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## **Social Innovation in New Member States**

Part I – Theoretical Investigation on Economic Underpinnings

Saeed MOGHADAM SAMAN & Anna KADERABKOVA

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# Social Innovation in New Member States – Part I – Theoretical Investigation on Economic Underpinnings

Saeed MOGHADAM SAMAN\* & Anna KADERABKOVA\*

\* VŠEM – Centre for Innovation Studies

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## ABSTRACT

*Mainly inspired by Murray, Mulgan and Caulier-Grice's approach in identifying inquiry areas in studying economics of social innovation, we have divided the theoretical investigation of economic underpinnings of social innovation in the New Member States of the EU to two parts; micro inquiry and macro inquiry. The micro inquiry concerns social innovation process, while macro inquiry concerns broader socio-economic context in which social innovation gets realized. For sake of micro inquiry, and due to methodological advantages explained, we use Actor-Network Theory (ANT) and its proposed phases in formation of innovation. Relating the transformative phases in ANT framework to dimensions of social capital proposed by Putnam, we characterize the CEE countries, based on their social capital specificities, by hypothesised coherency and consistency of social innovation in their context. For sake of macro inquiry, we implement welfare state typologies as a core concept in political economy, with the view that the specificities of welfare regime in NMSs affect greatly the mission landscape of social innovation. Stemming mainly from two strands of research which has dominated the debate, namely Varieties of Capitalism and Three Worlds of Welfare Capitalism, we review the literature which has studied welfare regime specifications in the CEE countries. We make a conclusion regarding welfare state types in CEE countries based on rather diverse views from the literature, after which we combine these results with hypotheses constructed in a parallel European Commission FP7 project regarding the relation between welfare regime types and social innovation challenges. This way we also hypothesise about the challenges social innovation is faced with in the NMSs based on their welfare state models characteristic.*

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## 1 ECONOMICS OF SOCIAL INNOVATION – INQUIRY AREAS

The way economic environment affects the social behavior of individuals and groups which is the subject of social economics, can be studied through both structural influences (e.g. regulations which lead to market failure conditions, and hence, marginalization of those who are deprived from a service) and influences at agency level (e.g. social entrepreneurship process taken by social entrepreneur). In other words, economic environment influences the social actions through regulating both the collective's imperatives and the individuals' decision space. Hence, in par with this view, in investigating the economic underpinnings of social innovation, we can refer to Murray *et al.* (2009), where they propose three principal levels of inquiry that we need to pursue regarding economics of social innovation, namely systemic, institutional, and process level:

The first is a *macro* one about innovations in the structures and mechanisms of the social economy that would strengthen its capacity to develop and diffuse innovation. It asks what types of institutions and modes of economic operation are necessary to generate adequate responses to the social imperatives now confronting us.

The second is a *micro* inquiry into the process of social innovation – also in the Schumpeterian tradition - about how new ideas are generated and tested out in practice, how they can establish themselves sustainably, how they extend and spread, and how they can confront, by-pass or transform the restrictive structures of the old order.

The third is an inquiry into *innovation in productive systems*. What are the strategies and processes that lead to the re-shaping of the complex topography of critical areas of social production and distribution - of who does what, how and with whom – in ways that reflect the changing paradigm.

The three levels of inquiry mark three areas of social innovation. The first analyses *the institutional conditions for social innovation*, the second *the distinct processes of social innovation* and the third *the systemic innovations* that are needed to address the imperatives of our era. (Murray *et al.*, 2009: 9)

In this study we try to deal with the second aspect (the distinct processes of social innovation) in the first section by implementing Actor-Network Theory (ANT) for describing social innovation process. Taking an original approach then we integrate the social capital theory with ANT to come up with hypotheses regarding the smoothness, consistency and coherence of formation of social innovation networks in the CEE countries. Then in the next section we aim to approach the first and the third inquiry areas mentioned by Murray *et al.* (i.e. the institutional conditions and the systemic innovations) through investigating political economy of the welfare regimes in the NMSs. This is specifically relevant because of the fact that political economy is THE lens through which we can study the changes in social economy and distribution mechanisms in the NMSs brought about by the transition from socialistic to free-market economy at the beginning of 1990s.

## 2 IMPLEMENTING ACTOR-NETWORK THEORY IN MICRO INQUIRY OF SOCIAL INNOVATION

### 2.1 Foreword

The phrase 'social innovation in the new member states' is a formulation which, to be regarded as a subject of inquiry, bears with itself a constructivist lens for the study, for it implies that social innovation in the context of the new member states societies can have, or definitely has, some aspect(s) which is distinguishable from social innovation in

other societal contexts (and in our specific purpose, from the old member states of the European Union).

The term ‘innovation’ is neutral from axiological point of view, because it does not imply automatically to any ethical or aesthetic (or even economic) value, and only refers to the novelty of the phenomena, which has been attributed with being innovative. Novelty itself, although from the realistic point of view can be statistically surveyed and verified, nevertheless is a relative attribute, both due to geographical / contextual reference of inquiry and also the fuzzy nature of what can be called the degree of novelty. However, since the time innovation economics, patronized by Schumpeter, came to the scene of economic theories, for many, innovation has sounded like an early bird that can be vanguard of economic spring’s affluence. When it comes to social innovation, the axiological element is, in some of the provided definitions, obviously existent and detectable, as they presume that SI is (or needs to be) good for society in meeting the social needs.

Following these starting points, several research questions arise in relation to elucidating the issue of studying social innovation in the context of the new member states, of which the most fundamental one can be;

- Is social innovation, from the ontological point of inquiry, context-sensitive? More precisely, does the societal context affect some aspect(s) of the quiddity of social innovation?

Looking at the numerous definitions which have so far been provided for social innovation, and considering the concepts they mostly have in common (like new solutions in meeting social needs, establishing new organisational relationships, and alike) we tend to conclude that, from ontological point of inquiry, social innovation does not seem to be context-sensitive. This does not mean that every social innovation in a specific societal context can be necessarily recognized as a social innovation in any other societal context too. Rather it means that the semantics used in any societal context to describe the social innovation bears a level of similarity, which does not provide considerable counterexamples against giving a negative answer to the question raised above.

However, this remark must not lead to a perception that social innovation can always be objectively

observed and recognized. Rather, when it comes to adopting a research paradigm for studying social innovation, the constructivist position helps us to apply the similar semantics flexibly enough to accommodate the difference in the societal context.

Going back to our topic of social innovation in the EU NMSs, then, the next questions which arise, would be in relation to social construction of SI;

- Are the social innovations in NMSs, socially constructed differently from OMSs?

And if the answer is yes, then;

- What are the context-specific elements in social construction of SIs in the NMSs?

Due to what we mentioned with regards to interpretation of SI, we are more probably, if not surely, destined for a mixed set of positive and negative answers for the former question, which again lead us to ontological relativism stemmed from our adopted constructivist position, and leave us with a quest for unravelling at least the key variables which affect the formula consisting of context-sensitive aspects of social innovation, i.e. the answer to the latter question.

In order to investigate and elaborate on the context-sensitive aspects of social innovation, and thereby hypothesise about social innovation in the context of European NMSs, first we will try to fix an epistemological framework for descriptive analysis of social innovation process from researcher’s point of view. Then, departing from that epistemological framework for SI, we will explore (in the vocabulary of social sciences) the structural specifications which can, in one way or another, affect a defining aspect of SI, including the agencies involved in the SI process and the decisions they make

## 2.2 Social Innovation – An Epistemology

After briefly discussing the relevant fundamental questions in relation to investigating social innovation specificities in the NMSs, and before starting our exploration in the context-specific aspects of SI which can then be applied to the case of NMSs, it is intended here to establish an epistemological framework for SI, in a way which is potent enough in providing us with, as much as possible, a comprehensive explanatory method for describing the SI as

an analyzable social process and also for relating SI phenomenologically to its contextual elements.

Since the question of epistemology partly concerns the quiddity of the analyzed, we need first to remember how social innovation gets substantiated. Hence, here it is worth citing Castro Spila (2012) in relation to what he calls the four modes of social innovations, which include;

- *Technologic*: When the priority of social innovation is based on introducing new technologies as vehicle for change.
- *Political/ institutional*: When the priority of social innovation is based on introducing new regulatory frameworks (laws, regulations, etc...) as a tool for change.
- *Organisational*: When the priority of social innovation is based on changes in organisations or in the creation of new organisations as a tool for change.
- *Cultural*: When the priority of social innovation is based on changes in the behaviors, attitudes or perceptions of target population as a tool for change.

Obviously any combination of these modes, be it in a sequential manner or rather simultaneous, can also be the case of SIs. What is extractable from this fact - that SI can be substantiated in various, and even heterogeneous modes - is that, as to the epistemological framework, we need one which allows us for choosing a method capable of accommodating this heterogeneity in its analytical approach.

As we will explain it next, for the above-mentioned purpose, ANT appears to be a fitting theoretical/ methodological choice in studying innovation, because of one of its fundamental principles called *generalized symmetry* (Latour, 1993). Generalized symmetry describes ANT's core commitment to analysing relations between humans and nonhumans symmetrically i.e. treating human and natural/ technological sides of the innovation in the same terms. In the words of Nimmo (2011: 2), «ANT provides a corrective to the usual social scientific focus upon human beings and the 'social' domain of human 'subjects', by directing attention to the significance of nonhumans in social life.»

Such an approach is helpful in exploring the economic underpinnings of social innovation, be-

cause it highlights also the nonhuman components of economic investigation in our quest for comprehensive description of social innovation process, with deliberately considering the roles of nonhuman factors (or *actants* in ANT's vocabulary) in the social process.

Moulaert F. and Van Dyck B. (2013: 467-470) imply to such a necessity in studying social innovation:

«[...] if we define epistemology as about the achievement of the social legitimacy of the knowledge that is developed, social innovation epistemology is about the possibility to verify the (socially accepted) relevance of the knowledge for social transformation. This relevance has to do with the recognition of the role of social forces and their discourses in the reproduction of scientific legitimacy and, therefore, with ontology. [...] for SI analysis, it is epistemologically coherent to state that a relevant meta-theory should be based on an ontology and ontogenesis that involve relational complexity as well as all relevant types of agency that make or seek social innovation, or that make it work.»

This epistemological standpoint, accompanied by our previous argument about innovation which pointed us to ontologically relativistic position about it, leads us to conclude that our epistemological framework for studying SI needs to be interactive / transactional, meaning that the SI will be interpreted (and constructed) as a SI only during the formation of relationships among the various agencies that bring about its realization, and also in relationship with the researcher's interpretation.

From this brief but illustrative argument we are inclined to adopt Actor-Network Theory as an adequate lens for descriptive analysis of the SI process and its economic underpinnings. In the following part we elaborate more on ANT's methodology and its applicability for investigating economic underpinnings of social innovation.

### 2.3 Actor-Network Theory – Sociology of Innovation & Social Innovation

ANT describes a body of theoretical and empirical writings developed in the sociology of science and technology during the 1980s and 1990s. It is associated most often with the work of Michel Callon, Bruno Latour and later, John Law. Generally, ANT

argues that actors involved in innovation, whether humans or nonhumans, emerge and take form only as a consequence of their interactions with other human and nonhuman entities (hence the expression Actor-Network). In the other words, an actor is itself embodiment of a network of relations, and a network itself can act as an actor (hence the hyphen is used in Actor-Network). Analytically, ANT is interested in the ways in which networks overcome *resistance*, strengthen internally and stabilize. Law (1987) explains such resistances;

*«In explanations of technological change the social should not be privileged. It should not, that is, be pictured as standing by itself behind the system being built and exercising a special influence on its development...other factors – natural, economic or technical – may be more obdurate than the social and may resist the best efforts of the system builder to reshape them. Other factors may, therefore, explain better the shape of the artifacts in question and, indeed, the social structure that results.»* (Law, 1987: 113)

Although technological change is only one of the possible modes of embodiment of SI, but the methodological logic followed in ANT, which is also called *sociology of innovation*, is very contributive in elaborating the formation of any innovative phenomena. Furthermore, ANT's focus on unraveling the resisting factors against innovation can contribute a lot in identifying contextual specificities of social innovation which resist against the change, for the first necessary condition for any form of social change is its ability to overcome the *social inertia* inhibiting the change.

Three principles underpin ANT's approach to research of the innovation process; namely principles of *agnosticism*, *generalized symmetry*, and *free association*. Agnosticism implies to analytical impartiality applied regarding all actors involved in the study (or abandoning any *a priori* assumption about the accuracy of actant's accounts), whether they are humans or nonhumans. Generalized symmetry means that an abstract and neutral, single vocabulary will be used for all actors (again, whether human or nonhuman) in explaining their conflicting viewpoints. The principle of free association refers to elimination and abandonment of all *a priori* distinction between the technological, the natural and the social. In the other words, Actor-network theory claims that any actor, whether person, object (in-

cluding software, hardware, and standards), or organisation, is equally important to a social network.

These principles help us in integrating all the explanatory elements relevant to the study of a distinct social innovation, without any initial assumption about the dominant actor, and by even utilizing the same analytical terms for both macro and micro level actors. ANT also prescribes following the actants, which for the study of SI implies to tracing the story of embodiment of the SI from the beginning by tracing the formation of *association*<sup>1</sup>s between heterogeneous entities.

As mentioned in the previous section, social innovation can get embodied in different modes, in a spectrum from cultural changes to technologic innovations, and including their combinations. This is hence a good reason why Actor-Network Theory is a strong candidate for descriptive analysis of the SI processes, i.e. due to its specificity which is being a material-semiotic approach (meaning that it maps relations that are simultaneously material (between things) and semiotic (between concepts)). In fact, the ANT network is conceived as a heterogeneous amalgamation of textual, conceptual, social, and technical actors. What ANT does is to study the relation and 'dynamics' amongst these actors to explain the process which ends up in innovation. Or in Cressman's (2009: 2f.) words:

*«ANT sets out to "follow the actors"; a confusing dictum if only because there are so many actors within any given network, including some who may emerge and disappear long before a recognizable network is finalized.»*

As it concerns social innovation, this attribute of ANT helps us not to neglect the economic underpinnings and explanations which have already influenced its formation, while they might not be necessarily actively playing a role when the SI is born.

Some scholars see ANT as a constructivist approach, which just describes how combination and interaction of elements result in an innovation, rather than giving essentialist explanations of it regarding its accuracy or falsehood. This specification of ANT (which stems from the fundamental principle of agnosticism in ANT) might be considered another

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<sup>1</sup> Latour uses the term *sociology of association* to distinguish ANT from classical sociology which he terms it *sociology of the social*.

advantage in using ANT as a descriptive method for studying SI, since we might prefer to avoid *a priori* evaluation of a specific SI as a good innovation.

However, there has been no consensus among the scholarly accounts about ANT's epistemological approach. For instance, Cordella and Shaikh (2003: 18) while opposing the view that sees ANT as a constructivist theory, posit ANT in the middle of the debate between constructivist and technological determinism studies, saying that:

*«The ontology of ANT is that reality emerges through the interplay of various actors [both technology and people], so in a sense reality becomes 'real' when actors interact.»*

Cressman (*ibid*: 8) also takes a similar position, by contrasting ANT to SCOT (Social Construction of Technology, which is a constructivist theory):

*«Whereas SCOT looks for relatively stable social groups to explain the meanings ascribed to technical objects, ANT seeks a symmetrical account of the social and the non-social.»*

Degelsegger and Kesselring (2012: 70) emphasize on this advantage of ANT in studying innovations without discriminating between technological and social innovations, and conclude that:

*«We therefore need instruments that allow us to monitor innovation and diffusion processes much more extensively ("social impact assessment" would probably be such an instrument) to see how innovation changes our society. ANT shows us that the innovation process never really stops, innovation is never just a product; it rather establishes a new actor-network of humans and non-humans that lives on in the collective. It has to be maintained, monitored and reassessed.»*

This notion of the need for maintaining the innovation, which in the social innovation literature is most close to the concept of sustaining the SI, is what we will later come to it using the terms 'coherence' and 'consistence' of the network.

An aspect criticized by opponents of ANT is its view of social as a flat world, meaning that it does not recognize context or macro-level<sup>2</sup>. However,

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<sup>2</sup> For instance, Latour (2005: 24) himself is very clear in this regard: *«[For implementing ANT methodology] Be prepared to cast off agency, structure, psyche, time, and space along with every other philosophical and anthropological category.»*

there has been no concluded consensus among the practitioners implementing ANT about this aspect too; there are other interpretations about the position of ANT regarding the context. For example Naidoo R. (2008) [10] notes that; "ANT proponents argue that macro levels can be investigated with the same methodological tools as the micro-level, since the macro-structure of society is made of the same stuff as the micro-structure (Latour, 1991)." (Naidoo, 2008: 125) And "Proponents of ANT perceive the context to be both social and material, which is a hybrid of both human and non-human actors." (Naidoo, *ibid*: 131).

So again we can see that this approach helps us to take the advantage of seeing the non-human actors also as contextualizing the social innovation together with human factors, which facilitates for us investigating the economic underpinnings of social innovation.

Now, after some elaborations on the epistemological advantages of implementing ANT in studying the economic underpinnings of SI, we will turn next to ANT's methodological advantages for the same research purpose.

## 2.4 Translation Processes & Social Innovation Processes in the CEEs

Another main purpose for us in implementing ANT for describing the SI process, apart from its detailed and comprehensive inclusion of all relevant actors, is to benefit from ANT's approach in studying the formation of associations which lead to innovation. This is based on observation that different societal contexts can influence the process of social innovation with regards to the *coherence* and *consistence* aspects of association formations, which can affect its ability in overcoming the social inertia; otherwise the SI is perceived to follow a same set of stages in any societal context<sup>3</sup>.

The process of creation of an actor-network is called 'translation'. The concept of translation (of an innovation), as identified by Callon (1986), focuses on the continuity of the displacements and transformation that happen in the innovation's story. Cal-

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<sup>3</sup> For instance, see Open Book of Social Innovation by Murray *et al.* in which they define key SI process elements as: prompts, proposals, prototypes, sustaining, scaling, and systemic change.



lon (*ibid*) summarized the process of translation as four ‘moments’ or phases, which can also overlap, called respectively *Problematization*, *Interessement*, *Enrolment*, and *Mobilization*.

*Problematization* describes the initiation of an actor-network. At this moment, the network builder – which could be a single actor or a group of actors – define the identities and problems of all of the other humans and nonhumans that are to be implicated in the (future) network currently in development. The actors attempt to establish themselves as an obligatory passage point (OPP) and become essential for the network. OPP hence refers to the point that channels all interests into one direction.

*Interessement* describes the process through which the network builder(s) invites or ‘interests’ the as-yet-undefined actors to perform the identities prescribed by the network builder(s) in the moment of problematization.

*Enrolment*, the third moment of translation, is the moment that another actor accepts the interests defined by the focal actor by accepting the solution proposed by the network builder(s).

Mobilization describes the moment the network starts to operate target oriented to implement the proposed solution. If actors can be fixed in the alliance after the policy decision is reached, then the power of the lead actors will be institutionalized.

Adopting the translation process for describing the process of social innovation will help us to contextualize the SI process through investigating the impact of context-sensitive factors affecting the coherence and consistence of the network. For this purpose we consider the role of social capital to be determining. Social capital according to Putnam (1995) [13] “refers to features of social organisations such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit.” (Putnam, 1995: 664-665)

As it concerns social innovation, then, the impact of social capital on the SI process (or translation of innovation in ANT vocabulary) is one of the key factors. This is due to the fact that elements of social capital like *social trust*, and *bonding social capital* and *bridging social capital*<sup>4</sup>, all help to streamline

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<sup>4</sup> Robert Putnam (1993) makes a distinction between two kinds of social capital: bonding social capital and bridging social capital. Bonding occurs when one is socializing with

the association of the actors to the actor-network (of social innovation). This approach of explaining the translation process facilitation through social capital will in turn help us to expose the economic underpinnings of social innovation in different social contexts, not least because of the fact that social capital is tightly correlated with the level of economic development. (cf. McNeely, 2012)

So in sum we hypothesise that the process of the formation of SI is streamlined with higher social capital level by facilitating the interessement, enrolment and mobilization stages of the translation process of innovation.

As it concerns the CEE countries, then, we can refer to Growiec and Growiec (2011), where they note that when it comes to the social trust, it is “uniformly low in all CEE countries, much lower than the EU average”. However, a distinction can be made according to them between marginally more trusting countries including Slovenia, the Czech Republic, Hungary, Lithuania and Estonia, and most distrustful countries including Poland, Slovakia and Latvia.

Also they imply to heterogeneity of these countries when it comes to their social capital resources, both in terms of bonding and bridging social capital, concluding from their investigations that:

*«It is straightforward to point out the leaders of the region in terms of bridging social capital – the “innovative” power – which are Estonia and Slovenia, and the leaders in terms of bonding social capital – the traditional and “status quo maintainer” power – namely Poland.» (ibid: 17)*

As mentioned earlier, we see social capital as highly related to the three last phases of translation process, namely interessement, enrolment and mobilization. Now we associate each of these phases to distinct dimensions of social capital, including social trust, bonding social capital and bridging social capi-

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people who are like him/ her: same age, same race, same religion, and so on. Putnam explains that in order to create peaceful societies in a diverse multi-ethnic country, one needs to have a second kind of social capital: bridging. Bridging is what one does when he/ she make friends with people who are not like him/ her, like supporters of another football team. Putnam argues that those two kinds of social capital, bonding and bridging, do strengthen each other. Consequently, with the decline of the bonding capital mentioned above inevitably comes the decline of the bridging capital leading to greater ethnic tensions.

tal. In our view, since interessement is related to capability of convincing new actors to join the network, the bridging social capital can be more relevant factor in improving the process. Then, since enrolment phase deals with new actor's acceptance of the interests defined by the network builder, the social trust would have a determining role. Finally, when it comes to mobilization phase, the bonding social capital plays a key role, because it can help the actors to keep with the alliance formed.

Based on this, and considering the results of the research done by Growiec and Growiec (*ibid*) about

social capital in the region, we hypothesise at this stage by characterizing the CEE countries according to the potential of (relative) coherence and consistency of innovation translation process in these countries due to their social capital specificities. Table 1 shows this hypothetical classification of countries based on data from Growiec and Growiec (*ibid*) about social trust, and bonding and bridging social capital in the CEE countries.

Table 1. Hypothesised smoothness of forming social innovation networks in the CEEs

	Estonia	Latvia	Lithuania	Poland	Czech Rep.	Slovakia	Hungary	Slovenia
Smooth interessement phase due to higher bridging SC	●	●			●	●		●
Smooth enrolment phase due to higher bridging SC	●		●		●		●	●
Smooth mobilization phase due to higher bridging SC		●		●	●	●	●	●

Source: Own work based on Growiec and Growiec (2011)

Based on what is shown in the Table 1, we hypothesise that the translation process of (social) innovations are (in relative terms) most coherent and consistent in Slovenia and the Czech Republic. Next country with the highest potential and possibility for coherency and consistency of (social) innovation networks is Estonia due to the fact that there is no immediate interruption in the translation process after problematization phase, while in Slovakia, Latvia and Hungary there is more possibility of interruption in the (social) innovation process due to more immediate phases which may suffer from shortage of social capital. Lithuania and Poland represent the countries with least social capital for the coherency and consistency of (social) innovation.

Hypotheses have been verified by means of an Expert Panel Survey (see Samen & Kaderabkova,

2015). The results are presented in Part II of this working paper.

## 2.5 Is ANT all we need? Combining Micro and Macro Accounts – The Role of New Political Economics

As it was explained at the outset of this deliverable, we see ANT as having potential for describing the economic underpinnings of the SI at the micro-level. Nevertheless, in approaching the macro-level factors influencing the SI process, we tend to involve other, more historically encompassing frames to enrich our toolkit in analyzing the contextual specificities of social innovation.

This is necessary due to the fact that, as a dynamic system, the societies build on the stock of

achievements and shortcomings made up throughout their history, and hence the formation of social phenomena within them may not be thoroughly captured without including those historiographically-informed dimensions<sup>5</sup>.

Indeed, it is necessary to enrich our approach in studying the economic underpinnings of SI through involving structuralist accounts to avoid the pitfalls of post structuralism (to which ANT theory belongs) regarding its presumed hypotheses. Mouzelis (1995: 6) explains such risks;

*«[...] the poststructuralists' total rejection of the agency-structure and micro-macro distinctions, as well as their failure to show how discourses or texts are hierarchized via unequally empowered agents, has led to a systematic neglect of the hierarchical features of complex societies, as well as to the disconnection, or very tenuous connection, between theory and empirical research.»*

Hence, we tend here also to supplement the ANT's strength in micro-level detailed description of innovation process - which it does by 'following the agents' - with theories more capable of addressing the historical-structural aspects to observe the 'starting point' of those agents in their quest for innovating.

Walshman (2001) used such a combinatorial approach by combining *structuration* theory to guide broader social analysis, and ANT to describe the detailed socio-technical process. (Naidoo, *ibid*)

Structuration theory is used to conceptualize the linkage between context and process in society. In this theory developed by Giddens (1984), structure is defined as rules and resources (structuring properties) recursively implicated in social reproduction. In this account, social practices (action) exhibit structural properties. According to Giddens structure and agency are better portrayed as a duality rather than two independent sets of phenomena.

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<sup>5</sup> In the vocabulary of dynamical systems, we may resemble the dominant patterns of coherence and consistence of social innovations within a specific context, to so called *strange attractors* in dynamical systems. Byrne (1998: 6) connects this concept to social sciences research by noting that: «*Strange attractors offer a description of outcomes that, without abandoning a notion of structures, allows for agency. People can make history, but they do so from a given starting point, i.e. not in circumstances of their own choosing.*»

As an example for the rules as structuring properties, we may refer in the sphere of political economics, to the *constitutional economics*, which deals with the economic analysis of constitutional law, explains the choice of alternative sets of legal-institutional-constitutional rules that constrain the choices and activities of economic and political agents.

As we will explain it next, for studying historically informed structural specificities of SI in different NMSs, we will adopt New Political Economy (NPE) as the lens for our study, not least because through approach this we will focus on welfare state regimes in the CEE countries, giving the economic choices a social meaning (which is characteristic of NPE). Furthermore, as Gamble (1995) explains it<sup>6</sup>, NPE is attributed with transcending fixed ideological positions regarding structure vs. agency, which is exactly in line with our approach in studying SI's contextual factors by trying to combine ANT (as an agent-based theory) and structuralist accounts of political economy.

### 3 IMPLEMENTING POLITICAL ECONOMY IN MACRO INQUIRY OF SOCIAL INNOVATION

Since social innovation deals with improving the welfare of individuals and community, an exploration of macro-economic environment for this social phenomenon would best be reflected in a framework which more closely deals with welfare regime with- and within which the individuals interact. Therefore political economy appears as a good choice for this purpose. Gamble (*ibid*: 3) describes that

*«Central to political economy has always been the appraisal of politico-economic systems and analysis of their relative advantages and disadvantages, and recommendation of the most appropriate institutions and structures for the achievement of policy goals, in particular in relation to welfare, distribution, prosperity, and growth.»*

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<sup>6</sup> «*The possibility of a new political economy research programme has emerged, in which the historical and institutional analysis of structure is combined with the rational choice analysis of agency, transcending the old methodological disputes and fixed ideological positions [of structure vs agency].*» (Gamble, 1995: 2)

*Esping-Andersen (1990: 12) points to this relation from another direction of view, stating that, «[...] given the enormous growth of the welfare state, it is understandable that it has become a major test case for contending theories of political economy.»*

Since in this study we would be concerned with the effects of political economy environment on social innovations in the New Member States of EU, and for this reason, we are interested in changes/differences both across the time (specifically the transition from socialist state to capitalist state) and spatially (across the countries of this region), *comparative political economy* provides us with the needed lens for the research. This will let to compare and contrast the welfare regimes in the NMSs, which in turn will contribute to our understanding of the mission landscape in front of the social innovation in each of these countries.

When it comes to the configuration of new welfare regime after the fall of socialist states in the CEE countries, and since the success story of the more prosperous countries in the West was a natural imitation model at the time, it would be relevant to overview the available templates for institutional arrangements in the West, which the post-communist European countries could follow. Ebbinghaus and Manow (2001: 1) provide us with such an overview:

*«Over the last decade, two strands of research have underlined the importance of institutional variations for economic activities and social policy. In comparative political economy, the Varieties of Capitalism approach (Hall and Soskice, 2001) claims that coordinated market economies operate differently from 'free market' economies. And cross-national welfare-state research, most prominently Esping-Andersen's Three Worlds of Welfare Capitalism (1990), has detected different welfare regimes with significant variations in redistribution and market compatibility. Both approaches focus on the cross-national institutional variations in their respective policy field.»*

Hence, in the next sections we will briefly review these two seminal approaches, based on which most of the other post-communism studies on the CEECs' welfare states have been conducted. But before that, we will have a glance at the consequences of the fall of communism for some of the most im-

portant welfare regime determinant factors in these countries.

### 3.1 Consequences of the Fall of the Socialist States for Welfare in the CEECs

As mentioned earlier, the fall of socialist states in the CEECs marked a significant milestone for change in the social economy of these countries. This is specifically because of the significantly different approach taken by socialist and capitalist states towards the social rights.

*«The basic directions of welfare restructuring at turning point is summarized by Cook (2007: 49ff., cited by Sengoku, 2009) as follows: (1) decentralisation of social services and responsibilities, (2) privatisation of social service responsibilities (for example, shifting financial responsibility from state budgets to independent social funds financed by employer-employee wage taxes or to private insurance markets, while legalizing private providers), and (3) replacement of universal benefits by means testing or poverty-targeted benefits.»*

In outlining the socio-economic consequences of the collapse of communism in the CEE countries, Orenstein (2008) refers to the end of price subsidies, full employment, and enterprise-based social provision [due to the transformation of state-owned enterprises] which created enormous pressure for welfare-policy reform, and led to the adoption of a wide variety of 'emergency measures' to combat the dramatic rise of poverty, unemployment, and other social crises.

Potůček (2008: 4) also refers to some of the consequences; *«Compared to the former communist welfare systems, public responsibility for social risk coverage has obviously declined, and private financing has risen due to the re-commodification of important welfare sectors.»*

In fact, communism constrained inequality and advanced the interests of workers, so it is not surprising that inequality increased dramatically after 1989. Table 2 shows that the Gini coefficient, as indicator of income inequality, has raised considerably during the decade after the politico-economic regime change in the CEE region.

Estonia and Slovenia among these countries, however, managed to decrease the Gini coefficient more than others during the next decade, and in case of Slovenia, almost back to the level at the end of 1980s/ beginning of 1990s (see Table 3).

Table 2. Changes in inequality during transition period in the CEEs

Countries	GINI coefficient of income per capita		
	1987-90	1993-94	1996-98
Bulgaria	0.23	0.38	0.41
Romania	0.23	0.29	0.30
Czech Republic	0.19	0.23	0.25
Hungary	0.21	0.23	0.25
Poland	0.28	0.28	0.33
Slovenia	0.22	0.25	0.30
Latvia	0.24	0.31	0.32
Lithuania	0.23	0.37	0.34
Estonia	0.24	0.35	0.37

Source: World Bank (2002b)

Table 3. GINI coefficients for the total population based on equalised disposal income (2004 – 2010)

	2004	2005	2006	2007	2008	2009	2010
Slovenia	23.8	23.7	23.2	23.4	22.7	23.8	23.8
Hungary	26.0	25.3	25.3	24.7	25.1	24.9	25.2
Czech Republic	26.2	28.1	24.5	23.7	24.8	25.9	25.7
Slovakia	27.6	33.3	25.6	25.2	24.7	24.1	26.9
Poland	35.6	33.3	32.2	32.0	31.4	31.1	31.1
Estonia	34.1	33.1	33.4	30.9	31.4	31.3	31.9
Bulgaria	36.3	35.0	33.8	34.0	35.5	36.9	32.9
Romania	31.0	33.0	37.8	36.0	34.9	33.3	33.2
Latvia	25.0	31.2	35.3	35.9	33.4	33.2	35.1
Lithuania	36.1	39.2	35.4	37.7	37.4	36.1	35.2

Source: Eurostat, EU-SILC, cited by EC (2013)

Orenstein (ibid) also points out that, due to the failure of emergency measures in responding adequately to social problems, and also the election of left-wing parties which became a concern for the Western countries, transnational actors like World Bank, OECD (and later, the EU) started to act and

Offe and Fuchs (2007: 19) point to the lack of policies addressing poverty issue in the CEE countries after the fall of socialist states:

*«Early recognition of the existence of poverty issues was rare in the CEE countries, with the notable exception of the Czech Republic and Slovenia. These two countries responded timely to the new challenge of poverty in the beginning of early-1990s while, in other countries of the region, poverty and the poor emerged as a policy issue only in the latter half of that decade. [...] It was only in the course of the accession process that preceded actual enlargement [of the EU to the East] that poverty and social exclusion gained attention due to the EU's emphasis on "fighting exclusion" and the precondition that new member states had to comply with EU standards and policies.»*

have a fundamental influence on the social-policy agenda in post-communist countries after the mid-1990s. For example, mostly based on those organisations' recommendations, *«[...] between 1994 and 2004, eleven post-communist countries partially privatized their pension systems: Bulgaria, Croatia, Es-*

tonia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Poland, Romania, and Russia.» (Orenstein, 2008: 86)

Cerami and Vaynhusse (2009) emphasise the influence of international organisations: After 1989, new social policy ideas [in post-communist CEE countries], often promoted by the World Bank, IMF, OECD and the EU, have involved privatization in pensions, healthcare, elderly care, decentralization and social inclusion policies. (Orenstein, 2009; Cerami, 2006; Theobald and Kern, 2009) Offe and Fuchs (*ibid*: 12) highlight the difference in social expenditures between NMSs and OMSs:

«While the new EU member states from the CEE region spent [by the turn of the century] on average 19 percent of their GDP on social welfare, the old member states reached a share of about 28 percent. The greatest single factor accounting for this gap is under-spending by the EU-8 on health care, as compared to EU-15 average expenditures for the same. (EU Commission 2006: 102).»

Our calculations in Table 4 also shows a gap as large as 10% of GDP in social protection expenditure between EU 11 (NMSs) average and that of EU during the years between 2000 and 2011.

Table 4. Social protection expenditure as percentage of GDP (2000 – 2011)

Countries	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Czech Republic	18.8	18.7	19.4	19.4	18.6	18.4	18.0	18.0	18.0	20.3	20.2	20.4
Hungary	19.9	19.5	20.4	21.3	20.8	21.9	22.5	22.7	22.9	24.3	23.1	23.0
Slovakia	19.4	18.9	19.1	18.4	17.2	16.5	16.4	16.1	16.1	18.8	18.7	18.2
Slovenia	24.1	24.4	24.3	23.6	23.3	23.0	22.7	21.3	21.4	24.2	25.0	25.0
Latvia	15.7	14.7	14.3	14.0	13.2	12.8	12.7	11.3	12.7	16.9	17.8	15.1
Poland	19.7	21.0	21.1	21.0	20.1	19.7	19.4	18.1	18.6	19.2	19.2	19.2
Lithuania	15.7	14.7	14.0	13.5	13.4	13.2	13.3	14.4	16.1	21.2	19.1	17
Estonia	13.9	13.0	12.7	12.5	13.0	12.6	12.1	12.1	14.9	19.0	18.0	16.1
Bulgaria	-	-	-	-	-	15.1	14.2	14.1	15.5	17.2	18.1	17.7
Romania	13.0	12.8	13.6	13.1	12.8	13.4	12.8	13.6	14.3	17.1	17.6	16.3
Croatia	-	-	-	-	-	-	-	-	18.7	20.8	21.0	20.6
EU-9/10/11 average	17.8	17.5	17.7	17.4	18.0	16.7	16.4	16.2	17.2	19.9	19.8	19.0
EU	26.5	26.7	27.0	27.4	27.2	27.1	26.7	26.2	26.7	29.6	29.3	29.0

Source: Eurostat, own calculations

Table 5. Social protection expenditure as percentage of GDP (2000 – 2011)

	Total	Sickness/ Healthcare	Disability	Old- age	Survivor	Family/ Children	Unemploy- ment	Housing	Social ex- clusion
Czech Republic	18.1	6.2	1.5	7.0	0.8	1.4	0.6	0.1	0.5
Estonia	12.2	3.8	1.2	5.4	0.1	1.5	0.1	0.0	0.1
Hungary	21.8	6.3	2.1	8.9	0.3	2.8	0.7	0.5	0.1
Latvia	11.9	3.5	0.9	5.5	0.3	1.2	0.4	0.1	0.1
Lithuania	12.8	4.1	1.4	5.3	0.4	1.1	0.2	0.0	0.2
Poland	18.8	3.8	1.7	9.4	2.1	0.8	0.6	0.1	0.2
Slovakia	15.3	4.7	1.3	6.1	0.9	1.2	0.5	0.0	0.6

	Total	Sickness/ Healthcare	Disability	Old- age	Survivor	Family/ Children	Unemploy- ment	Housing	Social ex- clusion
Slovenia	22.2	7.1	1.9	8.4	1.7	1.9	0.7	0.0	0.5
EU-27 average	21.4	6.1	1.9	8.5	1.2	1.9	1.1	0.3	0.4

Source: Eurostat, cited by Sengoku (2009)

Sengoku (2009) shows that there is also a distinct difference in the level of social expenditure among the CEE countries too, which means that there is a difference in their patterns of welfare restructuring (see Table 5).

Based on analysis of each of the social protection categories in EU-8 countries, Sengoku (*ibid*) then classifies the institutional configuration of social welfare in CEE countries as follows:

1. Institutions providing universal benefits: Estonia, Latvia, and Slovenia
2. Institutions for the needy: Lithuania, Poland
3. Institutions for specific group(s): the Czech Republic, Hungary, and Slovakia

Sengoku (2009: 20) then concludes that:

*«The welfare institutions of Estonia, Latvia and Slovenia have been designed not only for the needy and workers but for the middle classes, and in this institutional configuration, the middle classes receive relatively preferential treatment. Next, welfare institutions in Lithuania and Poland have been constructed mainly for the needy. It seems that in these countries, the main purpose of social policies is to restrain social expenditure rather than to supply proper welfare benefits. Lastly, the welfare institutions of the remaining countries have been structured for specific groups. Institutions of the Czech Republic and Slovakia provide benefits mainly for (lower class) workers, because the welfare institutions of these countries provide flat-rate or low-level benefits for the broad population, and for this reason, the middle classes seek additional services by themselves. In contrast, institutions in Hungary have been constructed mainly for families, as in Hungary, benevolent family benefits coexist with basic security old-age pensions and health benefits.»*

Hence it can be seen that, as Potůček (*ibid*) puts it, the transition to market economies has not made the public sector superfluous, as it still dominates

the financing of health and social care in the New Member States (NMSs). Another characteristic that is shared by all of the new member states regarding their welfare state is that corporate and personal income tax rates in the EU-8 region are considerably lower than in the EU-15, which means a smaller tax income for the welfare state. Hence, it is no wonder to find different socially vulnerable segments of the society to be treated at different levels. For instance, Verhoeven *et al.* (2009) studied trends in the income of unemployed, and pensioners (referred to as social benefit holders) for the period from 1991 to 2002 for five Central and Eastern European (CEE) countries: the Czech Republic, Hungary, Poland, Russia, and Slovakia. They compared these income trends to changes in the income of the working population. The study also covered the influence of the reconstruction of the social safety net along the time on the income of people depending on social benefits during the market transformation process. The study showed that the income of pensioners was relatively protected while the unemployed were among the losers of the market transformation process.

Efficient use of the resources is another differentiating factor. For instance, in seeking to show changes in social policy (social security and health care) arrangements in Estonia, Latvia, and Lithuania during the 2000-2012 period based on national and international statistics, Aidukaite (2013) finds that although Estonian government does not spend [considerably] more than the other Baltic states on social protection (expressed as a share of the GDP), Estonia is in a better shape regarding family support systems, pension and unemployment, the reform of the pension insurance, and efficiency of health care system.

After this short review of the consequences of the dramatic politico-economic change in the CEE region at the end of 1980s/ beginning of 1990s and before reviewing the literature which has strived to

classify the welfare state type in these countries after that turning point in time, we will have a short review of the two seminal approaches, based on which most of the other post-communism studies on the CEECs' welfare states have been conducted

### 3.2 Three Worlds of Welfare Capitalism

Prior to coming up with his classification known as three worlds of welfare capitalism, Esping-Andersen (*ibid*) explains that two types of approach have dominated in explanations of welfare states; the system/structuralist approach and institutional/actors approach. The structuralist approach is inclined to emphasize cross-national similarities rather than differences; being industrialized or capitalist over-determines cultural variations or differences in power relations. The institutional approach insists that any effort to isolate the economy from social and political institutions will destroy human society. The economy must be embedded in social communities in order for it to survive.

However, Esping-Andersen (*ibid*) recognizes another approach which, flowing from social democratic political economy, sees social class as political agent, and differs from structuralist and institutional analyses in its emphasis on the social classes as the main agents of change, and in its argument that the balance of class power determines distributional outcomes. Accordingly, parliamentary politics is capable of overriding hegemony, and can be made to serve interests that are antagonistic to capital. However, he cites that this approach is too much on the basis of the rather extraordinary Swedish experience. Then he concludes that:

*«In sum, we have to think in terms of social relations, not just social categories. Whereas structural functionalist explanations identify convergent welfare-state outcomes, and class-mobilization paradigms see large, but linearly distributed, differences, an interactive model such as the coalition approach directs attention to distinct welfare-state regimes.» (Esping-Andersen, 1990: 18)*

Hence, he asserts that the history of political class coalitions is the most decisive cause of welfare-state variations [or regimes], and that these regimes follow qualitatively different developmental trajectories.

Esping-Andersen evaluates the different welfare regimes using three multifaceted dimensions: (1) the degree of de-commodification (the extension of social rights independent of market mechanisms); (2) the system of stratification (i.e. inequality in outcome); and (3) the state–market–family mix (i.e. the form and locus of social protection). Based on this, he envisages three worlds of welfare capitalism:

*«There is, first, the Scandinavian Social-democratic World with generous decommodification and the stratification of inclusive social citizenship, financing universal benefits through taxes. The state is the main welfare provider in this regime. Second, we have the Continental European Conservative World with a varying degree of decommodification and stratification that preserves the status of workers, white collar employees, civil servants, or the self-employed through separate insurance schemes. The family is supposedly the main welfare provider in this regime. And third, the Anglo-Saxon Liberal World is characterised by minimal decommodification and stigmatising stratification through residual, means-tested benefits. Here, the market is the main welfare provider.» (Schelke, 2012: 5)*

Esping-Andersen puts both social democratic and corporatist welfare states in the category of middle-class welfare states, while liberal welfare state is considered as welfare state of residual social stratum. By this, he means to explain that their future prospects, as their past evolution, would depend on their respective founding class coalition.

Also regarding the quiddity of welfare state, Esping-Andersen distinguishes among various generations of comparative studies;

*«The first generation takes the level of social expenditure by the state as reflecting its commitment to welfare. However, this approach is considered to be misleading due to the fact that not all relevant expenditures are show up on expenditure accounts, and not all expenditures result in desirable outcome. Furthermore, sometimes low spending can better signify state's commitment to welfare (e.g. lead to full employment).*

*The second approach distinguishes between residual and institutional welfare states. In the former, the state assumes responsibility only when the family or the market fails; it seeks to limit its commitment to marginal and deserving social groups. The latter*



model addresses the entire population, is universalistic, and embodies as institutionalized commitment to welfare. It will, in principle, extend welfare commitments to all areas of distribution vital for societal welfare. [...] It is an approach that forces researchers to move from the black box of expenditures to the content of welfare states: targeted versus universalistic programs, the conditions of eligibility, the quality of benefits and services, and, perhaps most importantly, the extent to which employment and working life are encompassed in the state's extension of citizen rights.

*The third approach is to theoretically select the criteria on which to judge types of welfare states. However, this would be ahistorical, and does not necessarily capture the ideals or designs that historical actors sought to realize in the struggles over the welfare state.»*

Cerami and Vaynhusse (*ibid*) re-affirm that both history and politics matters. As regards post-communist welfare pathways, they assert that the emerging model or models of post-communist welfare are likely to lead to peculiar institutional hybrids not responding closely to Esping-Andersen's three-worlds typology or other typologies that have followed in its wake.

Also Ingot's (2008) analysis of welfare states in East Central Europe is guided by a historical-institutionalist framework that focuses on both institutional and policy legacies. He conceptualizes East European welfare states as a 'layered' structure of various social (insurance) programmes that have been added to the fragmented and often inconsistently applied Bismarckian structures of social insurance throughout the history. Ingot uses the term 'emergency politics of social policy' to denote the recurrent patterns of social policy that emerged to manage the deep and regular economic and regime crises which occurred in these countries during the last decades.

Cerami and Vaynhusse (*ibid*: 2) put Ingot's view this way: *«In this account, Central Europe's history of instability, authoritarianism and meddling by foreign powers has led its nation states to develop 'emergency' welfare states – meant to be temporary, but which have become permanent over time.»*

### 3.3 Varieties of Capitalism

In the last two decades, the 'varieties of capitalism' (VOC) approach has become a leading paradigm in comparative political economics and particularly in the study of European capitalisms (Drahokoupil, 2008).

The seminal book by Hall and Soskice (2001) is still source of discussions and reworks. Hall and Soskice locate firm at the center of the analysis, and describe their approach as actor-oriented;

*«The varieties of capitalism approach to the political economy is actor-centered, which is to say we see the political economy as a terrain populated by multiple actors, each of whom seeks to advance his interests in a rational way in strategic interaction with others (Scharpf 1997a). The relevant actors may be individuals, firms, producer groups, or governments. However, this is a firm-centered political economy that regards companies as the crucial actors in a capitalist economy.» (Hall and Soskice, 2001: 6)*

Following this view, Hall and Soskice assert that success of the firm depends on its ability to coordinate effectively with a wide range of actors that include suppliers, clients, collaborators, stakeholders, trade unions, business associations, and governments. Based on this, they focus on five spheres in which firms must develop relationships to resolve coordination problems central to their core competencies.

These spheres include:

1. industrial relations,
2. vocational training and education,
3. corporate governance,
4. inter-firm relations, and
5. employees

Then, by reference to the way in which firms resolve the coordination problems they face in these five spheres, Hall and Soskice compare the national political economies, and draw the core distinction between two types of political economies, namely *liberal market economies* and *coordinated market economies*.

*«In liberal market economies, firms coordinate their activities primarily via hierarchies and competi-*

tive market arrangements. Market relationships are characterized by the arm's-length exchange of goods or services in a context of competition and formal contracting. In response to the price signals generated by such markets, the actors adjust their willingness to supply and demand goods or services, often on the basis of the marginal calculations stressed by neoclassical economics. In many respects, market institutions provide a highly effective means for coordinating the endeavors of economic actors.

In coordinated market economies, firms depend more heavily on nonmarket relationships to coordinate their endeavors with other actors and to construct their core competencies. These non-market modes of coordination generally entail more extensive relational or incomplete contracting, network monitoring based on the exchange of private information inside networks, and more reliance on collaborative, as opposed to competitive, relationships to build the competencies of the firm. In contrast to liberal market economies (LMEs), where the equilibrium outcomes of firm behavior are usually given by demand and supply conditions in competitive markets, the equilibria on which firms coordinate in coordinated market economies (CMEs) are more often the result of strategic interaction among firms and other actors. »(Hall and Soskice, 2001: 8)

Cerami and Stubbs (2011: 9) distinguish between the two variations citing that:

«In LMEs the state adopts a classical *laissez-faire* approach, avoiding intervening in economic actions, preferring to leave these to market forces. In this variety of capitalism, welfare institutions play only a residual role in poverty reduction, with limited state interventions in social protection. In CMEs, by contrast, the state takes a more active role in economic regulation, influencing the actions of market actors through a variety of economic, monetary and fiscal policies. There is also a more active welfare state responsible for extensive skills production and social reproduction. The establishment of a well-functioning skills production regime represents for CMEs a vital institutional complementarity able to provide important comparative institutional advantages to the capitalist system.»

However, after this seminal book of Hall and Soskice, some scholars have introduced other varieties of market economy as well. Most notably,

Schmidt (2009) identifies a third variety of capitalism which she terms a state-influenced market economy (SIM), typical of France, Spain and Italy. Here, the state plays a much more active role than in ideal-typical LMEs or even CMEs.

As to the link of capitalisms types to the innovation, Drahekoupil (2009) asserts that the VoC showed that different proper mixes of institutional complementarities can in different ways provide comparative institutional advantages for competitive strategies of firms. While the LME variety, typically represented by the US and the UK, is superior in providing advantages to 'radical innovators', the CME of which Germany is the leading example, can compete with products relying on 'incremental innovation'.

### 3.4 New Member States – Can we classify their Welfare Regimes?

A consensus among the scholars studying the welfare regimes in the post-communist CEE countries can hardly be extracted. This is not only because of the CEEC's dissimilarities with the aforementioned types of welfare states in Western Europe, but also the differences among themselves.

In review of the literature on welfare state development in CEE countries, Adascalitei (2013) argues that until now two strands of literature have crystallised: institutionalism and actor-centred explanations. Institutionalists agree that welfare reforms are limited by the path dependence of the national welfare state structures though this framework is biased towards explaining stability. Recent literature seeks to overcome this bias by adding variables that traditionally belong to the actor-centred paradigm [...] and [they] model the social policy development based on the interplay between different actors (parties, trade unions, governments, international agencies, and multinational corporations). All in all, he notes that; «Twenty years after the collapse of communism, the literature studying Central and Eastern European (CEE) welfare states has not yet reached a conclusion on what explains their variation, their different trajectories or the extent of their transformation» (Adascalitei, 2013: 1).

Schelke (*ibid*: 9) also explains that «[m]ost former socialist countries of Central and Eastern Europe are notorious outliers in both Worlds and Varieties,

*even two decades after they started transition.»* Orenstein (*ibid*) also had pointed that the post-communist welfare states do not fall into one of the three categories of welfare-state capitalism identified by Esping-Andersen.

Beblavy (2008: 2) compares the Eastern and Western European countries in respect to the size aspect of welfare state and redistribution inclination, mentioning that «*[t]he welfare states of the EU-10 countries are much smaller than those in the western half of the continent and generally demonstrate much stronger emphasis on redistribution to prevent poverty.»*

Likewise, Fenger (2007: 26) found a clear distinction between the traditional

*«European welfare states that formed the subject of Esping-Andersen's famous typology, and the countries of Central and Eastern Europe, however, among the post-communist countries, they are the closest resembling the Western countries. But generally he asserts that; "[...] the post-communist subtypes mix elements of the conservative-corporatist [characteristic of Germany, France and Southern-European countries] and, to a lesser extent the social-democratic type [which is characteristic of Scandinavian countries].»*

In more detailed level, Fenger (*ibid*) recognises three post-communist welfare types in Europe; including the Former-USSR type in i.a. Balkan States, the Post-Communist European type in Bulgaria, Croatia, and the Czech Republic, Hungary, Poland, and Slovakia, and finally the Developing welfare states type in Georgia, Romania and Moldova. Countries in the first group have relatively high government expenditure but with low government programs. Countries in the second group have had a relaxed economic development and egalitarian approach too. The countries in the third group are still developing towards a mature welfare state.

Even when an attempt is made to assimilate the welfare state of the CEECs to one of the established European models, it is not necessarily backed by other studies. For instance, Feldmann (2006) has studied Slovenia and Estonia as the most similar cases to pure CME and LME respectively. Kuokštis (2011) but does not agree with understanding of Baltic countries as LME cases, not least because of the lack of a fundamental feature – highly developed

financial markets and related forms of ownership. Instead, he proposes to consider them as a new category, which he names as Flexible Market Economy (FME), which is characterised inter alia with very limited industrial policies in place and very high degree of labour-market flexibility.

As to the Visegrad countries, Kuokštis (*ibid*) adopts Nölke and Vliegthart (2009) proposition that they (Czech Republic, Slovakia, Poland and Hungary) represent also a different variety of capitalism – namely, 'dependent market economies', or DMEs. In their words, «*[...] the common denominator of the third variety is the fundamental dependence of the ECE economies on investment decisions by transnational corporations»* (Nölke & Vliegthart, 2009: 7). In DMEs, the primary method of coordination is hierarchical decision-making by transnational corporations (TNCs), because the share of foreign ownership in strategic sectors like automotive, banking and electronics in these countries is very high (in all of them above 70% based on data from 2002 or 2004, see Nölke and Vliegthart, *ibid*). According to this view, the coordination in the DME takes place from headquarters towards the local branches of transnational companies.

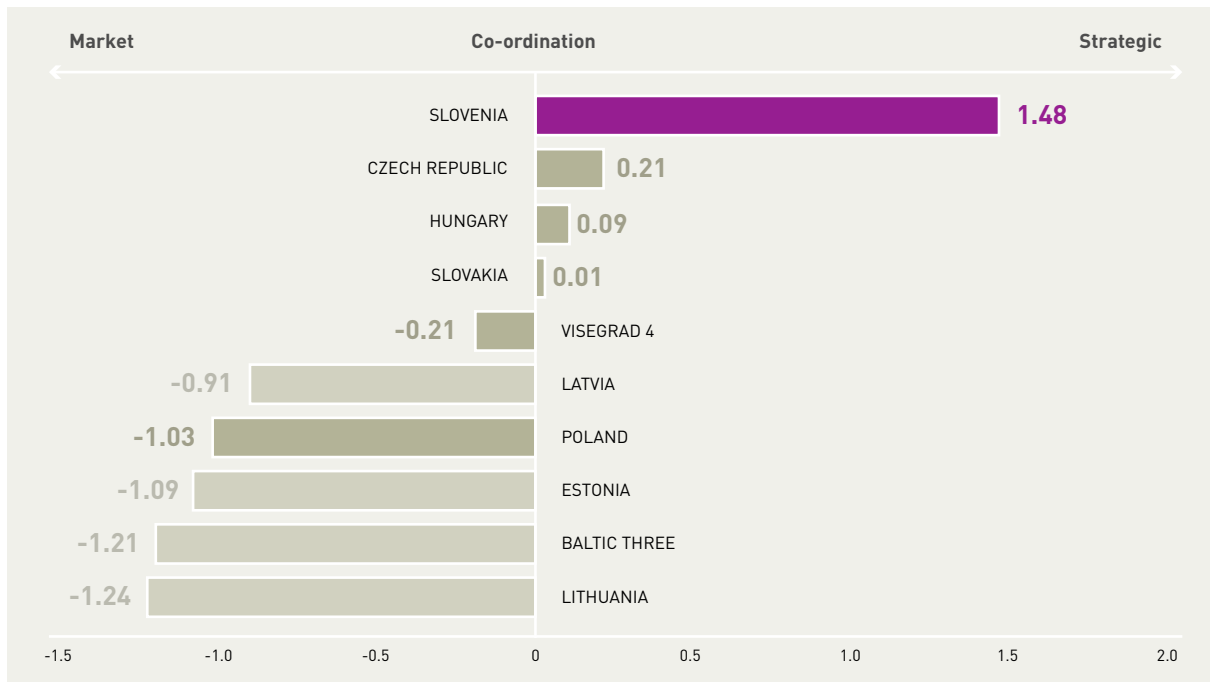
Baboš (2010) applies quantitative methods to identify the type of capitalism that exists in Central and Eastern Europe by constructing a composite coordination index (applicable to pre-financial crisis time) based on the character and strength of the coordination of the actors concerned. Focusing on the observable and measurable evidence of the institutional support for coordination, Baboš uses variables representing all of the five key spheres of coordination identified by Hall and Soskice (*ibid*), i.e. industrial relations, vocational training and education, corporate governance, inter-firm relations, and employee sphere. As is shown in the Figure 1, his conclusion confirms the hypotheses of scholars who suggest that Slovenia is the closest to a coordinated market economy, while the Baltic countries are closest to a liberal one. According to Baboš (*ibid*: 17) «*Hungary, Slovakia and the Czech Republic seem to have their capitalisms not yet institutionally embedded. There is no evidence that liberal or coordinated institutions dominate their market economies.»*

Later, in 2013, Baboš together with Klimplova concluded from studying the coordination of economic actors in the Czech Republic and Slovakia that

the two countries don't show an inclination towards any of the ideal types of the VOC approach. They argue that it is even possible to observe the emerging pattern of 'systematic un-coordination', where firms organize their internal relationships with employees

and unions in a liberal way, while keeping the relationships with external actors (universities, government, and banks) strategic, hence exhibiting different patterns in relation to different stakeholders.

Figure 1. Co-ordination Index by average value for the geographic regions (countries are clustered geographically and visually distinguished by colour)



Source: Own graphic, based on Baboš (2010: 454)

Similar result can be seen in studying the industrial relations in Europe by EC's DG Employment, where it finds that;

«Typical features of the [CEE] liberal countries include a marginal welfare state, flexible labour markets and weakly established trade unions and bargaining. The hallmark of the welfarist Visegrad countries is a combination of flexible labour markets, lib-

eral policies, a more generous welfare state, attraction of foreign direct investment in manufacturing and a more structured system of industrial relations. Finally, Slovenia is the only corporatist country in the CEECs, with a regulated labour market, generous welfare state provision and encompassing social partnership.» (EC, 2012: 87)

Table 6. Labour markets, welfare states and main industrial relations characteristics in the CEECs after EU accession (2004-2008)

	Liberal Baltic countries (EE, LV, LT)	Balkan countries	Welfarist Visegrad countries (CZ, HU, PL, SK)	Corporatist Slovenia (SI)
Labour markets	Flexible, high work-related migration from these countries abroad	Flexible, high work-related migration from these countries abroad	Regulated flexibility, work-related migration high from Poland and Slovakia, lower from Hungary, marginal from the Czech Republic	Regulated, low migration abroad for work purposes
Welfare state	Minimalist	Minimalist	Generous but strict conditions, targeting the population outside of employment (mostly pensioners);, lack of active labour market policies	Generous

Source: adopted from EC DG Employment, 2013

Bohle and Greskovits (2007) have divided the Central and Eastern European region into three substantially different sub-clusters, depending on the degree of convergence towards a neo-liberal model. These correspond to a 'neo-liberal' type in the Baltic States, an 'embedded neo-liberal' type in the Visegrad states, and a 'neo-liberal corporatist' type in Slovenia. The typical features of neo-liberal capitalism are very low growth rates of industrial production, a low level of output of complex products, a strict fiscal policy and the lowest levels of social protection. Neo-corporatist type in Slovenia is represented by a high level of social protection, a relatively high share of complex exports and a country, which is 'the least market-radical'. 'Embedded neo-liberal' type in Visegrad countries are more socially inclusive than the Baltic States and have established measures and institutions of industrial policy and social welfare that make their neoliberalism embedded and distinctive.

Cerami and Stubbs (*ibid*) argue that there is a need, within political economy, to explore the role of political elite capture of resources in the development of welfare regimes, thus emphasizing on the importance of bringing *institutions* and *political agency* back into the analysis of welfare and its transformations.

In their classification of welfare capitalism in the post-communist countries, Cerami and Stubbs (*ibid*) define three types of market economies in these countries, including *state-enabled market economies* in Central and Eastern Europe and the Baltic States, *state-influenced market economies* in South Eastern

Europe, and *State-Interfered Market Economies* in the countries of former Soviet Union. The first group is characterised by 'a mix of market-enabling state interventions and policy-making', and while in Estonia, Latvia and Slovakia have moved closer to a liberal state form and more explicitly than in Czech Republic, Hungary, Lithuania and Poland implementing neo-liberal policies with less of an emphasis on social cohesion (Bohle & Greskovits, *ibid*).

Lendvai (2009) [46] while analysing the post-communist states after accession to the EU, divides them in three groups: neoliberal welfare model, social corporatist welfare model and a more hybrid or incongruous welfare model. To start with, the neoliberal welfare model as described by Esping-Andersen is characterised by low protection and high economic openness, to the most minimalistic definition.

Within the context of the new member states in EU from the post-communist bloc, four countries have followed this path: Estonia, Latvia, Lithuania and Slovakia, all having followed the trend of «*radical economic reforms resulting in minimal states, low welfare spending, low taxes, strongly deregulated labor markets and widespread liberalization*» (Lendvai, 2009: 13). Namely the neoliberal tendency in these countries has resulted with minimum social obligations leading to increasing inequality, high poverty rates, low pension replacement rates, poor targeting and insignificant funds for healthcare.

The social corporatist welfare model is explanatory for the Czech Republic and Slovenia. As Lendvai argues, these two countries have come out of the

communist regimes with favourable economic settings, which allowed them to follow more easily the social corporatist model. Both countries have a high level of social expenditures financed by social contributions as well as a high percentage of social protection per GDP. Significant positive role on the development of the welfare regime has had the accession to the EU for both countries, which has contributed to further incorporating parts of the population previously marginalised within the welfare state.

The hybrid model to which Poland and Hungary are situated is called a hybrid one because it has both strong protectionism and high level of openness, bringing it between the three Esping-Andersen's models while not following one of them strictly. In conclusion, Lendvai (*ibid*: 24) summarises that:

*«The Baltic States and Slovakia followed a strong neoliberal path with high economic growth, good employment situation, but high poverty and high social inequalities, and low level of public welfare spending. As the EU acknowledges these countries face 'huge social needs' (JR, 2007) [...].»*

Lendvai then asserts that the foundational values, institutions and policies for the welfare state are disappearing, for these states are, even though slowly, but surely heading the tax regime competition, and labour market deregulation. In the other countries, he denotes, the welfare regime is a *«very paradoxical and incongruous process, a complex patchwork associated with both neoliberalisation and neopopulism. [...] inclusionary and exclusionary patterns have randomly institutionalised [...]»* (Lendvai, *ibid*).

As it concerns Poland, he mentions that

*«Poland, in recent years started welfare retrenchment and it will be a question whether Poland follows the footpath of Slovakia and goes down on a even stronger and deeper neoliberalisation. In both countries political volatility is strongly influences and reinforces institutional incongruities. Indeed, the ambiguity of the EU agenda in terms of socio-economic development is mirrored in the Polish and Hungarian domestic debates.»*

Lendvai is more optimistic about Slovenia and the Czech Republic, since there is a strong political consensus over their welfare state, and *«the econom-*

*ic tensions are less severe, collective structures are still strong.»*

These conclusions by Lendvai are hence quite consistent with the classification done by Potůček (*ibid*: 6) where he compares the commonalities and differences of welfare state transformations in CEE countries:

*«Slovenia is the country that most closely resembles the traditional Western European Continental model. The Czech Republic follows suit with universal access to core social and health services and universal access to a minimum of subsistence, but with less generous social welfare benefits and more targeting in less vital areas. Hungary and Poland grapple with major difficulties and combine universal access in some fields with a residual restrictive approach in others. Slovakia has made access to social welfare very tough and conditional at the beginning of the 21st century, thereby moving from a continental model towards a liberal welfare state approach, which is dominant in all three Baltic States. At the same time, the Baltic States have been -- contrary to Poland, Hungary and Slovakia -- able to preserve relatively high employment rates and a more flexible labor market (comparable to the OMS average).»*

Kouba and Grochová (2013) discuss the heterogeneity level between the old and new EU member states in terms of welfare state development through cluster analysis.

Their cluster analysis resulted in the existence of three clusters in Europe: Core cluster, Periphery cluster and Eastern cluster. Nine out of the ten CEE countries constituted the Eastern cluster, leaving Slovenia outside this cluster. Hence, although they also concluded that the new EU member countries do not form an internally homogenous group in terms of the features of their welfare state, however, it is still relevant to distinguish between the old and new EU member states in terms of their welfare state development at an overall level. But the authors mention that there is an obvious trend of gradual convergence to the West. In addition to that, they name the example of the fully "Western" welfare state model in Slovenia, which is in line with Potůček's naming of the country as the most closely resembling the traditional Western European Continental model.

Based on the three dimensions of the welfare state, including:

- the size of the transition economic shock,
- Ethnic heterogeneity, and
- poverty/inequality before transfers

Beblavy (*ibid*: 17) divides of the Central and Eastern European welfare states into five groups:

«The “invisible” group contains Latvia and the term is used because Latvia provides a unique combination of a very small welfare state with much smaller redistributive efforts than its peers.

The “liberal light” group contains Estonia and Lithuania and the term is used because their residual welfare state is much smaller than those of European states usually classified in the residual model.

The “conservative light” group contains the Czech Republic, Hungary and Poland and the term is used because the combination of its features resembles the conservative model, but with much smaller size.

Slovenia is classified in a group of its own as “nearly conservative” because the size and shape of its welfare state puts it closer to some EU-15 countries (e.g. Germany, Austria) than to the other EU-10 countries.

Bulgaria, Romania and Slovakia are in the “uncertain middle” between the two categories and their classification is, to a certain degree, in the eyes of the beholder.

Therefore, this typology should be seen as a provisional as it does not provide clear guide to the classification of these “middle” countries.»

Tache and Dumitrache (2012) conclude that Bulgaria and Romania still belong to the so-called post-communist welfare states, and bearing transitional characters. Sotiropoulos *et al.* (2003) imply to formalism in the social policies in these two countries, meaning a gap between official pronouncements and actual developments.

### 3.5 Hypothetical Conclusions on Welfare State Types in NMSs

In the Table 7 we summarize the reviewed scholarly approaches to classification of welfare states in the New Member States of the EU. From this summarization in the Table 7, we can conclude

(and hypothesise) about the dominant perceptions about the welfare regime types in the NMSs as follows:

- In the *Baltic States*, i.e. Estonia, Latvia and Lithuania, plus in Slovakia, there is a more consensus on discerning their welfare regime as (neo)liberal (or residual) model (characteristic of Anglo-Saxon countries).
- In the *Czech Republic, Poland and Hungary*, a mixed regime composed of components from (neo) liberal (or residual) and conservative (or corporatist) regimes can be recognized.
- In *Slovenia*, there is a consensus about resembling its welfare regime to the conservative type, typical of western continental European countries.
- In *Bulgaria and Romania* the welfare state is very small with frequently changing characteristics, and appears to be still more formalistic than the rest of NMSs, hence we assimilate them to the Southern European pattern which is also known as formalistic.

Table 7. Welfare state characterization in the New Member States of EU by selected set of scholars

Authors	Estonia	Latvia	Lithuania	Poland	Slovakia	Czech Rep.	Hungary	Slovenia	Bulgaria	Romania
Fenger	Former-USSR	Former-USSR	Former-USSR	Post-Communist European	Post-Communist European	Post-Communist European	Post-Communist European	-	Post-Communist European	Developing
Feldman	LME	-	-	-	-	-	-	CME	-	-
Kuokštis	FME	FME	FME	DME	DME	DME	DME	-	-	-
Nölke and Vliegenthart	-	-	-	DME	DME	DME	DME	-	-	-
Baboš	LME	LME	LME	LME	?ME	?ME	?ME	CME	-	-
Baboš, Klimpova	-	-	-	-	Systemically un-coordinated	Systemically un-coordinated	-	-	-	-
EC DG EMPL	Minimalist	Minimalist	Minimalist	strict	strict	strict	strict	Generous	Minimalist	Minimalist
Bohle and Greskovits	neo-liberal	neo-liberal	neo-liberal	embedded neo-liberal	embedded neo-liberal	embedded neo-liberal	embedded neo-liberal	neo-liberal corporatist	-	-
Cerami and Stubbs	state-enabled	state-enabled	state-enabled	state-enabled	state-enabled	state-enabled	state-enabled	state-influenced	-	-
Lendvai	neo-liberal	neo-liberal	neo-liberal	hybrid	neo-liberal	social corporatist	hybrid	social corporatist	-	-
Potůček	liberal	liberal	liberal	combined	liberal	Continental	combined	Continental	-	-
Beblavy	liberal light	invisible	liberal light	conservative light	uncertain middle	conservative light	conservative light	nearly conservative	uncertain middle	uncertain middle
Kouba and Grochová	Eastern cluster	Eastern cluster	Eastern cluster	Eastern cluster	Eastern cluster	Eastern cluster	Eastern cluster	Western	Eastern cluster	Eastern cluster
Tache and Dumitrache	-	-	-	-	-	-	-	-	Post-Communist	Post-Communist
Sotiropoulos <i>et al.</i>	-	-	-	-	-	-	-	-	Formalist	Formalist

Source: Authors



### 3.6 Types of Welfare Regimes – Consequences for Social Innovation

In order to characterize economic underpinnings of social innovation in the New Member States of EU, so far we showed that, according to the scholarly accounts, the welfare state (which shares a lot with social innovation as to the mission) in these countries looks different from the Western European types both in terms of size and in terms of content. However, there can be found some similarities to the West too, but with varying degree, and to varying archetypes. Since social innovation often aims at providing solutions to compensate – as much as

possible – for the shortcomings of the welfare state (and the social safety nets), the picture drawn about the welfare state in the NMSs can imply to, and explain about, the major mission and characteristics of social innovation in these countries. Hence, it calls for a logical framework to link the welfare regime characteristics to social innovation attributes.

Kazepov *et al.* (2013) hypothesise that in different welfare models different governance models prevail, thus they will have probably to face different challenges to promote social innovation. Table 8 demonstrated their hypotheses in this regard.

Table 8. Welfare, governance models and (hypothetical) capacity and types of social innovation

Context		Governance arrangements			Hypothesis on social innovation		
Welfare regimes	Geographic zones	Institutional competences organization	Governance	Relationship State/Third sector	Potential of developing social innovation	Capacity of up-scaling social innovation	Types of social innovation
Universalistic	North of Europe	Local autonomy centrally framed	Hierarchic (managerial) and participative mix	Pervasive role of the state	Relatively high	High capacity of up-scaling	Supported social innovation
Corporatist-conservative	Continental Europe	Regionally/ Centrally framed	Corporatist	Active subsidiarity	Relatively high overcoming frozen landscapes	Slow but high up-scaling capacity	Negotiated social innovation
Liberal	Anglo-Saxon countries	Centrally framed	Market ruled (pluralist) and corporative mixed	Market model and residual role of the State	High capacity but frail innovation (subject to market logic)	Potentially high but tendency to replace the state (big society rhetoric)	Self-sustained social innovation
Familistic	South of Europe	Regionally framed	Populist and clientelistic mixed	Passive subsidiarity	High capacity, but very fragmented	Very limited, not picked up by welfare state	Fragmented social innovation
Transitional	Central Eastern Europe	Transitional mixed	Highly diversified – difficult to define	Highly diversified – difficult to define	Highly diversified (from low to high)	Highly diversified – oriented to build new institutional arrangements	Regime social innovation

Source: Kazepov *et al.* (2013)

As it is seen in the Table 8, considering hypothesised relations, Kazepov *et al.* (*ibid*) identify specific types of social innovation for each welfare regime, which they classify as follows:

1. Supported social innovation: social innovation guided and stimulated by public institutions
2. Negotiated social innovation: social innovation as the result of different actors' compromises
3. Self-sustained social innovation: social innovation as result of market logics (having to balance social and economic logics)
4. Fragmented social innovation: social innovation as spontaneous experiences originated by a

specific combination of very unique and local conditions

5. Regime social innovation: social innovation in building up new institutional assets and welfare models

Oosterlynck *et al.* (2013) link each of the Kazepov *et al.*'s governance models and their characteristics to social innovation challenges. Table 9 shows such links.

Table 9. Governance models and challenges for social innovation

Governance models	Characteristics a) role of public institution b) actors involved c) degree of involvement	Challenges for social innovation
1) Clientelistic	a) distribution of privileges b) politicians (and/or bureaucrats) and their "clients" c) highly exclusive participation	Inefficiency, waste of resources Prevailing of particularistic interests in spite of systemic results Unfairness
2) Corporatist	a) mediation in negotiation b) interest groups c) limited and indirect participation	Elitism Prevailing of institutionalised groups (insider vs outsiders) and exclusion of new subjects and new interests No systemic logic and loss of efficiency Veto points
3) Managerial (hierarchical)	a) organization and control b) citizen-clients c) participation established by defined criteria	Standardization of intervention Need of a strong investment on organization and control Adoption of private managing tools within public administration
4) Pluralist (ruled by market logic)	a) (residual) regulation of the system b) clients-competitors c) open (to "the strongest")	Fragmentation, overlapping interventions Difficulty to develop new (and frail) ideas and subjects and to guarantee the duration of good experiences Weak possibility of redistribution of resources
5) Populist	a) mobilization of popular forces b) community leaders c) inclusive in a symbolic sense	Emphasis on symbolic involvement and results Based on ability to mobilize communities and groups Implosion
6) Participatory	a) mobilization of citizens' competences b) citizens and their organizations c) inclusive in concrete policy aims	Slow decision-making Complicated coordination Too local, never upscaled

Source: Oosterlynck *et al.* (2013)

As we will follow these hypotheses drawn by Kazepov *et al. (ibid)* and Oosterlynck *et al. (ibid)* in our attempt to hypothetically characterize social innovation in the CEECs, hereunder we cite their about different challenges faced in promoting social innovation due to prevalence of different governance models.

1. The clientelistic model has self-evident problems: participation and its benefits are distributed to politicians' and/or bureaucrats' clients, thus rights become privileges and they are allocated following an unfair and inefficient logic. Prevailing particularistic interests channel the circulation of resources and opportunities.
2. The corporatist model is based on negotiations among interest groups. The participation is structured and limited to organizations that can express representatives and are quite strong to prevail. This might create a polarization of different interests that, using veto points, block decision-making processes aimed at the public good. A sort of elitism might therefore emerge between new and frailer categories' with new needs who are excluded and well protected insiders.
3. The managerial model is the most hierarchic one (and might be renamed accordingly). Here public institutions keep an organizational and controlling role that could become rigid and produce an excess of standardization, limiting the possibility to adapt intervention to economic, social and cultural change. Maintaining the bureaucracy in this kind of system could absorb many resources.
4. The pluralist model is ruled by market logic. The weaker control exerted by institutions can create a fragmented system, overlapping interventions and leaving unaddressed problems. The redistribution of resources is weaker and the pervasive laissez-faire logic affects the possible outcomes. Thus it becomes difficult to develop new (and frail) ideas and issues/themes and the duration of good experiences that need time to reinforce is not guaranteed by strong competition.
5. The populist model is aimed at symbolic forms of participation, that are more rhetoric than reality. Emphasis is on apparently inclusive forms of participation while the aim is actually just consensus through distribution of resources and positions according to particularistic criteria. The risk is the implosion of the governance process at the moment when the lack of empowerment and the uneven results becomes evident.
6. The participatory model is aimed to encourage citizens and their organizations to give their contribution to the policy making process. The open participation can multiply actors and proposals and this is good for innovation, but the system could become slow in decision-making and difficult to be managed in times of rapid change. Coordination and adequate tools to steer are needed to make the system work. (Oosterlynck *et al.*, 2013: 33)

Based on these characterizations by Oosterlynck *et al. (ibid)* and considering the classification of CEE countries in the Table 7, we hypothesise here in Table 10 about the social innovation characteristics and challenges in these countries. For this purpose, we in fact use the assumed similarities between each CEE country and the renowned welfare regime and governance types (extracted from Tables 7, 8 and 9) to conclude about the welfare regime implications for social innovation in the CEE countries.

Table 10. Hypotheses on prevailing types of social innovation in the NMSs and the respective challenges for social innovation

Country	Types of SI	Challenges for social innovation
Estonia	Self-sustained social innovation	Fragmentation, overlapping interventions Difficulty to develop new (and frail) ideas and subjects and to guarantee the duration of good experiences Weak possibility of redistribution of resources Elitism Prevailing of institutionalised groups (insider vs outsiders) and exclusion of new subjects and new interests No systemic logic and loss of efficiency Veto points
Latvia		
Lithuania		
Slovakia		
Poland	Mixture of self-sustained and supported social innovation	Fragmentation, overlapping interventions Difficulty to develop new (and frail) ideas and subjects and to guarantee the duration of good experiences Weak possibility of redistribution of resources Elitism Prevailing of institutionalised groups (insider vs outsiders) and exclusion of new subjects and new interests No systemic logic and loss of efficiency Veto points Elitism Prevailing of institutionalised groups (insider vs outsiders) and exclusion of new subjects and new interests No systemic logic and loss of efficiency Veto points
Czech Republic		
Hungary		
Slovenia	Negotiated social innovation	Elitism Prevailing of institutionalised groups (insider vs outsiders) and exclusion of new subjects and new interests No systemic logic and loss of efficiency Veto points
Bulgaria	Fragmented social innovation	Inefficiency, waste of resources Prevailing of particularistic interests in spite of systemic results Unfairness Emphasis on symbolic involvement and results Based on ability to mobilize communities and groups Implosion
Romania		

Source: Own work, partly based on Oosterlynck *et al.* (2013)

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