Social Enterprise in Germany: Understanding Concepts and Context

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As intermediary products, ICSEM Working Papers provide a vehicle for a first dissemination of the Project’s results to stimulate scholarly discussion and inform policy debates. A list of these papers is provided at the end of this document.

First and foremost, the production of these Working Papers relies on the efforts and commitment of Local ICSEM Research Partners. They are also enriched through discussion in the framework of Local ICSEM Talks in various countries, Regional ICSEM Symposiums and Global Meetings held alongside EMES International Conferences on Social Enterprise. We are grateful to all those who contribute in a way or another to these various events and achievements of the Project.

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INTRODUCTION

The term “social enterprise” appeared in Germany for the first time in the 1990s in the context of transnational research projects initiated with the help of the European Commission (DG XXIII: Social Economy). But only a small group of researchers participated in these projects, which can explain why research concerning social economy and social enterprises in Germany is still at an early stage. Hence, research and studies tend to focus on defining the “boundaries” and building a common and widely accepted understanding of terms, limitations and underlying concepts.

Although the terms social economy and social enterprise are not legally defined nor understood in detail in Germany today, various organizations exist, which work according to business principles, but aim for the greater common good rather than for individual gain. Some of them can look back on a history of more than 150 years. They exist in a wide variety of forms, which emerged for different reasons, in different times and contexts, with different organizational structures, and on the background of different philosophies or traditions. Furthermore they do not act or see themselves as something like a coherent “social economy sector”, but are organised in separate groups or “families”, with different identities, institutional and legal frameworks, research, development, education and training organizations etc. Therefore, we cannot build on a coherent general “social enterprise debate” in Germany; the debate is split and takes place — with some few exceptions —mainly within these groups or families.

For the purpose of this contribution we will therefore outline the main discussion lines, based on the development of a wide range of groups or families of what could be considered social enterprises according to the criteria underlying the ICSEM project. We will discuss the explicit use of the notion in relation to the general policy, legal and finance-related environment as well as the institutional landscape and the socio-economic and social policy context. We will analyse the major conceptions having emerged in literature and research so far and seek to outline the topic in relation to other concepts. Finally, we will discuss the interest of public authorities and their underlying conceptions.

1. THE SOCIAL ENTERPRISE DEBATE IN GERMANY

When the term “social economy” appeared for the first time on the European Union agenda, in the early 1990s, it was necessary to find out what it could mean in the German context. The term was derived from the French “économie sociale” which was well-established in France and included cooperatives, mutual societies, associations and foundations (the then so-called “CMAF-family”). As the respective legal frameworks vary considerably from country to country, this typology could not be transferred to all other European countries. The literal translation of the term into German caused a lot of misunderstandings as the term Sozialwirtschaft was (and still is) used in Germany only for—public as well as private—enterprises/institutions offering social services. It is understood as a part of the German welfare system and related to the schools/professions of social work/social pedagogies, and therefore often not really seen as a part of the economy.

The term “social enterprise” appeared later; its emergence is possibly linked to the Italian “social co-operative” movement and to the works of the EMES network, which proposed a definition with a social as well as an economic dimension. This term seemed to be more
appropriate and appeared in the middle of the 1990s on the German agenda as *Soziale Betriebe*. However, it was used more or less only in the context of employment measures, corresponding to what was called, in other countries, “work-integration social enterprises” (WISEs). The term *Sozialer Betrieb* (with some variations) had even become a legal status in the late 1990s in some German Länder (for example in Lower Saxonia), but fell into oblivion with the failure of the concept a few years later (see Birkhölzer and Lorenz 1998, published in English in Spear et al. 2001).

In fact, the term “social enterprise” appeared at first on the European agenda as an instrument in the fight against unemployment, poverty and social exclusion. In this context the European Network for Economic Self-Help and Local Development (founded in 1992) carried out a number of transnational projects (see references) to understand the nature and impact of such “social enterprises” and came up with the following operational definition, which went beyond legal or institutional frameworks (see European Network 1997, further developed within the CONSCISE project 2003):

- A social enterprise is a private economic activity (according to private law) that aims to achieve social and/or community-oriented objectives.
- It emerges from voluntary initiatives and organisations of citizens who feel affected by and organise around conflicts and/or unmet needs in the social, ecological, cultural and/or economic sphere.
- Its economic objectives are subordinated (or at least secondary) to its social and/or community-related objectives.
- Its economic activities are based on collective, co-operative or community-based entrepreneurship.

These criteria are quite similar to the EMES criteria, as they also have an economic as well as a social and participative dimension—the only significant difference lies in the requirement for the existence of paid jobs in the EMES criteria, as some case studies of German social enterprises identified organizations set up and run by volunteers only. These criteria are also more or less compatible with the legal frameworks of social enterprise in Italy and in the UK, and with the criteria proposed by the “Social Business Initiative” (SBI) of the European Commission.

At about the same time the concept of the “third sector” was introduced into German academic discourses by the International Society for Third-Sector Research (ISTR) ([http://www.istr.org/](http://www.istr.org/)) and its Johns Hopkins Non-Profit-Sector Comparative Project (see Anheier et al. 1997; updated by Priller et al. 2012). This concept was later taken up by another German project, called *Zivilgesellschaft in Zahlen* (ZiviZ; see ZiviZ-Survey 2012: [www.ziviz.info](http://www.ziviz.info)). Unfortunately, these two studies do not relate to the concept of “social enterprise” at all. They are mostly centred on societal and political issues, focusing on the “civil society” as a counterpart to the liberal state, and on its main elements, namely non-governmental organizations (NGOs) and non-profit organizations (NPOs). As the respective surveys in Germany could (so far) only draw on legal or institutional frameworks they were not able to distinguish between social and commercial entities or between active economic entities and non-economic ones.

Of course, there is a lot of overlapping: “social enterprises” are definitely organizations of the “civil society”. However, both terms, civil society organizations (CSOs) and third sector organizations (TSOs), constitute a broader set of organizations, as they also encompass, beside social enterprises, many non-economic activities. On the other hand, a considerable number of new activities, using more innovative legal frameworks, were initially not taken into
account in the debate (which incidentally seems to be true for a lot of other countries). Nevertheless, the results are very interesting, as ZiViZ identified 616,000 third sector organizations (mainly associations, followed by foundations and charitable companies) employing 2.6 million paid staff (ZiViZ-Survey 2012), which confirms that we are not talking about a “niche economy”.

Maybe even more confusion was produced by the introduction of the term “third system” (of Italian origin). The scope of this notion is delimited by the “first system” (i.e. private, profit-oriented economy) and the “second system” (i.e. state-governed, public economy); the “third system” is characterized as an economy with profit restrictions or as an economy “not-for-private-profit”. At that time the term became more or less synonymous with “social economy” (see the EU-programme “Third System and Employment”), and “social enterprises” in this context were understood as the overall term for all economic units out of which the “social economy” (or the “third system”) was composed; but again, it did not really clarify the problem of how to identify and measure such “social enterprises”.

Between 2000 and 2004 Technologie-Netzwerk Berlin e.V., together with its partners, was able to carry out a first national survey on behalf of the German Ministry of Education and Research (Birkhölzer et al. 2004). As there was (and still is) no overall accepted definition or legal framework for the “social economy” and “social enterprises” in Germany, the survey used the abovementioned operational definition, starting with the question of who had developed these economic activities, and what for, following the historic-dynamic approach introduced by Max Weber, who advises to understand societal phenomena out of their emergence and historical development. The following is mainly based on this survey, and will be debated in more detail by Birkhölzer in a separate paper (Birkhölzer 2015).

2. HISTORICAL BACKGROUND: EMERGENCE AND DEVELOPMENT OF “SOCIAL ENTERPRISES” IN GERMANY

Generally speaking, economic activities which meet the abovementioned criteria have never been established “from above”, but are the result of certain “social movements” aiming to intervene directly into the economic sphere (see Birkhölzer 2015).

At first, the survey could identify a group of older social economy movements, which date back to the early stages of industrialisation and have, of course, changed in character several times since them. This group consists of:
- co-operatives (Genossenschaften);
- welfare organisations (Wohlfahrtsorganisationen);
- foundations (Stiftungen) and
- traditional associations (IdeelleVereinigungen).

A group of younger social economy movements emerged since the 1960s and 1970s (in other European countries, often much earlier) alongside the new phenomenon of crises caused by transformation processes to a post-industrial society:
- integration enterprises, predominantly for the handicapped (Integrationsbetriebe);
- volunteer agencies and enterprises (Freiwilligendienste und -agenturen);
- self-managed enterprises of alternative, women and eco-movements (Selbstverwaltete Alternativ-, Frauen- und Umweltbetriebe);
- self-help initiatives (Selbsthilfeunternehmen);
- socio-cultural centres (Sozial-kulturelleZentren).
- work-integration enterprises, predominantly for the unemployed (Beschäftigungs- und Qualifizierungsgesellschaften);
- local exchange and trading systems (Tauschsysteme auf Gegenseitigkeit);
- neighbourhood and community enterprises (Nachbarschafts- und Gemeinwesenbetriebe).

The survey did not include a group of enterprises which was mentioned in the traditional EU-concept of the “social economy”, namely mutual insurance systems (Versicherungsvereine auf Gegenseitigkeit). These had played an important role in the 19th century, then being private law entities. Later they were incorporated into the German social security system which was set up by Bismarck (mainly for political reasons in the context of the fight against the socialist movement) and in the process were turned into public institutions. Until today, mutual insurance systems for retirement, health, social security (including unemployment benefits) assume a semi-public status (Sozialversicherungen according to Sozialgesetzbuch (SGB)). For the purposes of the study, private insurance companies, which exist alongside the semi-public system, were rated as rather commercial, and therefore not fulfilling the abovementioned criteria. But, if economic crises continue, this might be a new field of activity for “social enterprises” in Germany too.

With the exception of a steadily growing number of professionally governed welfare organizations, most of these groups or families did not call themselves “social enterprises”. Yet another group or family appeared during the last decades, which explicitly used enterprise or business terminology: social entrepreneurship initiatives/social businesses (no German translation).

The explicit use of the term “social business” by promotion institutions like Ashoka, the Schwab Foundation and others has considerably raised awareness about the concept of “social enterprise” and its innovative potential. But it also caused some confusion about whether the concept of “social entrepreneurship” should be restricted to the new start-ups only, because it would not be appropriate to the already existing types of “social enterprises” described above.

All these groups have established a considerable number of regional and national federations and networks, together with intermediary service structures including business services, education and training, etc. They mostly did this out of their own resources, and tailored the services to the special needs of their respective group or family. The acknowledgement in the academic world follows the same pattern: There are a number of university institutes for cooperative studies; the welfare organizations are mostly served by university departments for social work or social pedagogy; other schools deal with issues of foundations and donations, volunteering and citizens’ engagement, and just recently with “social entrepreneurship” or “corporate social responsibility” (see part 5).

Finally, some groups do not exist anymore. This is the case of the trade-union-owned part of the so-called Gemeinwirtschaft.

Gemeinwirtschaft, as a “common-good economic sector” (see also part 6), was actively promoted in the Weimar Republic, with interesting referrals to the French political economy (Will 2010, pp. 145-8). Its self-determination was, however, broken by the National Socialist tyranny, which gave the term a bad connotation after World War II. Just when it slowly regained popularity (Thiemeyer 1972, p. 131), the trade-union-owned part of it ran into trouble. Meant to be an “economy of solidarity” (Novy and Mersman 1991), this part consisted of a group of enterprises originally set up to safeguard the strike-fund (Streikfonds),
but with community-oriented objectives, including social housing, mutual insurance, consumer co-operatives as well as financial services (Bank für Gemeinwirtschaft). Yet, in the 1970s, the trade unions lost control over their enterprises, and closed them down or sold them off after some heavy scandals. This discouraged the use of the term; the trade unions in particular became very cautious in supporting anything similar.

The “social enterprise sector”—if it could be summarised that way for Germany—is rather diverse and complex, and if we went more into detail, this typology would possibly have to be differentiated into even more models.

3. CURRENT NOTION OF “SOCIAL ENTERPRISE” IN THE CONTEXT OF THE GERMAN WELFARE SYSTEM: SOZIALUNTERNEHMEN AND SOZIALWIRTSCHAFT

There is no legal acknowledgement of the notion of “social enterprise” (SE) as yet in Germany. The most explicit use of this notion in the country is made by “social entrepreneurship” promotion institutions such as Ashoka, the Schwab Foundation and others, which have not even translated the terms and use the English language terminology.

Several academic organizations in Germany are involved in sharpening the concept of SE, further employing various empirical means. In 2004 Birkhölzer et al. identified a huge number of entities fulfilling criteria close to those defined by the EMES International Research Network, and presented them in “families” (see above), based on historical reasons for existence, development pathways, geographic and social contexts, regardless of legal institutionalization. Other researchers as well as research institutions with core interests for example in social innovation, civil society entrepreneurship, cooperatives and NPO research have also become involved in SE-research from various perspectives and disciplines.

The major share of social and health services, work integration and child welfare is delivered in Germany by welfare associations (Wohlfahrtsorganisationen) and their federations, both using the legal form of not-for-profit associations (eingetragener Verein). These organizations are not exposed much to the term “social entrepreneurship”, and they usually react ambivalently to the concept. On the one hand, they have for some time become used to running their organizations along the lines of sound business management principles; they frequently call themselves Sozialunternehmen (Kühn 2010)—which, literally translated, means “social enterprise”—and they see themselves as part of the Sozialwirtschaft (BAMS 2006: 2), which again, literally translated, means “social economy”, although the term has a somewhat different meaning than its English counterpart. On the other hand, they are very wary of the consequences it might have in regard to their status within (European) public procurement law if they were to be considered as Sozialunternehmen in any formalized sense, because so far they are somewhat sheltered from full commercial competition by the Gemeinnützigkeit-status, as this gives them tax relief. However, their political importance is such that it is likely that they will have a major influence on any policies or law pertaining to “social enterprises” in the future. For this reason we shall explore their current situation a little further.
Although definitions of these German terms are debated, and even controversially disputed in Germany, we suggest the following meanings for the purpose of this paper:

**Sozialunternehmen** (literally: “social enterprise”): Understood as an organization producing social services, regardless of its legal form.

**Sozialwirtschaft** (literally: “social economy”): This term is used to describe those non-profit, for-profit and cooperative organizations which engage in the delivery of social services as described by the German Social law.

**Gemeinnützigkeit** (literally: “common benefit status”): This principle describes selfless, charitable behaviour for the common good. If an organization is recognized as gemeinnützig, it can benefit from many tax exemptions.

**Gemeinwirtschaft** (literally: “common economy”): In the institutional sense this term describes the entire German non-profit sector. As an economic principle, it describes all activities aimed at the common good, regardless of whether they are of a financial (transfer) nature or entail service provision.

The ambivalence within the German welfare delivery system is a result of several dynamics. Since quasi-market conditions have been introduced into social service delivery, in the early 1990s, delivery agents have increasingly professionalised their management (Wöhrle 2008). (At the same time, top-level strategic management and governance by the boards of these associations remains in many cases largely honorary.) For them the use of Sozialunternehmen und Sozialwirtschaft has been common for many years now, as can be seen in the names of their major professional journals (for instance Wohlfahrtintern – Das Entscheidermagazin für die Sozialwirtschaft). One particular context in which the term Sozialunternehmen is frequently used is that of quality management (www.awo.org/qm-zertifizierung/, accessed 23.12.2014). For the last fifteen years or so, the question of how far the “economisation” of social services is productive or whether it threatens a qualitative and humane way of social service delivery has been extensively discussed in the scientific community and popular sector journals (Wohlfahrt 1999; Limbrunner 2009; Buestrich et al. 2010). At the same time the sector recognises that it needs to acknowledge international debates on how to treat the social sector in national economic sector statistics (Liga der Freien Wohlfahrt Sachsen 2011).

Furthermore, the contemporary understanding of Sozialwirtschaft (encompassing mostly organizations acting under contract with the state) also includes organizations with a for-profit motive. This is especially the case in the field of care for the elderly; the trend is also increasingly spreading to the provision of childcare. The term excludes, however, a whole range of organizations not strictly supplying legally defined social services. It also excludes many organizations that, on account of their mix of social and economic objectives, would be called “social enterprise” elsewhere, namely self-help or common-good-oriented organizations lacking the status of Gemeinnützigkeit. And finally, it excludes all sorts of self-help and interest groups that have not been formalised and are thus seen as too weak for public commissioning; this is for example the case of Tauschringe or senior citizens cooperatives (Köstler 2006).

Also, since the concept of Sozialwirtschaft is so closely linked to Gemeinnützigkeit, most non-profits active in social service delivery and registered under the cooperative legal form remain so far on the sidelines. Indeed, some of them are reluctant to apply for Gemeinnützigkeit;

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**Little glossary on the major terms used in Germany**

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others find it hard to obtain this status because § 1 of the Cooperative Law states that cooperatives must, as their central objective, serve their members. Herein lies a distinguishing feature of the cooperative legal form that, for many tax authorities, constitutes an organizational “selfishness” which is in contradiction with the basic common-good idea of Gemeinnützigkeit. Many “social cooperatives” (Göler von Ravensburg 2013) also render services that are not included in any social welfare legislation, and they are thus not considered as gemeinnützig. Incidentally, not all forms of work inclusion are covered by the list of objectives defining this legal status (Bundesministerium für Justiz und Verbraucherschutz 2014: Abgabenordnung § 52).

However, in 2010/2011, the Federal Government initiated a stakeholder debate on civil society engagement which, drawing on the EU communication for an “ecology” of social enterprise (SBI 2011), also fuelled a debate on social enterprise in the internationally understood meaning. As a consequence of both debates, the national working group of the six largest welfare federations (Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege, or BAGFW) as well as the seasoned national forum of public and private welfare providers (Deutscher Verein für öffentliche und private Fürsorge, or DV), which gathers 90% of all public and private welfare delivery agents in Germany, claimed the status of “social enterprises” for all their member associations and companies. In its statement the BAGWF demands that the German concept of “social enterprise” include all their member organizations and, somewhat tentatively, offers cooperation with all “suitable social enterprises” (BAGFW 2012). Meantime, the DV warned against a debate on “social innovation” and “social entrepreneurship” with too close a relationship to cost efficiency, and advised to rather concentrate on high quality, good access and affordability of social services as well as inclusion of voluntarism and existing welfare organizations (DV 2012).

4. ENVIRONMENT FOR “SOCIAL ENTERPRISES” IN GERMANY

4.1. Political, legal and financing influences on SE

Several factors are currently influencing the environment of social enterprises in Germany. To begin with, there is some debate about citizenship and citizen engagement that may lead to a redefinition of the relationship between the market, the state and civil society in Germany. There is also a recent wave of civil-society-inspired entrepreneurial activity (e.g. in the energy sector)—even though this movement does not avail itself of terms which an international outsider looking on would easily relate to the social entrepreneurship debate (in other words, to options of social service delivery and civic engagement characterized by a business approach). Also, many municipalities can no longer afford to uphold certain infrastructure or services which they traditionally financed even though they were not obliged to do so (e.g. socio-cultural centres, as mentioned above, but also public swimming pools or sport arenas), thus opening up a space of action for social enterprises. The same applies in regions where structural unemployment is high (which has led to the emergence of community cooperatives and other new employment creation initiatives) or where demographic change has led to privately-owned infrastructure decaying and commercial activity dwindling to such a degree that the remaining population seeks to mitigate the situation with civil engagement strategies (e.g. by starting village shops or revitalizing pubs and railway stations in self-help initiatives of various kinds). These drives are aided by the recent upsurge in public awareness created by various “social entrepreneurship” promotion agencies such as Ashoka, Phineo, start social, the Schwab foundation, BonVenture, Grameen Creative Labs, Genisis and others (Glänzel et al. 2012; Scheuerle et al. 2013a). Still relatively new to Germany, they are looking for scalable,
innovative blueprints. However, they also support start-ups which imitate good ideas and strive to reposition in innovative ways existing non-profit organizations (NPOs) as well as “intrapreneurship” (Schmitz and Scheuerle 2012).

The societal climate concerning citizen engagement is changing, but the German “engagement culture” is still not so well developed, which of course has an influence on how social enterprises are perceived and appreciated and how likely individuals are to set up a social enterprise venture (Leppert 2008; Anheier and Toepler 2003). Closely related with this are cultural predispositions in Germany which tend to discourage social enterprises in three ways: Entrepreneurial failure is viewed particularly critically; entrepreneurial culture is not very well developed in comparison to other industrialised countries; and Germans are not overly affine to set up a business (Leppert 2008; Brix et al. 2010).

This said, there are some particular German opportunities for social enterprises which may lie in Germany’s energy policy (the Energiewende refers to the goal of eventually becoming independent from non-renewable sources of energy, which in turn provides opportunities for social enterprises active in energy, green tech, etc.) and in its relatively high per-capita income and economic strength (allowing consumers to buy ethically, thereby creating market opportunities for social enterprise ventures) (Kwan and Glänzel 2014; Scheuerle et al. 2013a).

The German philanthropic culture proves quite diverse as a source of support for social enterprises: Generally, Germans tend to donate relatively little (TNS Infratest 2011, chart 8). Yet, no one has so far established what portion of that goes into social enterprise ventures. And although there are fairly many high-net-worth individuals (HNWI) in Germany (World Health Report 2013, p. 4), be it for not knowing any better or because they believe that it is the duty of public coffers, quite few of them seem to support social enterprises. In other words, there might be an untapped potential here (Scheuerle et al. 2013a; Glänzel and Scheuerle [in press]; Glänzel et al. 2013).

Most importantly, however, Germany has a well-developed, largely publicly financed welfare system. This has grown into a highly complex institutional landscape with several features presenting obstacles to the development of more social entrepreneurship and social enterprises (Nock et al. 2013). Given their importance for the emergence of social enterprises, the most relevant peculiarities of current welfare provision shall be briefly outlined.

4.2. Institutional landscapes

Germany has a subsidiary system of welfare delivery whereby the state outsources service delivery to more than 100,000 organizations, most of them members of one or the other of six large welfare associations (Wohlfahrtsverbände). Their strength relies on two circumstances: first, the fact that they have developed over a long time, in some instances over several hundred years; and secondly, their status as gemeinnützig (charitable). Indeed, for traditional reasons, most organizations delivering social services hold the (tax-privileged) status of Gemeinnützigkeit (charitable status). This status is perhaps best described as a mixture of “not-for-profit” and “for the common good”. It has developed as a consequence of German social policy history: value-based organizations, such as church-linked “Caritas” and “Diakonie”, which had traditionally rendered social services to the populace, did not want to lose their independence from the state, when governments following Bismarck implemented new social law and new social rights, demanding new services as a consequence. So the subsidiarity principle, which the Catholic Church has re-emphasised ever since Pope Pius XI
published the encyclical *Quadragesimo anno* in 1931, became extended to constitute a major governance principle of social welfare. The state would set law (at the federal and state level) and make funds available (at the municipal or district level), while organizations of the so-called “non-statutory welfare” (*freie Wohlfahrtspflege*) did the actual work. These organizations were granted the status of *Gemeinnützigkeit* (*Abgabenordnung AO 1977, §52 (2), Abs. 9*), which in turn exempted them from income-related taxes. To the general public, this status became the mark by which an organization proved that it was a “non-profit organization” (NPO). By the social welfare authorities, this status came to be seen as a proof of worthiness and subsequently led to extended rights for such organizations to co-govern public social planning and allocation decisions.

Social organizations, however, frequently call themselves *freigemeinnützig* (*frei* meaning “free” in the sense of “independent”) in order to underline the importance that they give to the fact of being independent from the state in their decision making and governance. However, *Gemeinnützigkeit* (the charitable status) has two great disadvantages in terms of entrepreneurial activity: First, surplus generated has to be spent timeously (*zeitnah* as the law expresses this, i.e. within two years [*Abgabenordnung AO 1977, § 55 Abs. 1, Nr. 5*]), thus making long-term savings for future investments almost impossible. Secondly, the law describes specific activities which are deemed to be “for the common good”, but excludes a lot of activities which others might understand as being “for the common good” or “in the general interest”. Established, well-capitalised organizations dominate both the definition thereof and the activities themselves. Entry into these (quasi-)markets is difficult, and even more so since access often presupposes accreditation with local or regional government while contracts are frequently still allotted as a result of negotiations rather than tenders.

4.3. Economic and social policy environment

Despite their relatively “privileged” situation, most German welfare organizations have experienced increasing strain in the last decade. Output-oriented public financing tools and new contracting arrangements (so-called *Leistungsverträge*, *Leistungsentgelte*, *Leistungsvereinbarungen*, *Zielvereinbarungen* and others), certification of quality standards and the legal commitment by almost all relevant public institutions to stop public debt from growing are forcing welfare organizations to take serious strategic decisions and straining their managerial capacities (e.g. Brinkmann 2010, p. 247). This is not a time when the main welfare delivery agents would welcome additional “competition” for public finance. When read in the light of the dramatic overall changes in the governance of social services the official reactions to social enterprise by the BAGFW and the DV, their demands that the German concept of social enterprise include their member organizations as well as the careful offer of cooperation with all “suitable social enterprises” (see the last paragraph of section 3, BAGFW 2012, as translated by authors) become more understandable. At least, the concerted welfare sector acknowledges the importance of the new actors and—albeit tentatively—offers to play a role in their development.

At the same time policy makers and service delivery agents (mostly associations and limited-liability not-for-profit companies) at the local and regional levels, which have lived with steadily increasing social welfare budgets for many decades, are either not convinced that “social enterprise” is more than another word for privatization into the hands of for-profit interests (Skerutsch 2004; Heinze et al. 2013, pp. 339-40; Scheuerle et al. 2013a) or have not yet actively stated any position of their own (Fuchs 2013, p. 471). There are accounts of
various social enterprises encountering serious problems with municipal lethargy, bureaucratic procedure and (socio-)political blow (Fuchs 2013, p. 472; Heinze et al. 2013, p. 339-40).

German attempts at conceptualizing social enterprise do not usually stress structural, transformative or even political elements. It seems that the main issue in Germany is the delineation between existing social welfare organizations and new ones. One indication for this can be seen in the fact that although social law in several instances stipulates preference for small and new suppliers (e.g. the opening in SGB IX § 41), these are still discriminated against in several ways (Göler von Ravensburg 2013). The more market-oriented the new service suppliers behave, the more suspicion they also raise on the part of both professionals in the field of social welfare and care provision and the general public. Meanwhile, traditional welfare organizations carefully avoid public discussions of the economic aspects of their own activities, to the point where professionals of social work tend to neglect or even deny the need for economic considerations altogether. The fact that many social welfare agencies, and especially the church-linked ones, are not obliged to publish full financial records does not exactly counteract this.

There does not appear to be any overt (party) political, church or trade union support (Vogt 2013a, p. 145 and 2013b, based on Klemisch et al. 2010, p. 56) for the idea of social enterprise, except from individuals at a relatively low decision-making level. These individuals are reporting that the cooperative legal form is seen to be too complicated for employee takeovers. Schwettmann (2012) points out that the alliance between unions and cooperatives in Germany is particularly weak because major union-owned cooperative enterprises ended up in a series of scandals and mismanagement and finally went insolvent in the 1980s because they were not run according to cooperative principles.

First steps to create (publically aided) finance instruments, however, have been introduced in 2012 by the Federal Ministry of Social Affairs (BMFSFJ) through the Kreditanstalt für Wiederaufbau (KfW) (Bundesministerium für Arbeit und Soziales 2013, p. 67, as well as Rock 2012). The “Bank für Sozialwirtschaft”, owned by the six major welfare associations, has traditionally financed organizations and enterprises rendering social and health services (Bank für Sozialwirtschaft 2008) and organised a conference on the opportunities of social entrepreneurship for welfare organizations in June 2014 (Bank für Sozialwirtschaft 2014).

5. RESEARCH AND ACADEMIC DEBATE CONCERNING SOCIAL ECONOMY, SOCIAL ENTERPRISE AND SOCIAL ENTREPRENEURSHIP IN GERMANY

When the European Commission, in the early 1990s, opened a separate Directorate-General for the “Social Economy” (DG XXIII), it offered at the same time a number of research and development programmes. The Technical University of Berlin was one of the first to take up international ideas linked to these programmes and in 1992, it brought together researchers and practitioners from all over Europe in a first European Congress which led to the foundation of a “European Network for Economic Self-Help and Local Development”.

The notion of “economic self-help” was taken from the co-operative movement, which underwent something of a revival at that time, even though most new co-operatives were institutionalised outside the traditional co-operative law (e.g. Großkopf et al. 1998). Although the traditional German federations did not take part in international processes to shape the social economy, there have always been some academics doing cooperative research and
education (for instance Engelhard 1978, Ders 1998, Schmale 2000) and who worked on the role of cooperatives in the Gemeinwirtschaft. Later on, when these terms entered the German debate, these academics picked up the concepts of social economy and social enterprise (e.g. Schmale 1998, Münkner 2000, Kuhn 2002, Göler von Ravensburg 2004, Brazda et al. 2006).

In general, the different groups or families of German social enterprises—as defined by the ICSEM criteria—are analysed by distinct groups of academics. Research institutions at universities tend to focus on the special needs of and issues linked to one respective group. The biggest group of social enterprises (namely welfare organisations, which identify themselves as Sozialwirtschaft) and academics carrying out research on their socio-economic development have been the last ones to react to the concepts of social economy and social enterprise, apart from some exceptions (such as Evers et al. 2002). Yet, as described above, things have begun to change recently, possibly also in the context of the “Social Business Initiative” (SBI) of the European Commission (2011).

During the last two decades, the Technical University of Berlin (together with its partners from the European Network for Economic Self-Help and Local Development) was one of the few research organizations dealing explicitly with issues of social economy and social enterprise. Starting with the question of the role of social enterprise in the fields of employment creation and fight against poverty and social exclusion, research covered the issues of:
- community economic development and social enterprises (European Network for Economic Self-Help and Local Development 1997);
- key values and structures of social enterprises (Birkhölzer et al. 1997);
- employment potential of social enterprises (Birkhölzer et al. 1999);
- grassroots local partnerships for social inclusion (Birkhölzer et al. 2001, Geddes and Benington 2001);
- work integration through employment and training companies in Berlin and its surrounding region (Birkhölzer and Lorenz 1998);
- the contribution of social capital in the social economy (CONSCISE 2003).

On the background of these international experiences and comparative analyses, it was possible to look more in detail into the German landscape and start a mapping process on the basis of the operational criteria developed by the European Network for Economic Self-Help and Local Development in 1999 (Birkhölzer et al. 2004; see above). It was followed by some regional and sectorial mapping projects for Berlin (Technologie-Netzwerk 2008), Brandenburg (Technologie-Netzwerk 2011) and the health economy in Berlin-Neukölln (Technologie-Netzwerk 2010 and 2013).

More recent research focused on the role of social enterprise in local economic development (Birkhölzer 2009) and on intermediary support structures for social enterprises, with the foundation of the “Berlin Development Agency for Social Enterprises and Neighbourhood Economy” (Berliner Entwicklungsgesellschaft für Soziale Unternehmen und Stadtteilökonomie, or BEST; see www.soziale-oekonomie.de). In this context, a “learning package” was developed, again with international participation (CEST &TechNet 2009; see www.cest-transfer.de), to set up education and training courses for practitioners and supporters of social enterprises. Academic courses of this type exist or have existed at universities in Berlin, Hamburg, Munich and Potsdam, but only within further education programmes which had to be financed privately.
Another recent approach was developed by Scheuerle et al. (2013a). They differentiate between a wide view and a narrow view. According to the narrow view, social enterprises aim to solve social and ecological problems on the basis of innovation and income-based strategies, using the positive economic effects of the interplay between both strategies to save costs and/or improve effectiveness. This view also hints at the transformative effect of social enterprises. In this perspective, it should be possible for the social sector as a whole to eventually reach its aims more effectively and sustainably. The wide view also sees social enterprises as concentrating on social and ecological aims, on innovativeness and on market-based income generation, but it does not require all three criteria to be present for an organisation to qualify as a social enterprise. This second view is less oriented towards new start-ups and transformative issues and it also accommodates many traditional German social-sector NPOs (health care, youth support, work integration, child care), as well as certain consumerist movements (e.g. fair trade organizations).

Several studies with empirical content have also been conducted recently in order to update empirical evidence about social welfare delivery in Germany. The study “Organisations Today—Between Self-Expectations and Economic Challenges” (Organisationen heute – zwischen eigenen Ansprüchen und ökonomischen Herausforderungen), conducted by the Berlin Social Science Centre (Wissenschaftszentrum Berlin fürSozialforschung, or WZB), was based on replies by 11,971 organizations and provides a broad picture of third sector development in Germany (activities, turnover, finance, employment structure, etc.). The largest study on the third sector and civil society is the so-called ZiviZ-survey (“Civil Society in Numbers”, Zivilgesellschaft in Zahlen: Abschlussbericht Modul 1: 2010-11). It was conducted by the Federal Agency for Statistics (Statistisches Bundesamt) and the Centre for Social Investment (CSI) and commissioned by the Bertelsmann Foundation, the Association of Foundations (Stifterverband) and the Fritz Thyssen Foundation. It is based on data from 2007 and represents a meta-level study with 105,000 cases. It aimed to determine the overall size of the third sector.

Most recently, more funding has enabled broader research on social enterprises and social entrepreneurship in Germany. For example, the so-called “Mercator Report”, named after the foundation which financed it (Jansen et al. 2013) presents the results of a major study, involving 24 researchers and eight different research institutes, which focused exclusively on social enterprises aimed at work integration and income generation. This study, as a matter of delineation of research, also made an attempt at a working definition by differentiating social enterprises in four distinct dimensions from social movements, NGOs and NPOs (Jansen 2013). Based on this conceptualization, the researchers searched the databases of Ashoka and other social entrepreneurship promoters as well as the registers of traditional welfare providers (through their federal working group BAGWF). Between 2010 and 2012, they identified and surveyed (through written questionnaires) some 1,710 organizations; they received about 240 answers and conducted numerous interviews. The inquiries largely concentrated on strategies and problems of scaling up. Unfortunately, this study did not include an analysis of legal forms.

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1 For a discussion about the underlying notions and ideas, from social innovation to CSR, and a structuralist view, see Evers (2012).
2 This study was based largely on 2011 empirical data from Ashoka, the Schwab Foundation, Start Social and Datenbanken BAG. It was conducted by the Centre for Social Investment (CSI) at the Ruprecht-Karls-Universität Heidelberg, the Civil Society Center (CiSoC) at Zeppelin Universität Friedrichshafen and the Lehrstuhl für Entrepreneurial Finance at the Technical University München.
Another scholarly debate is centred on social entrepreneurship as a creative transformative process (entrepreneurship) rather than on organizational aspects (enterprise). Like the international debate on social entrepreneurship, most contributions to this debate lack substantial foundation in the relevant social theories. In particular, they disregard the ethical-normative questions about the relationship between social entrepreneurship and society. To counteract this and inspire the ethical reflection, an extended concept of “society-oriented entrepreneurship” has been suggested (Lautermann 2012). It is largely based on two arguments: first, the inappropriateness of defining any particular type of entrepreneurship as “social”, when any entrepreneurship has an impact on the development of society and is directed at certain social issues (Lautermann 2013); and secondly, the fact that entrepreneurial contributions to societal development cannot be viewed as objectively given phenomena, but must be seen as constructs, which are inevitably based on certain theoretical perspectives—with inevitable normative implications. Lautermann suggests that a meaningful notion of “social entrepreneurship” cannot be found by applying general rules, logics or organizational principles to enterprises, but must rather be sought by looking at the specific goods, values and virtues of certain social practices the enterprise/entrepreneur in question works by or produces. This line of thinking gives preference to more specific notions such as “sustainability entrepreneurship”, “institutional entrepreneurship”, “political entrepreneurship”, “civic entrepreneurship” and “virtuous entrepreneurship”; “social entrepreneurship” is then seen as a mere umbrella term. Supporters of this approach sympathise with the fundamental question expressed by Calás et al.: “What would happen, theoretically and analytically, if the focus [...] were reframed from entrepreneurship as an economic activity with possible social change outcomes to entrepreneurship as a social change activity with a variety of possible outcomes?” (Calás et al. 2009, p. 553)

6. OTHER TERMS AND PHENOMENA CLOSE TO SOCIAL ENTERPRISE

All in all, the German debate still lacks a convergence in many respects. Besides the different understandings of the concepts of “social economy”, “social enterprise”, “social entrepreneurship” and “social business”, a variety of other terms and concepts do exist, which are partly overlapping and partly exclusive.

The most frequently used term, namely that of “third sector”, was already mentioned. For some time, it was used as a synonym for the “social economy”, at least for its economically active part (Birkhölzer et al. 2005), but it caused also a lot of confusion, and it became clear that both terms were associated with slightly different meaning. Major dissents concern the boundaries.

The term “non-profit-organization” (NPO), which is usually used to define one of the elements of the third sector, continues to raise many questions: Don’t NPOs want to create any surplus or profit at all, or what is the profit for? Furthermore, what does “profit” really mean—is it just a surplus, the difference between income and costs, or is it the privately owned return on investment? In Germany, the term “non-profit” is usually understood as a synonym of gemeinnützig in the legal sense. On the other hand, organizations with charitable status (Gemeinnützigkeit) often want to create a surplus, not necessarily in terms of money, but in terms of more and better products or services. This attitude constitutes their “entrepreneurial” character and distinguishes them from “non-enterprises”. This seems to be a contradiction, and indeed it causes a lot of problems with the tax offices, which have rather arbitrary criteria to define what is “non-profit” and what is not. Therefore, the term NPO needs to be redefined,
probably in the sense of “not-for-private-profit”, or positively expressed as “for social profit” or “for community benefit”.

Another term of some prominence is that of “Gemeinwirtschaft”, which, literally translated, means “economy for the common good” or, according to a more French understanding, “economy for the general interest” (intérêt général). For many economists it encompasses all general-interest services (Daseinsvorsorge) as well as their delivery agents, regardless of the organization’s ownership (which can be private, public or non-profit private) and entrepreneurial approach (see for example Zerche et al. 1998, p. 107 or Thiemeyer 1972, p. 130). The Gemeinwirtschaft was an important tool in the Weimar Republic, and it has influenced the self-governing institutions of the German economy right until today (Will 2010, pp. 185-7). Presently, the more popular German concept of Sozialwirtschaft refers to the part of the Gemeinwirtschaft that delivers social services. The public part of the Gemeinwirtschaft as well as those NPOs which have acquired the status of Gemeinnützigkeit largely depend on the current political definition of “for the common good”.

Although the term Gemeinwirtschaft was discredited for some period and in some circles as an outcome of the breakdown of the trade-union-owned Bank für Gemeinwirtschaft and related housing, consumer and insurance co-operatives, the “society for the public economy” (Gesellschaft für öffentliche Wirtschaft, or GÖW) continued to use it in its official publication (Zeitschrift für öffentliche und gemeinwirtschaftliche Unternehmen, or ZögU). GÖW changed its name to “federal association of public services” (Bundesverband Öffentliche Dienstleistungen, or bvöd) and now acts as the German section of the International Centre of Research and Information on the Public, Social and Cooperative Economy (CIRIEC), where it officially represents the German Gemeinwirtschaft, using this term as the German expression for “social economy”. While its traditional members also encompass welfare organizations that call themselves social enterprises, no recently founded social enterprises emphasising their entrepreneurial character have become members yet.

Despite its somewhat outdated image, the term Gemeinwirtschaft could be revitalised because it is a good expression to characterise the social economy, as it points out that the overall objective is to serve the “community”. Since the term, however, was discredited for some period and in some circles, it was proposed to rather introduce the term Gemeinwesenökonomie (Technologie-Netzwerk Berlin 2009), literally translated from the English “community economy” (Pearce 1993). The term Gemeinwesen is understood here in the same way as in Gemeinwesenarbeit (“community work”). It was taken up within some schools for social work / social pedagogics that promote “community work” as a special methodology of social work and are involved in so-called “neighbourhood management” (Quartiersmanagement) as an outcome of the “Federal-Länder social city programme” (Bund-Länder-Programm Soziale Stadt), a programme that fights social segregation in urban and rural areas. A considerable number of social enterprises are active in this field and work together within the “federal working group for social city development and community work” (Bundesarbeitsgemeinschaft Soziale Stadtentwicklung und Gemeinwesenarbeit; see www.bagssozialestadtentwicklung.de). The term Gemeinwesenökonomie could also be understood as a “subtitle” for all social enterprises active in local economic development.

Another variation of this type is the “commonwealth economy” (Gemeinwohl-Ökonomie), a more theoretical concept, not explicitly dedicated to the social economy but that intends to be an alternative concept for the future of the whole economy (Felber 2010; Sikora and Hoffmann 2001).
The term “solidarity-based economy” (Solidarische Ökonomie) is imported from Latin America (economía solidaria), where it is very popular, and from France, where the économie solidaire was and sometimes still is understood as an alternative to the traditional économie sociale. It was taken up in Germany by attac (Altvater and Sekler 2006) and other groups (Voß 2010) looking for an alternative to neo-liberal economics, including parts of the political party Alliance ’90/The Greens (Giegold and Embshoff 2008), who managed to introduce the topic into the programme for the new red-green government in North Rhine-Westphalia (Fraktion Bündnis 90/Die Grünen im Landtag NRW 2012). There is an ongoing debate about the differences between the two concepts, especially within Europe, where a separate “Solidarity Economy Europe”—besides the already existing “Social Economy Europe”—has been established, but at the international level, it has become popular to combine the terms and call it the “social and solidarity-based economy” (SSE) (for example within the Social and Solidarity Economy Academy of the ILO or RIPESS International).

Finally, the term “social innovation”, although nothing new in principle, has rapidly gained attractiveness in Germany during the last decade. The Centre for Social Investment (CSI) has recently published an explorative study on social innovation in the welfare sector (CSI 2013) as well as several reports on social innovation in a European perspective (www.tepsie.eu/index.php/publications, accessed 23.12.2014). It might well be the recognition that social enterprises are an important driver for social innovation that made the president of the BAGFW emphasize that the BAGFW is welcoming cooperation with social enterprises (Thimm 2013).

Like elsewhere, “corporate social responsibility” (CSR) and “sustainability management” are known concepts in Germany, as are the concepts of “commons” (Helfrich and Heinrich-Böll-Stiftung 2012, Heimrath 2013) and of “sharing economy” (Heinrichs and Grunenberg 2012). The latter concept is in Germany—as it is in the international debate—an attempt to summarise and sort alternative forms of property and consumption that, in many cases, are triggered or enabled by social media.

7. INTEREST OF PUBLIC AUTHORITIES AND THEIR UNDERLYING CONCEPTIONS

In 2010, in the course of its strategy to foster citizen engagement (Nationale Engagementsstrategie), the German government explicitly embraced the goal to promote social enterprise. A financial promotion scheme for established social enterprises willing and ready to scale up was introduced in collaboration with a lead investor and with support from the quasi-public bank Kreditanstalt für Wiederaufbau (KfW), with effect from January 1st, 2012. As yet, however, there is still no comprehensive official treatment of citizen engagement issues, and social enterprise promotion is only one of several parts of the national strategy to foster citizen engagement. A parliamentary request (Deutscher Bundestag 2012) to the government concerned a definition of the exact types of organizations that government aims to promote when it refers to Sozialunternehmen. The answer refers to the definition of social enterprise provided in the national strategy for citizen engagement and states, in a somewhat circular way (and interestingly switching to individuals), that “social entrepreneurs are persons who, based on their individual engagement, set up social organisations which solve social challenges with innovative and entrepreneurial means.” (Deutscher Bundestag 2012, p. 2)

The current interest of public authorities may be seen in diverse ways, largely depending on which public authorities and which social enterprises we look at. First of all, it is noticeable that the current federal administration aims to promote citizen engagement, social innovation and
entrepreneurship, as explicitly laid out in its coalition contract (Deutsche Bundesregierung
2013). Besides a more general—yet very clear—commitment to foster engagement, social
innovation and social entrepreneurship as well as setting up corresponding ventures, the
coalition contract also defines plans to create a new and more appropriate legal
organizational form, aiming primarily to avoid inappropriate effort and bureaucracy.

It remains to be seen whether or not this will actually happen and what additional value this
new form may eventually yield when compared to current legal forms, such as those of
cooperative and limited-liability charitable company (gemeinnützige Gesellschaft mit
beschrankter Haftung, or gGmbH). Meanwhile, other bureaucratic contexts and lower-level
public authorities represent huge barriers both to the day-to-day life of social enterprises as
well as to their long-term strategy. Without going into detail here, it can safely be said that
although the top-level political agenda rates citizen engagement and social enterprise as
phenomena that are worthwhile to support, regional, local and municipal public authorities
frequently—with only some few exceptions—confront social enterprises with inhibiting
bureaucracy or outright rejection.

As explained above, many social enterprise activities in Germany take place in social welfare
quasi-markets controlled by public agencies. As a result, institutional characteristics of these
quasi-markets heavily influence these enterprises’ income models. Two of these characteristics
are crucial: First, a high degree of innovativeness may decrease social enterprises’ chances to
access sustainable long-term financing from (quasi-)public sources, as they frequently do not
fit these sources’ rather narrow, somewhat risk-averse, and not very innovation-affine terms.
And secondly, the German social security system is primarily based on individual rights, and
on an intricate system of local, regional and state authorities responsible for financing social
services; the ensuing triangular relationship (Bachert and Schmidt 2010) between service
providers (social enterprises), financing agencies (state, local government, regional agency or
social insurances) and beneficiaries results in many quasi-markets (e.g. childcare, healthcare
or elderly care) being dominated by traditional and well-capitalised suppliers, with the
necessary “know-who”. Market entry as well as the medium- and long-term income situation
for most social enterprises are thus quite difficult—a situation which is still further aggravated
by bureaucratic hurdles and frequent changes in municipal social policies. The institutional
environment generally leads to enormous insecurities for social enterprises and high long-term
risks.

The public sector as well tends to be rather sceptical with regard to social enterprises and
rather chooses other options to support more engagement by both the private enterprise
sector and private households. The Federal Government has been investing in a corporate
social responsibility strategy (www.csr-in-deutschland.de), and with its engagement strategy,
implemented through the Ministry of Social Affairs (Bundesministerium für Familien, Frauen und
Jugend, or BMFSFJ), from 2001 onwards, it publicised and promoted another organizational
form: the “citizen (or community) foundations” (Bürgerstiftungen) (BMFSFJ 2011a). These are
special kinds of locally-based trust funds aimed at creating local initiatives in favour of social,
cultural and ecological development. Such citizen foundations are rapidly gaining popularity
and apparently not colliding with the interests of the established welfare sector. Generally Germany has become the major competence centre to support these organizations. Some
citizen foundations are also intent on supporting in turn “social enterprise solutions” (Die-
Stiftung 2013).

All in all, the impression is that entrepreneurial approaches in classic social welfare delivery
are welcome only within some limits. Existing delivery agents with close and very long-lasting
ties to the responsible public authorities are still largely sceptical towards—if not overtly
opposing—such developments. Private citizens and companies largely engage in services which complement (but do not replace) services commonly or legally falling into the responsibility of the state. Much cooperative and civic engagement, like that of citizen foundations, is thought of by public authorities in terms of a local development approach.
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