THE MODEL OF SOCIAL INNOVATIONS IN THE EMERGING MARKET OF LITHUANIA

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Abstract. This article aims to create the model of social innovations, as we call it the paradox of “Dragon-butterfly hybrid,” which describes the impact of social innovations on different social targeted groups, social business and public sector in Lithuania.

Starting our article from the concept of social innovation, which is in line with the P. Drucker’s consideration of the innovation (invention, innovation and diffusion of products, process and services) we position the social innovation among other types of innovations, based on the social cooperation among different social groups, which generates innovative social outcomes beneficial to both the society and the economy. In addition, social innovations promote social changes in the economy and society and it plays an important role of development in the emerging market of Lithuania. Within our model there are social impacts, derived from social innovations, and new trends in the social policy within the EU scrutinized by focusing on long-term economic and social goals. It is necessary to note that the EU support programs are important sources of funding innovative companies. Therefore, funding is the priority for the majority of business and public organisations and only then we find the concern of social issues and the public welfare. However, if there is no EU or state funding available at all, the social responsibility of companies and public organisations ends up.

JEL classification: M14, M21, O31.

Keywords: social innovation, social impact, social targeted groups, priorities of the EU and national budgets.

Reikšminiai žodžiai: socialinės inovacijos, inovacijų nauda ir pridėtinė vertė, socialinės grupės, ES ir nacionalinių biudžetų prioritetai.
Introduction

Social innovations promote social changes in the economy and society and it plays an important role of development in emerging markets. The relevance of the article lies in the emerging economy of Lithuania, where it is necessary to encourage the variety in status, scope and size of inter-agency cooperation, synergies between public and private, academic and business sectors, organizational and managerial structures to improve innovation capabilities for social outcomes in the knowledge-based economy. The definition of social innovation is very similar: as it is stated by Allberg and Borg (2008), the innovation as the value, measured by its social impacts, is of significant importance; it was already scrutinized by P. P. Drucker's trilogy of invention, innovation and diffusion; classification of innovations (based on specifications of a final product) into the product, process and service innovations should be complimented by the concept of social and managerial innovations.

However, social innovations are often equated with social activities of public organizations and the true social entrepreneurial initiatives are very modest and only a few EU’s social projects are carried out in Lithuania so far. Therefore, it is important to understand particularities of social problems of their business activities in Lithuania and to encourage private initiatives to solve them. It is particularly relevant to the economic change, and this issue is timely and reasonable.

This article describes the theoretical background of social innovations and presents the model of social innovations circle. The scientific methods of this publication is based on the comparative analysis of scientific literature, systematic approach and synthesis of different views by providing the authors’ individual insights on the subject.

1. The concept of social innovations

Notwithstanding arguments that it is sufficient to underline one definition of a social innovation in order to explain its conception, within this article there are various aspects of social innovations argued and, to wit, a set of definitions of a social innovation presented to better describe the complexity of this term. The basic goal of the innovation policy in European economies is not only to support the increase in the productivity, profitability or the market share of European firms via new or improved products, processes and services, but also contributions to employment and living standards in the medium and longer term, while the technological development might support inputs from human resources in the short run. To continue, we arrive to a definition, stated by Green Paper of Innovation, where innovation is a success-

ful production, assimilation and exploitation of novelty in the economic and social spheres. It offers new ways to solve problems and it is related to main needs of the society. Integrating the aspect of social impacts, the knowledge becomes a public good. Such argumentation has already been revealed by Arrow (1951), where the knowledge is of high indivisibility, non-excludability and non-appropriability, while public procurement is to increase the production of the knowledge. Nightingale (2003), relying on the Nelson’s and Winter’s tradition, states that the appropriability could be centered on activities, executed by firms as the key-actors in the production process of the knowledge. In addition, the technological knowledge should be considered as a systemic activity, where individual agents are strongly interdependent (Antonelli, 2001). Cooperation among various market players emerge as a precondition to deliver a set of social impacts. Firms do not only create, but also apply the knowledge produced by many different market players.

Notwithstanding different concepts and classifications of innovations, we should not forget that all the innovative activities and innovation processes are enhanced in a holistic mosaic of the knowledge economy, where the principle driving force is the human capital and its role in the knowledge-intensive economy is increasing. The human capital should be the reflection of social needs and potential social impacts within the market or these needs should be identified via the market research and stronger cooperation among various market players.

To terminate the first chapter it is reasonable to define the concept of social innovations. Social innovations could be understood as either any type or intensity innovations that deliver a clear social impact or a set of impacts to both the society and the economy or innovations in the field of the social policy that are mainly centered on innovative social activities or projects. The more ingenious conceptual structure of social innovations is presented in the Figure 1.

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2. The end-users and the social and economic effects of social innovations

By examining social and economic effects of social innovations, first of all, we should pay attention to the end-users of social innovations that can be divided to social targeted groups, social businesses and NGOs (Non-governmental organisations) as well as the state and society.

**The social targeted groups**: students and pupils, aged or disabled people, social exclusion groups (discrimination of women, lonely parents, etc.), working people with low incomes, volunteers, social workers, cultural and art workers and retired professionals, non-governmental organizations (NGOs), educational institutions and the staff, the research and development organizations and science, research and business intermediaries, public administration organizations and others.

**The social business** is the other important group of social innovations users. Social enterprises comply with a mission for social benefits, the ability to recognize and use new opportunities for engaging in continuous innovation, adaptation and learning processes, running, in spite of limited resources. Social enterprises in Lithuania have a goal to employ socially vulnerable people, reintegrate them into the labour market and society, and reduce the social exclusion. Regular social enterprises in Lithuania

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have over 40% of socially vulnerable employees, and it might have over 50% of disabled employees. The government provides benefits and subsidies for the social business: wage subsidy and bonuses on social insurance fee contributions, bonus for each position opening, and funding towards the adaptation of the premises or acquiring specific equipment and funding scheme to assist with employee’s training.

The third group of beneficiaries of social innovations is the state and society, by getting social bonuses for its policy (aid and assistance) and improving the country’s image, credibility and transparency, and attracts investments to Lithuania.

By analysing the social and economic effects of innovation that is representing of creating the innovative cost-effectiveness of social benefits to the business, society, country; the EU investment in innovations as well as the return on factors promoting and disturbing the social innovation and the necessary resources (financial, human, informational, administrative, etc.). These effects are identified by a number of social businesses, society/state, and social targeted groups’ business. In general, social business will benefit from the creation of new networks of the cooperation. The private business might improve communication between enterprises while the participation in projects improves business image and its attractiveness as well as the customers’ satisfaction. The state might improve the legislation process, strengthen the image of the country; improve the attractiveness of the state to investors and to the EU officials. The socially targeted groups, due to a wider range of public services and social businesses, might benefit from the reduced long-term unemployment, the mitigated risk of the vulnerability of groups. It can be argued that the social policy makers within the innovation positively see benefits to all the participants in the innovation process.

Business effects of social innovations could be divided to such outcomes of the direct performance as the income and the customers’ volume, EBITDA (earnings before interest, taxes depreciation and amortization), the customers’ loyalty and satisfaction, and such indirect outcomes as a reduce energy and waste spending or the development of innovative products and services. This helps to enter new markets, to gain competitive advantages, to attract and retain the best employees, to gain customers’ loyalty, and, finally, to improve the business reputation.

Public effects of social innovations can be divided to:

- Decrease in unemployment and reduction of social exclusion of social targeted groups;
- Increased productivity, technological intensity and competitiveness of social enterprises particularly for export products and services;
- Optimization of business processes, strengthening competitive advantages, the country’s image and attraction of foreign direct investments;

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• Close collaboration with such intermediaries linking science, research, educational organisations and business as valleys;
• Strengthening of national innovation systems, knowledge resources, uniting the knowledge society;
• More investment in recruitment and human resources, research and development and innovation, and enhanced intellectual property protection;
• Career guidance, information, counselling, vocational skills assessment, rehabilitation or new training, hands-on training in the workplace;

3. Funding of social innovations

For the development and implementation of social innovation, Lithuanian business has access to the various financial resources. In addition, the business and state companies can get the public support for various project development stages: starting from the feasibility study, training, product/service prototype (beta version) preparation, completion, mass production and terminating by looking for new markets. EU Structural Funds in the company can partially offset the cost of employees’ competence development. While researching companies use raw materials, researchers, project managers and others. Companies, if they get the loans from the banks, may qualify for the state guarantee received by the majority of loans, micro credits, and they can attract the additional funding for the company’s equity and venture capital funds or the Business Angels’ aid. Despite the existing public support, the company which intends to use one of the financial resources to attract measures, in most cases, will have to prepare an investment project or business plan.12 Which from these sources will be used depends on several factors: the innovative project development stage, the innovativeness of the company or the size of the required resources and so on. The funding sources of social innovations may be divided to: venture capital; business angels; EU Structural Funds; state guarantees for loans, state and municipal support and other instruments.

Business Angels, as private venture capital investments in Lithuania, are designed for 8 million EUR (2007-2013) of European Union structural funds. It should be added that no more than half of the required fund can be allocated, while the private investment should account for another 50 percent, with at least 5 percent of the investment project funded by the author and the rest of the investment by Business Angels.

Venture capital is a form of business investment when venture capital funds redeem the company’s newly issued shares. Venture capital funds in Lithuania mostly invest in fixed assets of the companies (to lower risks). This method of attracting the investment is not very developed yet, but the state, promoting the various emergences of financial resources, earmarked for venture capital investment of 28 million euros for 2007-2013.

The direct support for development of social innovation might be obtained from the **EU Structural Funds**: New Opportunities idea EN, Intelligence EN, Intellect LT+, Leader LT, E-Commerce EN, Process EN, Inoklaster EN, Inoklaster EN+, the Human resource development in enterprises, the state aid for the recruitment of highly skilled workers in enterprises. According to the Economic Development Action program, a priority is “for economic competitiveness and growth of the economy and scientific research technological development.” In total, according to the priorities for 2007-2013 programming, there is a fund of 878.9 million LTL provided. All the important roles in promoting the innovation development in Lithuania have the EU’s structural support.

**State guarantees** are guarantees for small and medium businesses (SME), loans, credit guarantee institutions for multifamily housing modernization projects, guarantees for large firms and firms that have encountered temporary financial difficulties as well as the state special guarantees for export credit insurance or guarantees for beginners in their businesses. For the financing of small and medium business it was a new funding instrument established with a voucher of 10.000 LTL, the help of which amounts to 100 percent or 20.000 LTL, where 75 percent of the aid and the rest are covered by the Small and medium business funds.

**The state and municipal financial support** for the development of innovations in enterprises is a more detailed analysis of the financial business support from the state authorities. (Table 1) This will help determine the source of the most innovative businesses.

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Municipal funding</th>
<th>State funding</th>
<th>ES structural funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2004</td>
<td>10,2</td>
<td>1,6</td>
<td>6</td>
<td>4,4</td>
</tr>
<tr>
<td>2004-2006</td>
<td>12,1</td>
<td>2,5</td>
<td>7,5</td>
<td>5,8</td>
</tr>
<tr>
<td>2006-2008</td>
<td>12,3</td>
<td>1,9</td>
<td>5,8</td>
<td>8,2</td>
</tr>
</tbody>
</table>

*Source: LSD “Development of innovations 2008,” 2010*

Given a steady increase during the period 2002-2008, 12.3 per cent of innovative enterprises received the financial support for innovations from various institutions of both the Lithuanian and foreign origin. 5.8 per cent of innovative firms have received the support from the state budget, 1.9 per cent from the municipal budget, and 8.2 per cent of the EU support for the program. In summary, it is important to note that the EU support programs are an important source of funding innovative companies; its value increased continuously during the analysed period. During 2006-2008, 66.7 percent of all the innovative enterprises that have received financial support from the government authorities received it, according to the EU support programs.13

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According to the factors mentioned above, the following model was drawn to bring together social groups, the EU and Lithuania’s support for social innovations, the innovation in the expected business or public and state results of social innovations. (Figure 2) We called it “The paradox of ‘Dragon-butterfly hybrid’.”

![Diagram of the Model of Social Innovations in the Emerging Market of Lithuania](image)

**Figure 2.** The impact of the circle of social innovations “The paradox of ‘Dragon-butterfly hybrid’ ”. Source: prepared by authors.

The paradox of “Dragon-butterfly hybrid” can be explained by the assumption that all the innovations are concentrated on both the financial support of innovations and the social purpose. This supports the statement that the EU’s structural support plays an important role in promoting the innovation development in Lithuania. Therefore, funding is the priority for companies, but only after the public welfare. However, if there is no money available at all, companies do not want the public to help and their social responsibility ends up.

The sustainability, the corporate social responsibility, social impacts and long-term contributions from innovations are often overshadowed by the short-termism among representatives of social businesses. The fact that organizations of social service, in addition to the public, see the dragon side of the “Dragon-butterfly hybrid” in social business jeopardizes a healthy flow of social innovations and cooperation among various size and status organizations within the national innovation system of Lithuania.
make a conclusion, it gets obvious that both public and private sectors need to change their position regarding social innovations: organizations of civil service need to be more proactive and applying business principles in social innovation projects, while social businesses need to be cooperating and strategy-oriented, rather than changing their strategic objectives, based on the EU financial aid. (Fig.3)

![Diagram](image-url)

**Figure 3.** The place of Social business among socially oriented organizations


### 4. Social innovations: the result of simultaneous efforts in various policies

Having the positioning of social innovations among other categories of innovations, the value-added from innovative activities, mainly liaised to a social impact on the today’s society, as well as the application of the EU financial aid while executing various innovation projects, related to social activities, ingeniously scrutinized in previous chapters, the next step is centered on the combination of different EU policies and the influence of this mosaic on the execution of each policy. According to the paradox of “Dragon-butterfly hybrid,” companies often declare being socially responsible and focus on various social impacts of innovations, but in reality their performance and contributions to both the Lithuanian economy and society is imprisoned by the EU financial aid or the national framework of the financial support.

The priorities of the EU 2011 budget are related to strengthening the competitiveness via investments in the R&D or innovations (approximately 45 percent of the EU assignations are allocated to cohesion and competitiveness for growth and employment), the environmental protection as well as the development of alternative energy sources (European Parliament, 2011)\(^\text{14}\); however, within a set of expenses of the Lithuanian 2011 budget less than 2% of expenses are dedicated to the environmental protection and less than 7% to the development of the economy as a whole (Ministry

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Thus, discrepancies appear at both the macro and the micro levels. Within the Lithuanian national system of innovation budgetary priorities of the Lithuanian Republic contradict to objectives, stated at the EU level, while Lithuanian firms are more oriented to the financial support than to social objectives. Notwithstanding a temporary effect of the cost-cutting and the revival of cash flows, such approach could jeopardize the performance of the company in the longer run. Social policy-related activities should be of a long term and attribute to the R&D, upgrading of managerial instruments, enhancing the innovation culture as well as to the organizational structure of the company overall.

It is reasonable to remember principles of the proportionality and subsidiary and reconsider the value-added of the financial support at the level of the whole economy. The principle of the proportionality reminds particularities of the concurrence law, as the financial support from the EU and each state could break rules and principles of the free market, turning against peers that are not financially supported. Though the principle of the subsidiary points at the decision-making and execution at the most efficient level, the insufficiently flexible annual EU budget, imprisoned by 2007-2013 budgetary projections, with modest reserves allocated to a new possible economic downturn, the vacancy of harmonized system of fighting the economic crisis throughout all the EU economies (the EU countries apply different measures to support their economies and companies) as well as the insufficient attention to the economic situation and national needs of each country lead to the situation when main targets, stated at the EU level, are not parallel to national needs and national budget priorities. This could be also illustrated by the lack of lucidity and attention paid to executing the Lithuanian innovation policy via various programs and action plans, while the basic target of the European Union is to strengthen the competitiveness of the EU in global markets via the application of principles of the knowledge economy and a stronger economic integration among the EU states. Such discrepancies leave asymmetric economic shocks not eliminated for the future.

Having priorities of the EU 2011 budget oriented to the competitiveness and cohesion for growth and employment, preservation and management of natural resources, citizenship, freedom, security and justice, where approximately two thirds of the whole budget is dedicated to the agriculture and social cohesion, the EU countries should acknowledge strategic directions of the EU. Stronger efforts in the social policy, attention to the youth, entrepreneurship, R&D, innovations as well as the sustainability and employment are underlined as the main priorities at the EU level. However, as it was already stated in this article, the sustainability, the corporate social responsibility, social impacts and long-term contributions from innovations are often overshadowed by the short-termism among companies and organizations of public administration. We see the dragon side of the “Dragon-butterfly hybrid,” where social innovations do not guarantee a long-term effect.

In spite of slightly smaller assignations allocated to such fields as the Agriculture at the EU level, it is not appropriate to consider such changes as the downtrend, because

the development of various policies in a non-simultaneous way offsets cross-functional synergies at the national level and contributions from cooperation and partnership at the level of each sector. For instance, main players within the sector of Agriculture are encouraged to look for new opportunities in sectors of the environmental protection or the industry of alternative energy sources. Based on such a symbiotic approach, to drive the performance of companies by applying social innovations their leaders should not forget that social innovations are tightly connected to such fields as the environmental protection, the energy policy and sustainable development, the corporate social responsibility, the education and R&D policies, the innovation and human resource strategies and such factors as appropriabilities, the legal base, financial structures, the investment potential or the concurrence law among others. Therefore, the company should take into consideration such aspects as the organizational structure, the availability of financial and human resources, the key-strategic partnerships and the feasibility of innovative projects.

Rather than radically changing their strategies due to the EU financial aid, companies should integrate a new project of the EU to the existing strategic plan of their activities and support it by already executed activities and projects via cross-functional targets and synergies. The initially stated mission and vision, targeted social groups and declared contributions to the society should not be changed because of the difference from targeted social groups and main objectives within the description of various financial schemes, programs or funds. Chiefs executive officers of Lithuanian companies should understand particularities of the trinity “Financial aid—social impact—business strategy,” where any link should not be prioritized, while the match of various policies should guarantee contributions with a triple effect on the society, the company and the economy.

Conclusions

Driven by the intention to scrutinize a set of main impacts of social innovations, derived from factors supporting and prohibiting the innovation performance, on different social targeted groups (social businesses, the society and state), firstly, theoretical aspects of social innovations are analyzed. The conception of social innovations is centred on the definition, where social innovations are any type or intensity innovations that deliver a clear social impact or a set of impacts to both the society and the economy or innovations in the field of the social policy with a focus on innovative social activities or projects. To continue, the potential end-users are identified and the social and economic effects of social innovations, oriented to these targeted groups, are underlined. Having the methodological model for the further investigation of effects of social innovations among various organizations designed, where the paradox of “Dragon–butterfly hybrid” emerges by the assumption that all innovations are concentrated on both the financial support of innovations and the social purpose (funding is the priority for companies, but only after the public welfare), the possible funding sources are overviewed (state aid and guarantees from EU structural funds, venture capital and others). The significance of sustainability and equilibrium in social innova-
tion processes leads to the conclusion that innovative activities should be simultaneous vis-à-vis various policies. Taking into consideration all the barriers to social innovation processes, playing the innovation game individually is not recommended, as many synergies could be reached only by joining efforts of different actors, in addition to the strategic orientation to long-term targets. Among main effects of social innovations for business should be cited: rise in business incomes and profits, customer’s volume, loyalty and satisfaction, business reputation; for the social targeted groups mainly: reduction of unemployment and social exclusion of social targeted groups; for the state: favourable public opinion, reduced pollution and the state’s image.

References

Santrauka. Neigyvendinti Europos Sąjungos Lisabonos strategijos uždaviniai, technologinio intensyvumo ir produktyvumo stoka Lietuvoje, neišnaudotas žmonių išteklių potencialas inovaciniuose procesuose bei naujos ekonominės krizės pamokos byloja apie nepakankamą Europos Sąjungos ekonominę integraciją ir kreipia mokslininkų, verslo atstovų, valstybės tarnautojų ir socialinių organizacijų dėmesį į funkcinės integracijos svarbą, kur derinamos tokios sritys kaip socialinė, ekonominė ar kultūrinė politikos. Straipsnio tikslas – išsiaiškinti, kokie yra pagrindiniai socialinių inovacijų tikslai bei kiek socialinėms inovacijoms būtina ir naudinga finansinė parama. Apžvelgus inovacijų teorijas, klasifikacijas ir išaiškinus socialinių inovacijų interpretavimo kitų inovacijų atžvilgiu ypatumus, straipsnyje apibendrinami mokslininkų atstovų tyrimų rezultatai ir sukuriamas metodologinis socialinių inovacijų diegimo skirtingo dydžio, lygio, statuso ar sektorių organizacijose tyrimų modelis. Didinant socialinė visuomenės gerovę, socialinių inovacijų žaidejai vienija, nes socialinių inovacijų vaisiai saldūs tiek viešojo administravimo, nevyriausybinių organizacijų ar asociacijų, tiek verslo atstovams. Konceptualusis metodologinis modelis primena drakono ir drugelio hibridą. Ugnį spjaudantis drakonas simbolizuoja organizacijų teikiamą prioritetą Europos Sąjungos ir nacionalinėse finansinėse paramose, socialinių inovacijų poveikį ir tikslus pozicionuojant antrame plane. Pirmiausia – finansinė parama, o tik paskui socialiniai tikslai. Drugelio pusė juda link socialinių tikslų ir visuomenės gerovės. Neparengus aiškių strategijos ir nepasiektų visų suinteresuotų žaidejų konsensuso, straipsnyje aprašyto hibrindo veiksmų yra labiau atitinkantys trumpojo laiko procento tikslą ir ignoruojantys tvarią plėtrą. Daroma išvada, jog verslas neturėtų per daug dėmesio skirti finansinėse paramose, o jis tik dėmesio išsiaiškinti finansinę paramą, o tai dėmesio socialinės politikos tikslus.