the projects might not always be evident. However, in the context of the structurally weak rural region in Northeast Poland, many initiatives of SE 4 have been new and have inspired further developments. Interview partners constantly complained about the passivity, indifference, and scepticism of the local people ("*People here have a defensive attitude […] and a little bit of fear. We are afraid of new things*."[9]). Against this backdrop, the social mission of SE 4 is to activate the people and foster the socioeconomic development of the region. The innovative spirit is very much bound to the president of the foundation. He is characterized by creative thinking ("*The fantasy of the president is only limited by the sky*"[10]), enthusiasm, and tremendous assertiveness ("*moreover, this willingness to try something new, without the scepticism that this will not succeed*"[11]).

The novel approach of SE 3 is a holistic program for empowering rural communities. With the help of SE 3, communities are put in a position to create and implement their own development strategies from the bottom up. Once a community has created ideas and plans, the social enterprise seeks appropriate funding opportunities and supports the communities during the application process. While projects are usually developed in accordance with the criteria of funding schemes, SE 3 encourages communities to proceed the other way around: to first identify the needs and wants, and then seek suitable funding possibilities. This way, SE 3 enables self-help in a country that has largely transferred the responsibility for the provision of common goods and services in the "rural hinterland" to private organizations and the civil society. The social mission of the enterprise is to strengthen communities, improve social inclusion, and foster entrepreneurial activities. However, apart from the community development model, the innovative spirit of SE 3 is rather limited. The enterprise feels little responsibility for developing new ideas, seeing this as a task of the communities. Cuts to a major funding scheme and recent changes in the statutory conditions are much debated in SE 3. A problem perspective prevails. Ideas for adjusting the business model to the changed conditions are rare, as are visions and plans for future products and services.

The results of the analysis are summarized in Table 3 separately for the degree of organizational innovativeness (as part of the entrepreneurial dimension) and the social benefit of the innovative activities (social dimension). The results show that the social enterprises meet both criteria to a different extent. Patterns of relationships between innovativeness and social impact are evident. While social enterprises with high innovativeness tend to achieve less social benefit, enterprises with a strong social impact and mission tend to perform less well in terms of innovativeness. Possible reasons for this outcome will be discussed in the next section.

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9 Representative of a local partner organization of SE 4, interviewed by the author, February 15, 2017.

10 Staff member of SE 4, interviewed by the author, January 23, 2017.

11 Representative of a local partner organization of SE 4, interviewed by the author, February 15, 2017.

Table 3. Social innovativeness of social enterprises (qualitative scale reaching from no innovativeness/social benefit to low, moderate, and high innovativeness/social benefit)

Criteria	**Social enterprise case study**			
	SE 1	**SE 2**	**SE 3**	**SE 4**
Innovative spirit	Forward-looking, curious, border-crossing, ongoing process of developing new projects and testing ideas (high)	Discrepancy between opportunity-driven management and risk-averse members; experimentation with new cultivation methods (moderate)	Problem perspective prevails; no visions for future development; little impetus to develop innovative solutions (none)	Creative thinking, enthusiasm, and high assertiveness (president) vs. lack of innovative spirit (staff) (moderate)
Proven innovativeness	Rural open laboratories are an acknowledged and widespread process innovation (high)	Outstanding product innovation; covering the whole value chain (high)	Approach implemented several times; moderate originality (moderate)	Theme village became a role model; relative innovativeness (moderate)
Innovativeness	**High**	**Moderate–high**	**Low**	**Moderate**
Social mission	Mission to counteract rural brain drain and establish meaningful forms of work (high)	Social goals beyond the wellbeing of the members not a priority (low)	Strengthening communities, social inclusion, and entrepreneurial activities have priority (high)	Activating people and fostering regional development as a central motivation (high)
Social impact	Selective social impact (low)	Impact on members' families more so than on the region (low)	Considerable impact on rural communities; offering self-help (high)	Gains impact the region rather than the local community (moderate)
Social mission and impact	**Moderate**	**Low**	**High**	**Moderate–high**

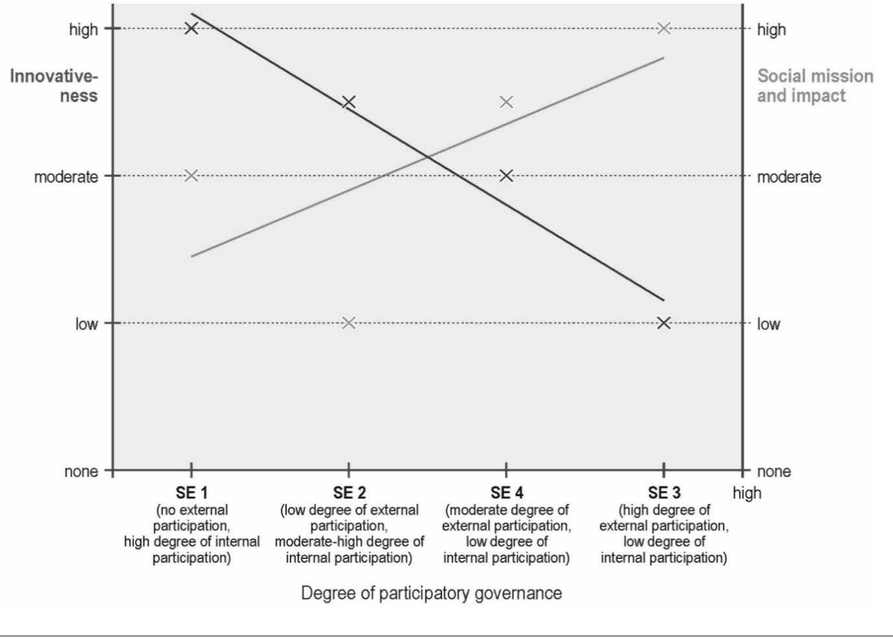
6. Discussion

A first step in the discussion of the guiding question—"How does participatory governance enable or limit social innovativeness in social enterprises?"—is to visualize the separate results in a diagram. Depicting the developed scales and results in a diagram clarifies the relationship patterns. In Figure 2, the degree of participatory governance marks the x-axis, whereby it applies that the degree of participation of external stakeholders increases from the farthest left case (SE 1) to the farthest right case (SE 3), while the involvement of internal stakeholders decreases between these poles. The y-axis on the left represents the innovativeness scale and the y-axis on the right represents the social dimension. This way, the relationship between participatory governance and social innovativeness can be demonstrated for both innovativeness and the social dimension. Moreover, the relationships can be interpreted for internal and external stakeholders, since they are inversely related. Apart from the marked values, the diagram contains two regression lines illustrating the relationship between participatory governance and innovativeness (dark grey) as well as between participatory governance and the social dimension (light grey). However, the lines should not be misunderstood as providing statistical evidence. Rather, they are first indicators of relationship patterns, which need further consolidation.

The falling line in dark grey suggests that increased involvement of internal stakeholders, such as members and employees, is beneficial for the innovative power of social enterprises, whereas the strong participation of external stakeholders, such as local communities or authorities, would limit the innovative power. The opposing inclination of the light grey line indicates an opposite effect for the social dimension. While increased involvement of external stakeholders heightens the probability that the innovative activities follow social goals, rather than individual interests, strong participation of internal stakeholders makes social ambitions less likely. In other words, social enterprises with strong involvement of members and employees (in this study, the two cooperatives) show considerable innovative power, but tend to direct their efforts to exclusive groups, rather than to the whole community or region. By contrast, social enterprises with strong involvement of community members, local authorities, and other external stakeholders tend to show less innovative impetus, but they direct their efforts to social needs and wants, rather than to exclusive interests.

The beneficial role of internal stakeholders and the hindering effect of external stakeholders on organizational innovativeness contradict other assumptions, such as that the involvement of stakeholders produces a "system of innovation." Hence, the results require further justification.

Figure 2. Relations between participatory governance and innovativeness and participatory governance and social mission and impact



6.1 Why the involvement of internal stakeholders contributes to innovativeness, but is less socially beneficial

There are at least three reasons why the involvement of members and employees in the governance of social enterprises can be fruitful for innovative power: personal incentives through innovative efforts, flat hierarchies, and a favourable legal framework. First, the involvement of internal stakeholders in decision-making is often accompanied by a personal benefit from the success of the enterprise. Participatory governance makes members act like entrepreneurs, whose efforts to innovative are beneficial for both the enterprise as a whole and the stakeholder personally. In SE 2, for example, experimenting with new cultivation methods and increasing the agricultural production benefit the enterprise as well as the individual farmer. In contrast, the exclusion of internal stakeholders from decision-making and from the outcomes of the enterprise would undermine any incentive to contribute to the search for the new and the better.

Second, the participatory governance of internal stakeholders is often accompanied by flat hierarchies in the enterprise. The individual member or employee is less bounded by instructions and yet bears more responsibility for the organization. Feeling responsible for the enterprise and its outcomes inspires members and employees to more actively contribute to the search for new ideas and opportunities. This became visible in SE 1, where extremely flat hierarchies put the member-employee in a position of constantly seeking new solutions. The member group provides a fertile ground for discussing new ideas and it buffers risks that the search for innovative solutions implies. Conversely, strong hierarchies would keep members and employees in a dependent position and would make them delegate the responsibility for the enterprise and innovative action to the management or other decision-makers.

Third, flat hierarchies and personal incentives are underpinned by a legal status that supports the active role of the member or employee. In our cases, it is the legal status of a cooperative that appears to be beneficial for maintaining an entrepreneurial and innovative spirit among the members. It furnishes democratic rights to each member in the decision-making, it allows the members to participate in the distribution of outcomes, and thus ensures personal incentives and a degree of autonomy for each member.

A downside of the entrepreneurial spirit is that the motivation to produce socially beneficial results is thwarted by personal incentives. Social impact as a measure of the success of social enterprises threatens to be superseded by more exclusive interests, such as organization growth or making profits. Apart from individual incentives, the tendency to involve either internal or external stakeholders appears to be another explanation for the limited social benefit of internal stakeholder participation in social enterprises. Where no stakeholders from an organization's social environment safeguard the interests of communities, the self-motivation to contribute socially beneficial outcomes might lose its binding character.

Nevertheless, the impact of internal stakeholder participation on the innovative strength of social enterprises underlines the importance of focusing the discussion about participatory governance not only on external but also on internal stakeholders. Our case studies suggest that cooperatives especially benefit from the innovative spirit of their members, thus multiplying the effect of searching for new ideas and opportunities. At the same time, it levels the influence of the dominant business leader. However, the importance of group and individual interests in social enterprises with internal stakeholder participation bear also the risk of losing sight of socially beneficial outcomes.

6.2 Why the participation of external stakeholders tends to limit innovativeness, but is socially beneficial

The reasons for the limited innovativeness of social enterprises with external stakeholder participation can be the redelegation of responsibility from the enterprise to communities and authorities as well as stakeholder interests, which prevent thinking out of the box. In the first case, the social enterprise acts at arm's length of external stakeholders, such as local communities or regional authorities. Even if the enterprise is formally autonomous, it regards itself as being bound to the stakeholders' needs and wants. As executor of the stakeholders' will, the enterprise does not regard it as its own task to develop novel solutions, instead expecting the stakeholders to identify the respective needs and expectations. However, the stakeholders can hardly compensate for the innovative spirit of an enterprise because, as voluntary or delegated board members, they lack time, know-how, and often also sufficient motivation. SE 3 shares many characteristics with the *arm's-length model of participatory governance*. Its management has little incentive to search for new products or services because it is safer to implement delegated tasks than to invest in risky innovation with unclear outcomes.

In the second case, the participation of external stakeholders can result from the social enterprise's search for advice, legitimization, and support. Following a request by the social enterprise, external stakeholders send representatives to a board that legitimizes and advises, rather than controls, the social enterprise. This *advisory model of participatory governance* has much in common with SE 4. The foundation operates largely autonomously. Unlike in the arm's-length model, the executive manager has room for developing and implementing novel ideas. The enterprise benefits from the expertise, information, and contacts of the external stakeholders and gains legitimacy from the involvement of public authorities on the board. However, external stakeholder involvement is less beneficial in the search for new ideas and opportunities, because those stakeholders tend not to follow the interests and logics of social enterprises. As representatives of communities or local authorities, they aim to persuade the enterprises to meet the communities' needs and expectations. The implementation of expectations, however, is detrimental to innovation because innovativeness means deviation from established practices and mind-sets. Moreover, stakeholders from communities and authorities share the same regional context and tend to lack broader views. Instead, contacts to supra-regional networks and institutions on other spatial scales turn out to be more helpful for the manager when it comes to identifying new trends and opportunities (Richter, 2017).

All in all, the participation of external stakeholders in social enterprises is ultimately less beneficial for innovative strength as one would assume by following the "system of innovation" approach. This becomes obvious in the arm's-length model of participatory governance, in which the responsibility for seeking novel solutions is partly redelegated to communities. In the advisory model of participatory governance, the involvement of external stakeholders serves to legitimize and realize the activities of the social enterprise, even though the involvement of stakeholders from the local environment reinforces the prevailing situation, rather than providing inspiration for change. However, this is not to say that the involvement of external stakeholders is needless. Local stakeholders are important for identifying needs and wants, while stakeholders from supra-regional networks and other sectors surely can enhance the innovativeness of social enterprises (Lang and Fink, 2018). Not least, the involvement of external stakeholders have a binding character for socially beneficial outcomes, as demonstrated in the cross-case analysis.

7. Conclusion

The starting point of the paper was asking how participatory governance is reflected in the social innovativeness of social enterprises. According to the EMES school of social enterprise research, the participation of stakeholders is an important characteristic of social enterprises and distinguishes them from many commercial businesses. Such a collaborative form of decision-making, however, seems to collide with the development of innovative solutions, which in the classical understanding of Schumpeter is bound to the creativity and independence of the entrepreneur. Does collaborative decision-making in social enterprises hamper the development of innovative solutions or do social enterprises rather benefit from participatory governance, as other scholars have argued? This guiding question was explored by means of a cross-case analysis of four social enterprises.

The results suggest that participatory governance in social enterprises is a Janus-faced phenomenon. It appears to be beneficial when participatory governance includes internal stakeholders, such as members of a cooperative or employees. Collaborative decision-making, then, goes hand in hand with a shared responsibility for the enterprise. Members and employees participate in the search for new ideas and opportunities and contribute to fostering a vital innovation culture, where new ideas are jointly developed and risks are shared. The innovative strength of the enterprise is no longer dependent on the innovative spirit of a single entrepreneur, even though the results indicate that charismatic leaders remain important. At the downside of the involvement of internal stakeholders, however, is a weaker attention for achieving socially beneficial outcomes. Personal incentives threatens to supersede the motivation of generating social impact by more exclusive interests. In contrast, participatory governance is more advantageous for the social impact and less beneficial for the innovative power of a social enterprise when the involved stakeholders come from the environment of the enterprise. External stakeholders, such as local communities, regional authorities, or representatives of the business community safeguard the interests of communities, help to legitimize the activities of a social enterprise, and ensure local embeddedness and support, but they are less useful when it comes to identifying new trends, ideas, and opportunities. As representatives of communities and local authorities the interests of the external stakeholders are less directed towards the development of the social enterprises and their ability to develop novel solutions but on how social enterprises can support communities and municipalities. Moreover, the close involvement of external stakeholders can lead to an inverse delegation of responsibility from the management to the stakeholders, as was observed in one case. The social enterprise, then, is reduced to an arm's-length organization of stakeholders, stifling the innovative spirit.

Overall, the results of this study reveal that participatory governance in social enterprises is not valuable per se but deserves more careful consideration. In particular, it was useful to distinguish between stakeholders from within the organization and stakeholders from the organization's environment. Both internal and external stakeholders affect and are affected by the social enterprise, but the extent of personal involvement and the effect on the innovativeness and the social impact differ remarkably. Apart from this, the findings underline the importance of devoting more attention in the social enterprise research to the capacity of social enterprises to develop innovative solutions and foster social innovation (Fink, Lang and Richter, 2017). Creating innovative solutions is not only a core competence of the entrepreneur in the tradition of Schumpeter but also characterizes the majority of the investigated enterprises. In more analytical terms, it would be useful to enhance the EMES model so that the entrepreneurial dimension would additionally encompass the subcriterion "innovative spirit and proven innovativeness" and the social dimension "social mission and social impact". Moreover, the capacity to develop innovative solutions to social challenges is an important asset of social enterprises when it comes to legitimizing the social enterprise approach in comparisons between commercial enterprises and traditional public service providers. The latter are either innovative or social, while social enterprises aim to be both.

Like every study, this research faced limitations. Although the four cases, with their different operational fields, legal statuses, and statutory frameworks, represent the diversity of "the 'galaxy' of social enterprises" (Defourny and Nyssens, 2017: 2494), the findings require consolidation by means of further studies. Beside the type and extent of participatory governance the presented case studies differ in their cultural and institutional environments and their fields of activities. This offers further explanations for the observed variations in the social innovativeness of social enterprises which could not be fully controlled. Thus, it would be worth to replicate studies on the relationship between participatory governance and social innovativeness while keeping controlled more independent variables. Overall, the EMES model of social enterprises is an excellent starting point for investigating social enterprises as a distinguished type of organization. However, it requires further elaboration to make it become a more useful approach for investigating how social enterprises contribute to social innovation. This study points towards possible ways of addressing it.

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