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# Chapter 1 : Introduction

This book aims to provide an empirical analysis of social innovation (hereunder abbreviated as “SI”) processes in different Asian countries, with a special focus on both its causal mechanisms and how the interactions of stakeholders from different sectors affect the “scaling” processes of SI initiatives. As an introduction, this chapter first discusses the definition of SI, then examines why SI is becoming important in both policy and academic arenas, why there are high hopes for it in both post-welfare and pre-welfare state contexts, and next gives a brief overview of the development of SI-related policies and literature. Finally, it presents the research design, including research questions, theoretical frameworks, and methodology.

## **1.1 What is / Why Social Innovation?**

### **1.1.1 What is Social Innovation?**

#### **A Working Definition of Social Innovation**

Since the 1990s, “social innovation” has become a fashionable term for policy makers, businesses, civil society, media, and academics in various regions to use. In part because it is largely a practice-driven concept, different groups use the term in their own ways. For example, SI is often used in a sense equivalent to charismatic social entrepreneurs and/or social ventures that use cutting-edge technology to tackle various social issues.<sup>1</sup>

Although SI is still a developing concept, there is a growing common understanding among researchers working on SI theory, particularly in English-language literature. The details of the concept are dealt with in the literature review section (1.2.2) below, but for the purpose of practical use in the meantime, this study applies a two-fold definition as the working definition of SI, which is taken from recent scholarly works (Nicholls et al. 2015:2-5; Howaldt et al. 2016:27-28; Mulgan et al. 2007:8; TEPSIE 2014:14). First, SI is a new (by the very definition of the word “innovation”) combination of products, services, or activities to meet a social need or to create social value.<sup>2</sup> Second, SI is also a process that changes existing cognition, values, behavior, capacity, relationships between stakeholders, and the distribution of resources and power within a society.<sup>3</sup> It is occasionally summarized as “innovations that are social both in their ends and in their means” (Franz et al.2012:3).

### **Different Levels of Social Innovation: From Individual Initiatives to Societal Change**

There is also a shared view in recent literature of appreciating the multiple levels and scales of SI that take place, from the individual to the macro level. As summarized in Table 1.1, based on Cajaiba-Santana (2014:48) and Nicholls and Murdock (2012:4), there are at three<sup>4</sup> levels of SI, which are micro (individual), meso (organization), and macro (social system). A successful SI process does not entail the accomplishment of an individual or an organization alone. Rather, it diffuses and/or scales with the involvement of different societal actors, and ultimately leads to a systemic change (also called “institutionalization”) in a society. Such a change reconfigures how people understand the world, what they hold as values and norms,

and how they behave on a daily basis, as well as becoming the new rules and regulations in a society (Heiskala 2007:59; Pel and Bauler 2014:5; TEPSIE 2014:11; Westley and Antadze 2010:2).

**Table 1.1 The Different Levels of Social Innovation: From Micro to Macro**

<b>Levels</b>	<b>Examples</b>
Macro (Social system)	- Social recognition, values, norms, and behavior - Laws and regulations - Power / resource allocation and relationships among actors
Meso (Organization)	- Organizational practices and operations - Inter-stakeholder interactions and collaborations
Micro (Individual)	- New ideas and practices

Source: Developed by the author, revised from Nicholls and Murdock (2012:4)

### **Examples of Social Innovation Initiatives**

If we use this definition of SI, it is evident that SI is not a recent phenomenon, but has indeed existed since the beginning of human history (Cajaiba-Santana, 2014:42; Mulgan et al. 2007:9; McGowan et al. 2017:1). As shown in Table 1.2, a wide range of historical initiatives are considered to be examples of SI, including some of the “newer” initiatives such as microfinance, sharing economy, fair trade, internet-based media, and socially responsible investment as well as initiatives of a more historical nature, such as public health and sanitation systems, modern university education, environmental movements, international labor standards, civil rights movements, feminism, and civic associations, to name just a few. The origins and processes of these SI initiatives are varied, from government-led policies, civil society or philanthropic initiatives, grass-roots and social movements, to societal changes caused by business and technology.

**Table 1.2 Examples of Social Innovation**

<b>Author</b>	<b>Examples of Social Innovation</b>
Mulgan et al. (2007)	<ul style="list-style-type: none"> <li>- Free and universal national health service, welfare states, school system</li> <li>- Internet and new media</li> <li>- Microcredit, building societies, trade unions and cooperatives</li> <li>- New university models in industrial societies</li> <li>- New welfare models developed by modern philanthropy and civil society</li> <li>- Social movements (anti-slavery, ecology, feminism, civil rights, anti-apartheid, anti-poverty, etc.)</li> </ul>
Haxeltine et al. (2017); Pel et al. (2017)	<ul style="list-style-type: none"> <li>- Basic income</li> <li>- Digital fabrication workshops</li> <li>- Eco-villages and other intentional communities</li> <li>- Network of social entrepreneurs</li> <li>- Participatory budgeting</li> <li>- Slow food</li> <li>- Sharing economy, time bank, local currency, and transition movement</li> </ul>
Phills et al. (2008)	<ul style="list-style-type: none"> <li>- Charter schools</li> <li>- Community-centered planning</li> <li>- Emissions trading</li> <li>- Fair trade</li> <li>- Habitat conservation plans</li> <li>- Individual development accounts</li> <li>- International labor standards</li> <li>- Microfinance</li> <li>- Socially responsible investing</li> <li>- Supported employment</li> </ul>
Westley et al. (eds.) (2017)	<ul style="list-style-type: none"> <li>- National parks in the United States</li> <li>- The intelligence test</li> <li>- The legalization of birth control in North America</li> <li>- The internet</li> <li>- The global derivatives market</li> <li>- Indian residential schools</li> <li>- Dutch joint stock company</li> </ul>

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Tanimoto et al. (2013)	<ul style="list-style-type: none"> <li>- Renewable energy funded by citizens</li> <li>- Reusable dishes</li> <li>- Mail delivery service provided by handicapped people</li> </ul>
The Hope Institute (2017)	<ul style="list-style-type: none"> <li>- Pulmu Farmers Cooperatives in South Korea</li> <li>- The Bann Mankong Community Upgrade Program in Thailand</li> <li>- Governmental “Social Management Innovation” in China</li> <li>- Indian social enterprises targeting the base of the pyramid (BOP)</li> <li>- Nonprofits and cooperatives entering the long-term care insurance scheme in Japan</li> </ul>

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Sources: Hazeltine et al. (2017); The Hope Institute (2017); Mulgan et al. (2007:9-11); Pel et al. (2017:7); Phills et al. (2008:40); Tanimoto et al. (2013); Westley et al. (eds.) (2017)

## 1.1.2 Why Social Innovation?

### Different Expectations for Social Innovation

There seem to be some different expectations for what the outcome of SI will be. Based on Nicholls et al. (2015:2-3) which summarizes SI as a i) new social processes and ii) new social outputs and outcomes, we may re-categorize SI into three functions. First is *welfare*, to directly solve a social issue, or to provide necessary services, including education, health and care-giving, environmental issues, and employment among others, especially in situations where traditional service providers such as government or family systems are not able to provide such a function (Goldsmith 2010; OECD 2011). Second is *economic performance*, to transform a society in order to adapt to economic and technological changes such as globalization or a transformation in industrial structure, and to promote post-industrial, knowledge-based economic growth (Hamalainen

and Heiskala eds. 2007; Sgaragli 2014). Third is the less-noticed aspect of *governance*, which is to improve societal relationships and integrity, often by empowering and enhancing the inclusion and participation of marginalized groups (BEPA 2011; Moulaert et al. 2013).

### **Welfare Regimes and Social Innovation**

Such diverse expectations for SI come at least partly from the continuing debate on the future of the “welfare state” system in both developed and developing / emerging country contexts. The idea and prototypes of a welfare state system, in which the public sector takes on the primary responsibility of providing basic social services to its citizens as a universal right, emerged in the late 19<sup>th</sup> century.<sup>5</sup> And under the WWII wartime mobilization and the post-war social-democratic environment, it was established as a social welfare system in a few industrialized countries, mainly in Western and Northern Europe (Esping-Andersen 1990:18-19; Lowe 1993; Pierson 2002:64; Tada 2014:3-12).<sup>6</sup> Indeed, the welfare state system itself was (or still is) a major SI initiative.

However, since the 1970s, the idea of a welfare state has been challenged for its growing cost and put under reforms based on neo-liberal ideas to minimize government involvement and leave the operation of services to market mechanisms (Pierson 1996:145). New social risks and needs have also been growing which the classic welfare state models were not designed to take care of, such as domestic care responsibilities for older people and children (while a large proportion of women have already moved into paid work), lack of skills and sufficient knowledge to respond to changes in industry, and low-paid workers (such as lower skilled women) not being covered by adequate benefits when leaving the

workforce (Hamada and Kim 2018; Taylor-Gooby 2004:2-5). Reflecting the shrinking resources available to meet different needs, a number of countries, including the U.K. under the Thatcher administration, switched to market-friendly reforms of the welfare state model. They outsourced social services to the private sector, non-departmental public bodies, and non-governmental sectors or created quasi-market systems such as public insurance systems to substitute for the direct provision of services by the public sector (Esping-Andersen 1996:6-10; Imai 2016:178; Morgan and Campbell 2011:28-32).

And after the 1990s, as demographic shifts including aging, low fertility, and women's participation in the labor market increased, there was another wave of efforts to restructure welfare state systems and to meet diverse needs in society based on available resources, rather than being based on any sort of ideological confrontation (Hamada and Kim 2018:15-15; Miyamoto 2006; Pierson 2002:65). The "Third Way" advocated by the Blair administration (1997-2007) in the U.K. was one of the attempts to "modernize" the welfare state system by connecting work and welfare, giving more power to local-level groups including civil society organizations, and utilizing market mechanisms under the monitoring and supervision of the government (Giddens 1998; Imai 2016:182-184; Ohmura 2013:256-260).

The situation is quite different in developing countries, including those in Asia.<sup>7</sup> In most Asian countries including Japan after World War II (WWII), priority was given to constructing a newly independent state, and/or to restore an economy damaged by the war. Thus, a universal welfare state system was considered an unaffordable luxury (Kim 2008; Masuda 2013:7).

However, decades of economic growth have elevated many countries from a poor to a middle-income country status, and governments now have greater financial resources compared to decades ago. They are also facing increasing pressure from society to support diverse needs and demands, and there is also a strong frustration in many countries from those needs not being fulfilled (Inoguchi 2014:115). The very legitimacy of the government itself is greatly affected by how well the regime can meet those requests. These needs and issues in societies include both traditional “developing country” types of challenges as well as newer ones, including health and medical care, social diversity and minority rights, education, an aging population, people with disabilities, environmental issues, the transformation of the socio-economic system to a more post-industrial one, inequality, and poverty. Facing the weakening of traditional social safety nets and service providers such as family or local community, Asian countries have gradually expanded the scope of social policy to meet these needs (Shen 2016; Sugaya 2013:5). But the level of benefits and services are still quite limited compared to those in developed countries. Also, these states seem to be reluctant to take on the full responsibility of a welfare state (Goodman and Peng 1996:207-209; Haggard and Kaufman 2008:256-261).

In either context, considering the proliferation of needs and issues in society, slowing economic growth, and limited or decreasing financial and human resources in public sectors, there is an even lesser chance that the state alone will be able to handle all the societal needs and risks in the future (Evers 1995:159; Ito and Kondo 2010:21-22; Miyamoto 2006:69). It also means that the need for social services accompanied by the “retreat” of the governmental sector from it creates more empty

“public spaces” (Habermas 1994; Mukai 2015:208-211), or a “welfare vacuum” in society, especially at local or community levels, which need to be filled by different stakeholders in the society. Authors tend to agree that no one sector alone, including government, businesses, family, or civil society, can provide services to the full extent required, and that there is a need for stakeholders to collaborate and build a “welfare regime,” “welfare society,” or “welfare community” to deal with different social issues (Esping-Andersen 1999:36; Pestoff 2000; Pierre 2000:1; Salamon and Anheier 1998:225; Tsujinaka 2010:11-12).<sup>8</sup> SI also stems from the discourse on restructuring welfare regimes and is expected to be a tool to create such a “welfare community” by utilizing available resources.<sup>9</sup>

### **Social Innovation for Well-being**

Moreover, some figures such as Mulgan point out that the purpose of SI goes beyond mere economic development, provision of services, and expansion of human rights movements. Instead, they propose more holistic, different social values to be fulfilled by SI. These values include the expansion of capabilities or the improvement of well-being or life satisfaction as the goal, although they admit that the methodology to measure this type of impact is yet to be developed.<sup>10</sup> By expanding its purpose in this way, SI becomes a framework to measure the “quality of growth as well as its quantity” (Mulgan 2012:57-60).

#### **1.1.3 Policy Development**

##### **The United Kingdom: A “Prototype” of Social Innovation**

The New Labour government in the United Kingdom (U.K.) from 1997 to 2010, led by Prime Ministers Tony Blair and Gordon Brown, enforced

extensive social policies under the flag of “The Third Way.” One of its major goals was to reduce the inequality between different areas and groups by promoting work-welfare integration and regenerating local initiatives through supporting voluntary and community sectors, instead of going back to the “traditional” welfare state system existing prior to the Thatcherist reforms, which provided uniform welfare services. They introduced some new policy tools and mechanisms (Murray et al. 2010:90; Tsukamoto et al. 2007; Zimmeck 2010). First was partnerships with the voluntary and community sectors. The New Labour government changed the contract-based partnerships between the government and voluntary sectors during the Thatcher and Major administrations. The new administration concluded national and local “Compacts” as a framework document between voluntary and community sectors. Then local authorities, businesses, voluntary and community sectors, and others including academic institutions together developed a multi-sectoral Local Strategic Partnership (LSP) and other issue-based partnerships such as Local Area Agreement (LAA) or Local Public Sector Agreement (LPSA), with a specification of services necessary in the community. The result was evaluated by the regional Government Office, by the Comprehensive Area Assessment (CAA) framework. Second was new funding mechanisms. The central government provided funding for local regeneration through newly established Neighbourhood Renewal Funds (NRF) and Community Empowerment Funds (CEF) for some poor communities through LSPs. Third was voluntary sector reform and support for social enterprise. British charity and voluntary sector reform took place during this period and led to the amendment of the Charities Act (2006), and the creation of two new legal statuses: Charitable Incorporated Organisation (CIO, for

nonprofits) and Community Interest Company (CIC, for community-based social enterprises).

As the result of the policy shift<sup>11</sup> made by the New Labour government, total public spending rose from GBP 449 billion in 1996-1997 to GBP 725 billion in 2009-2010, up to 47.4 per cent of the GDP. It did not shrink inequality as intended, but helped to empower the voluntary sector; to improve the circumstances of the poor; and to support building an inclusive society for the immigrant population (Giddens 2010; Lupton et al. 2013:38-41). Still, the new forms of partnerships between the government and other sectors faced a number of challenges, including issues with implementation, governance, and representation (Zimmeck 2010).

After the change of government to the Conservative-Liberal Democratic Party coalition in 2010, most of the partnership frameworks including LSP or LAA were either abolished or converted into voluntary arrangements, and public expenditure for the voluntary sector was cut drastically. However, the “Big Society” policy launched by the new administration continued to stress the role of civil society organizations, social enterprises, and communities, and provided funding through the Big Society Fund which utilized dormant bank accounts, and the Transition Fund (Economist 2010; Harada 2013).

The Compact and other related partnerships between governments, voluntary and community sectors, and other local stakeholders were an attempt to mobilize locally-led innovations based on principles shared among different sectors, and although the New Labour government rarely used the term SI during their time, this policy mix of i) devolution to local level partnerships, ii) independent funding to support local initiatives to provide social service and create employment, and iii) support for social

businesses and nonprofits became a model for later SI policies.

### **The European Union**

Following its emergence in the U.K., since the end of the 2000s,<sup>12</sup> with strong support from then-European Commission President Barroso, the term SI started to appear in some major European Union (EU) policy documents as a tool for the EU's poverty and social inclusion policy (BEPA 2011; European Commission 2010; 2013). After the European Financial Crisis, a number of EU member countries were forced to cut down on social spending, and SI was expected to substitute for social welfare services by creating employment, education, and training for vulnerable groups including immigrants and refugees, people with disabilities, the elderly, and unemployed women and youth.

In addition to the existing European Social Fund, a new EU Programme for Employment and Social Innovation (EaSI, 2014-2020) with a budget of EUR 919 million was created as an EU-level financing instrument to support member countries in the modernization of employment and social policies, improvement of job mobility, and promotion of microfinance and social entrepreneurship schemes (European Commission 2017).

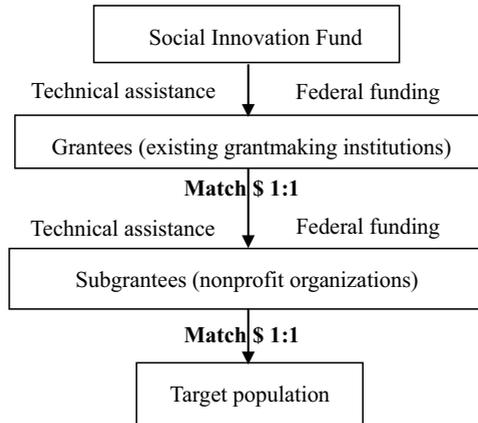
The EU also supported numerous large-scale cross-country SI research projects (each with a budget of hundreds of millions of Euros) using the European Union's Seventh Framework Programme for Research, Technological Development and Demonstration (FP7, 2007-2013) and its successor Horizon 2020 (2014-2020).<sup>13</sup> The details of these research projects will be further described later in the literature review section (1.2.2).

## **The United States**

In the United States (U.S.), the social policy of the Obama administration from 2009 to 2017 is well known for introducing the Affordable Health Care Act (so-called “Obamacare”), securing more equal rights for LGBT citizens, and implementing the Deferred Action for Childhood Arrivals (DACA) policy for young undocumented people.<sup>14</sup> It was also during the Obama administration when SI and related policy tools appeared in U.S. federal government policies. Soon after taking office in the aftermath of a major financial crisis, Obama created the White House Office of Social Innovation and Civic Participation and the Social Innovation Fund (SIF) by the Edward M. Kennedy Serve America Act in April 2009, for which he received bipartisan support<sup>15</sup> (Barnes 2010; The Economist 2010; Potts 2017).<sup>16</sup> The SIF was intended to bring evidence-based solutions to the most pressing social issues, such as health, education, housing, and employment. SIF funding goes to grantees who are existing grant-making organizations (including foundations, The United Way, nonprofit venture capitals, nonprofit alliances, and universities) through an open competition process, and then the grantees are asked to raise a one-to-one match for the government dollars from their own resources. Each grantee provides mixed funding to subgrantees, who are nonprofit organizations working in local communities. Each subgrantee is also asked to raise matching funds equivalent to what they received, and to implement programs to support the target population, typically in poor communities (Figure 1.1). As a result, Federal government funding from 2010 to 2016 totaled up to USD 352 million for fifty-seven awards, but the total funding matched to the federal money was USD 707 million.<sup>17</sup> According to a meta-analysis of thirty-eight final evaluation reports, forty-five percent

of the programs went into youth issues, thirty-two percent to health, and twenty-four percent to economic opportunity (Zhang and Sun 2016:13).

**Figure 1.1 Obama Administration Social Innovation Fund (Classic Program)**



Source: Revised from Social Innovation Fund Fact Sheet, CNCS<sup>19</sup>

The goals of these policies, which came about in the aftermath of major economic and social crises, were to i) create funding mechanisms for nonprofit and social entrepreneurial projects both in the start-up and the growth stages, ii) create policy environments to enable innovative efforts, iii) utilize data and information tools to evaluate which interventions were truly effective, and iv) to do so without creating a new bureaucratic system or replacing existing funding frameworks. It came from a group of advisors like Michele Jolin,<sup>19</sup> who had experience both on the policy side and in supporting social enterprises at Ashoka, a global network of social entrepreneurs (Jolin 2008). Likely to be partly reflecting the ideas upheld by Jolin and other advisors with a social sector background, the SI policy frameworks during the Obama administration seemed to rely

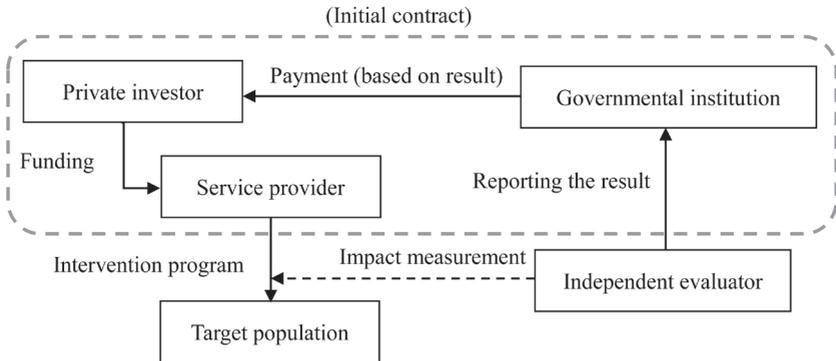
more strongly on the creativity and fundraising capacity of social sector organizations than European SI policies, while emphasizing the effective use of government funding by using financial terms like “returns on investment”.<sup>20</sup>

Another feature during this period was the growing popularity of the Social Impact Bond (SIB), or the Pay for Success (PFS) contract, as it is usually called in the U.S., within national and local governments. The basic arrangement is to receive funding from a private investor prior to the implementation of a social intervention program by a service provider, with the government later repaying the investor upon the impact of the program being proven by an independent evaluator (Figure 1.2). These contracts became extremely popular after the first case in the U.S. in 2012 between New York City and the Urban Investment Group at Goldman Sachs to reduce the rate of reincarceration among adolescent inmates in New York City’s Rikers Island prison, quickly expanding to over thirty states by early 2016 and soon included in SIF as a SIF Pay for Success Program awarded to nonprofit organizations and state and local governments. However, this kind of “financialization” was also criticized for focusing only on the particular issues that fit these financial tools, such as broad-scale preventive or early intervention programs, and not being able to recognize the real needs of the community, as well as the costs involved with setting up complicated mechanisms (Lake 2016:48-54).

Finally, during this period, around twenty states introduced at least one legal status for social enterprises such as Benefit Corporation (B-Corp) or Low-profit Limited Liability company (L3C). These new legal entities made it possible for a business pursuing socially-oriented goals to receive program-related investment from private foundations<sup>21</sup> and other

investors, by accepting the obligation to consider social responsibility and to issue an annual benefit report compiled by an independent auditor (Murray 2012).

**Figure 1.2 Structure of the U.S. Social Impact Bond / Pay for Success Contract**



Source: Developed by the author

## Asia

In Northeast and Southeast Asia, there is increasing pressure on governments to provide diverse social welfare services, especially in the aftermath of the major Asian economic crisis in the late 1990s and with changes in the socio-economic environment including rapidly aging societies, widening inequality, and slowing economic growth rates. Still, compared to Europe and the U.S., the policy application of SI in Asia has been mostly fragmental.

Arguably the champion of SI in Asia is the Seoul Metropolitan Government headed by Mayor Park Won-soon (2011-). Mayor Park set up the Seoul Innovation Bureau and mainstreamed SI as one of its major policy goals. Since then, the Seoul Metropolitan Government has introduced civic participation in policymaking processes, supported

community-based organizations and social businesses, promoted sharing economy, and created supporting organizations including Seoul Innovation Park (C. 2018:7; Seoul Metropolitan Government 2015). Using Mayor Park's personal network with the international SI community including Geoff Mulgan and Social Innovation Exchange based in London, Seoul has been hosting a global annual "Future Innovation Forum" since 2015.<sup>22</sup>

Excluding the above-mentioned example, SI in Asian countries is mostly used as a vague slogan to support social entrepreneurs, or is mixed in with more general business / technological innovation. At the same time, there are both central and local governments in different countries putting in efforts to i) collaborate with civil society and other social sectors such as social enterprise, and to ii) create a favorable environment for the sectors, under different names such as "Social Management Innovation [*Shehui Guanli Chuangxin* 社会管理创新]" in China, or "Open Innovation" and "Public Service Innovation"<sup>23</sup> in Japan (Hope Institute 2017:268-270). A recent event in Japan is the use of SI in the draft of the "Basic Plan for the Use of Funding from Dormant Bank Account Grant"<sup>24</sup> in January 2018. In the document, it states that the organization who receives the grant should utilize the funding "to bring major social change (social innovation<sup>25</sup>) in the society". There is also strong interest from the business and financial sectors throughout Asia to utilize their resources for social investment (AVPN 2017; Mohan et al 2017a; 2017b).

## 1.2 Literature Review

SI is still an emerging concept and lacks a single, universally agreed upon definition. However, SI research has made significant progress and convergence in concept in recent years. There are also a variety of related concepts and theories. This section conducts a brief review of the theories and concepts that can support the development of a theory in this study. First, it shows how the theory of SI has developed, with some gaps between different regions especially in Europe, North America, and Japan and other Asian countries.<sup>26</sup> Second, it presents some other literature and conceptual frameworks to inform this research.

### 1.2.1 Innovation Theory and Social Innovation

As briefly mentioned above, SI as a process of change is nothing new to human history. However, SI as a term is fairly new, and prior to the current nomenclature, a similar idea had been described by different names including social invention, social diffusion, social change, social regulation, or transformation by different authors including Weber, Durkheim, and Tarde (Howaldt et al. 2014a:3; Moulaert et al. 2013:17-18). The word “innovation” (or “new combinations” / “creative disruption”, which were the terms Schumpeter used originally), as widely known, comes from the classic works of Schumpeter, and it is worth noting that these early works mentioned not only business and technological phenomena, but also wider socio-cultural aspects (Jessop et al. 2013:113-114; Schumpeter 1937:166-168; Schumpeter 1994:83-84). One of the first authors who used the term “social innovation” explicitly was Peter Drucker in his book *Innovation and Entrepreneurship*. What he meant by the word was