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A preliminary analysis of social innovation in Italy and Latvia

Summary

Social innovation is generally regarded as the capacity to respond to emerging social needs through new solutions and models without the primary aim of pursuing profit.

Social enterprises, as organizations that apply business strategies to maximize improvements in human and environmental wellbeing, are widely engaged in social innovation.

In Italy, social innovation appears to be a prerogative of social enterprises, especially of social cooperatives that are a type of non-profit social enterprise ruled by specific regulations.

This article is a preliminary report on the specificities of social innovation and social entrepreneurship in Italy and in Latvia. The differences are useful to understand the difficulties that ex-soviet countries are encountering in shaking off their communist past and, at the same time, their potentiality for experimenting new forms of social cooperation.

Key words: social innovation, social entrepreneurship, Latvia, Italy, social cooperatives

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Introduction

An economic crisis affected Europe, and Italy with it, having led to increasing reductions in the level of public intervention in the health and welfare sectors. For Italy, this is a new experience, and the consequences are really serious since, recently, many Italians have been renouncing health care services that they cannot afford. The recent data is alarming: one in ten people have renounced health care services because of their costs and of the long waiting lists to access them. In figures, those who are renouncing healthcare services represent about 5.1% of the population, corresponding to 2.7 million people (Cittadinanza attiva 2016).

It has been observed that the essential characteristics of the Italian welfare state, as it developed after the Second World War, generated social cleavage and inequities that have affected the Italian economy ever since, and that the system requires reform (Lynch 2014). The Italian welfare state appears to be inspired by a conservative model, affected by many forms of corporatism and by the increasing of older population. Its main evident anomalies are the hypertrophy of pensions and the different levels of protection that are available for the employed population and for people who are outside the labor market (Ferrera, Jessoula, Fargion 2013). Moreover, the very inclusive health care policy that grants equality of rights even to immigrants without legal authorization to reside in the country will no longer be sustainable. To reduce the current jungle of privileges is not an easy issue, and the attempts at reform of the welfare state are causing many tensions and political conflicts in Italy. For the moment, the Italian welfare system continues to barely focus on social services, while active labor market policies and social investment measures, in general, are still of minor importance (Agostini, Natali 2016).

In this unfavorable scenario, social enterprises and social cooperatives have assumed a strategic role, as they pursue a business model capable of reconciling the objectives of economic growth, employment and quality of life. Social enterprises and social cooperatives generally aim at satisfying the need for services in the tertiary sector, trying to create employment, particularly for those who are normally excluded from the labor market.

Indeed, the conventional characteristics of a social enterprise can be summarized as follows:

- pursuit of a corporate mission for the benefit of the community;
- sustainability of business;
- participatory approach, stimulating the active participation of citizens;
- wider involvement of employees in corporate decisions;
- limited profits distribution or non-profit corporate structure.

In accordance with this, it has been observed that social enterprises should be counted in the Third Sector, since they aspire to satisfy social needs (Defourny 2001).

In the last few years, the capacity to respond to emerging social needs through new solutions and models whose primary aim is not to make a profit has become the specific prerogative of social innovation.

In Italy, social innovation and social entrepreneurship appear to be closely tied, and this article will strive for contributing to understanding this relationship.

However, the Italian situation appears to be very different from that of the ex-Soviet countries, where, despite the long period of communism, social entrepreneurship is something quite new.

This article is the result of a meeting with the Italian LegaCoop that took place in Latvia at the Rezekne Academy of Technology in 2016. Founded in 1886, LegaCoop is an association that brings together over 15,000 co-operatives from all sectors throughout Italy. It develops services and projects to assist in the launch of co-operative businesses and to help them grow. The Latvian meeting aimed at discussing the potentiality of the LegaCoop business model in social innovation. During the meeting, some differences between the Latvian and Italian approach to social innovation emerged very clearly. We integrated the meeting discussions with the current literature analysis in order to obtain a more comprehensive picture of the Latvian and Italian situation as a propaedeutic step for further analysis.

This article, which is not a comparative analysis but only a presentation of two different approaches to social innovation, aims at showing the contextual sensitiveness of the notion of social innovation. Accordingly, before proceeding to analyze and report the overview in Italy and Latvia, it is useful to introduce the general notion of social innovation.

What is social innovation?

Innovation is defined as “a new idea, device, or method, the act or process of introducing new ideas, devices, or methods”³. Although innovation is a creative process that encompasses science, business, and industry, it is not necessarily motivated by profit maximization.

Heiskala distinguished five “ideal types” of innovations, namely: technological, economic, regulative, normative and cultural ones (Heiskala 2007). He argued that technological innovation is the new and more efficient way to transform material reality, whilst the economic innovation puts technological innovation to the service of producing surplus value. These two types of innovation constitute the sphere of “techno-economic innovation”. The other three form the sphere of “social innovation”. In fact, regulative innovation transforms explicit regulations and/or the ways they are sanctioned; normative innovation concerns the specification of social values into legitimate social norms; and, finally, cultural innovation transforms mental paradigms, cognitive frameworks, and habits of interpretation.

The distinction between social innovation and business innovation, introduced by Mulgan (Mulgan et al. 2007), is largely shared. He underlined that business innovation is generally motivated by profit maximization and is diffused through organizations that pursue profit maximization, while social innovation is motivated by the goal of meeting a social need, and is predominantly developed and diffused through organizations whose primary purposes are social (Mulgan et al. 2007, p. 8).

³ <http://www.merriam-webster.com/dictionary/innovation> [access date: 09.06.2016].

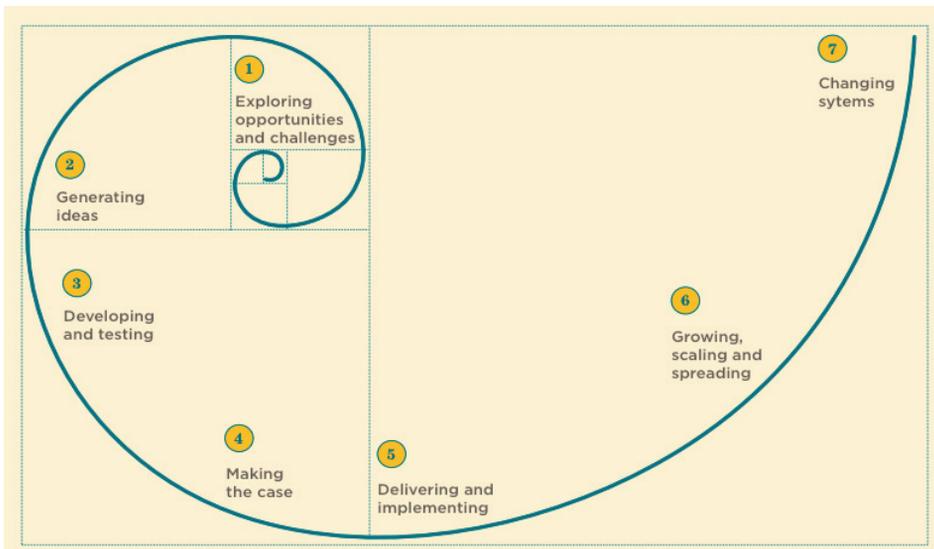
Both business innovation and social innovation share the intention of changing the current state of the art through the introduction of new ideas, processes, methodologies, services, or products.

An influential and expanding stream of literature in innovation research claims that the chief characteristic of social innovation is to meet social goals without pursuing the maximisation of profit.

Although many definitions of social innovation have been proposed, the concept does not appear to have been consolidated and the term “social innovation” is used in multiple, sometimes overlapping ways in different disciplines.

Indeed, social innovation is a multidisciplinary concept that involves many academic disciplines, the principal ones being management science and economics. Social innovation appears to be a means for improving social capital in both the profit and non-profit sectors, and refers to ethical norms, such as fair business practices and respect for worker rights, or values, such as justice, solidarity, and cooperation (Moulaert 2010). Social innovation can also involve art disciplines, since artistic creativity can be instrumental to social changes (Tremblay, Pilati 2013). Finally, it is related to the political sciences and bureaucratic organization, since many social innovations are services, often public sector services, aimed at providing new and more effective benefits to citizens (Mulgan, Albury 2003; Barrett, Davidson, Prabhu, Vargo 2015; Torfing, Triantafillou 2016). Furthermore, in the last few years, the importance of the social dimension of innovation has become a widely accepted idea, and has been extended to include many heterogeneous scopes. Figure 1 shows the social innovation process.

Figure 1. Social innovation spiral



Source: Murray, Caulier-Grice, Mulgan 2013.

The most agreed definition of social innovation is the following:

“A novel and useful solution to a social need or problem, that is better than existing approaches (i.e., more effective, efficient, sustainable, or just) and for which the value created (benefits) accrues primarily to society as a whole rather than to private individuals”

(Phills, Deiglmeier, Miller 2008, p. 36).

Furthermore, there is general consensus that an innovation is “social” if it enhances social welfare, although one could easily argue that in certain aspects, every innovation is able to enhance social welfare. Indeed, innovation, as a term, is rather ambivalent and the word “social” is used as a modifier in other private sector concepts such as social entrepreneurship, social enterprise, social venture, and social capitalism in order to highlight the importance of the social dimension.

Classic subjects of social innovation include health, safety, education, homelessness, crime prevention, environmental protection, racial and gender discrimination, and inequality in economic opportunities.

Italian social innovation

In 2014, AICCON, the Italian Association for the Promotion of the Culture of Cooperation and of Nonprofit, suggested that social innovation could be the right answer to counteract the heavy budget cuts to public social services (Venturi, Rago 2014). In fact, in Italy, the notion that social innovation and social cooperation are very closely linked to each other is widely held. This idea can be considered an Italian peculiarity, based on the conviction that social co-operation within the third sector should foster social innovation processes. For a long time, Italian social cooperatives have been orienting their business models and activities to engage communities in the co-production of new social services.

Recently, CeRIIS, the LUISS International Center for Research on Social Innovation, published its “Second Report on Social Innovation in Italy” that analyzes ideas and projects that respond to various needs of the Italian community (Caroli, 2016). This report analyzed 56 specific cases, selected from a database of 482 projects and initiatives that were considered to have a social innovation basis. All the cases selected involve social business and have an evident and enduring social impact. The report illustrates some new models of marketing and business that respond to social issues as well as to the development of professional skills, especially those based on the use of technology.

In Italy, the principal financiers of social innovation initiatives are private foundations and public institutions, while the innovations themselves are managed primarily by non-profit organizations and social enterprises. However, in the last few years, significant projects have also been developed by for-profit companies.

A very interesting initiative is a project for people aged under thirty, the *Social Innovation Citizen project*⁴, sponsored by the Italian National Agency for Young People,

⁴ <http://www.sitizen.it/> [access date: 09.08.2016].

which supports social initiatives and networking between students and recent graduates. This project is centered on the figure of the Social Innovation Citizen (SIC) that is a young ambassador of social innovation (under 30) who has an idea, a project or an innovative solution generating social impact. Sharing their innovative project via a social networking platform, a SIC can contact other SICs and together, create new forms of collaboration increasing the levels of active citizenship, inclusion and social capital.

An interesting example of a new project is the *Albergo Etico* (Ethical Hotel) in Asti, which is a hotel run by disabled young people affected by the Down syndrome. This project follows the Italian tradition of cooperative work and social entrepreneurship. It provides an interesting example of a project supported by training programs led by professionals that allow the staff to play an active role in the business. CeRIIS is currently working on developing a “franchise” of hotels following this model.

In Italy, the term “social enterprise” was first used in the 1980s to refer to private organizations established by volunteers that had the aim of delivering social services or of facilitating the integration of disadvantaged people into the labor market. These initiatives were initially established using existing non-profit legal forms, but obtained their own distinct legal identity under the “Act on Social Cooperatives”, in 1991 (Law no. 381/1991).

In Italy, social enterprises are mainly social cooperatives, although the concept of social enterprise covers a wider range of organizations operating in the non-profit sector.

Social enterprises and social cooperatives in Italy

In order to promote pluralism in production of social utility goods and services and diversification of sectors of activity, the legal category of “social enterprise” was introduced in 2005 with the adoption of the Law of Social Enterprises (Law no. 155/2006).

It is estimated that there are roughly 35,000 social enterprises in Italy that fully meet the criteria laid out by the EU operational definition, representing 0.8 percent of the total business population (Wilkinson, Medhurst, Henry, Wihlborg 2014).

The first city in Italy as far as the number of these enterprises is concerned is Rome (with more than 5,000 social enterprises with 64,000 employees), followed by Milan (over 4,000 companies and 61,000 workers, respectively), Naples, Turin, Palermo, Bari, and Catania.

Social cooperatives are the most important form of social enterprise, representing approximately a third of the total of social enterprises. The main activities that are undertaken by social cooperatives include:

- social services in the fields of social care and civil protection;
- economic development and social cohesion;
- health care services; and
- education and research.

Italy is one of the few countries that have established a law for social cooperatives (legal form) as well as a law for social enterprises (legal status).

Law no. 381/1991 created a new form of cooperative that differs from traditional cooperatives, whose primary aim is the interest of their members. In fact, social

cooperatives pursue social or general interests of collectivity. They are defined as organizations that “pursue the general interest of the community in promoting personal growth and in integrating people into society by providing social, welfare and educational services and carrying out different activities for the purposes of providing employment for disadvantaged people” (Law 381/1991, Article 1).

The law distinguishes between two types of social cooperatives:

- Type A being social cooperatives that provide social, health, and educational services;
- Type B being social cooperatives that integrate disadvantaged persons as employers.

Social cooperatives benefit from favorable tax conditions: depending on their characteristics, they are exempt from paying taxes or benefit from rate reductions (Di Diego 2011, 2013). These benefits can be summarized as follows (Wilkinson, Medhurst, Henry, Wihlborg 2014, p. 5):

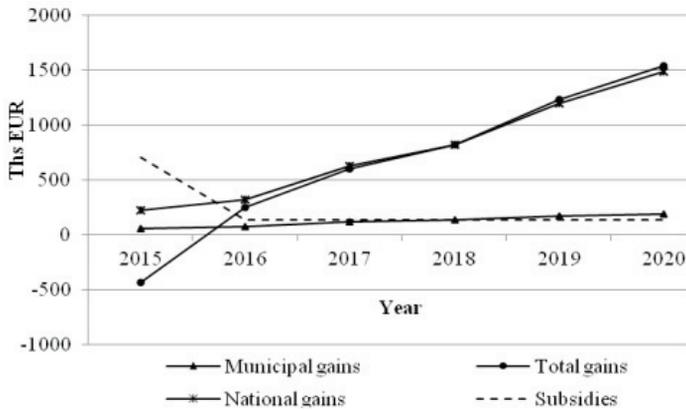
- Case 1: the salaries of the cooperative (go tax conditions: depending on their charf the total costs incurred by the organization, excluding those for raw materials and auxiliary materials. In this case, the cooperative is exempt from the payment of corporate income tax.
- Case 2: members’ salaries represent at least 25 percent of the total costs, excluding those for raw materials and auxiliary materials. In this case, the benefits consist in the application of a reduced tax rate (50 percent of the ordinary rate) and favorable conditions for the calculation of taxable income (for example, 90 percent of the profits going into reserves are not taxed).
- Case 3: members’ salaries represent less than 25 percent of the total costs. This case is analogous to case 2, with the exception that the ordinary tax rate applies (rather than a reduced rate).

Social entrepreneurship in Latvia

Unlike in case of Italy, social entrepreneurship is a fairly new concept in Latvia, and the interest in social business has only emerged in the last few years because of the economic crisis. In November 2012, Providus, a non-governmental and non-partisan think-tank established in 2002, organized an international forum in Riga to discuss social entrepreneurship, and it was significant that Latvian politicians did not participate in it. At present, there are no formal policies defined specifically to support social enterprise in Latvia, and social businesses are very few.

However, things are changing. Over the last few years, the research conducted in this scope has multiplied (Bikse, Rivza, Riemere 2015; Ahrens, Za 15; Ahre 2015; Oganisjana, Surikova, Laizkov 2015), and the government has begun to address the issues of a policy and legal framework for social enterprise. A recent research study based on international experiences in the field of social entrepreneurship (Dobele, Dobele 2014) estimated that the economic gains of social businesses in Latvia would be significant, whilst the social benefit burden for municipalities would decrease considerably (figure 2).

Figure 2. Estimated economic gains from developing social entrepreneurship in Latvia in the period from 2015–2020



Source: Dobele, Dobele 2014, p. 37.

It has been observed that the low level of entrepreneurship-related abilities, knowledge and skills in Latvia's universities represents one of the main barriers to the development of social entrepreneurship (Melnikova, Zaščerinska 2016). In fact, entrepreneurship courses are absent from non-economic fields of study, and more generally, inter-disciplinary approaches are rare. This confirms the prevailing underestimation of the potential of social enterprise development.

There are no fiscal incentives in place to foster and support the growth and development of social enterprises in Latvia (European Commission 2014). Incentives depend on the legal form of the enterprise rather than on its social purpose. Accordingly, currently the most popular form of social enterprise is that of a non-profit organization (such as an association or a foundation). However this can create some problems if the profit-making activity is the main activity of an association or foundation. In this case, the organization must register as a separate company and divide its activities between two legal entities, otherwise risk being wound up by the State Revenues Service.

Nevertheless, many Latvian economic analysts and researchers agree that social economy can actually contribute to reducing unemployment, inequality and poverty, and the Latvian government has recently started working on developing a policy and legal framework for social enterprises.

The principal strands of governmental investment are in regard to including people with special needs and incentives for small and medium enterprises (SMEs). Of course, social businesses can also access the support available to commercial enterprises, particularly the SMEs.

In Latvia, there are also some private initiatives aimed at supporting social enterprises and social entrepreneurship, such as the Latvian Christian Academy, a higher education institution in Latvia that runs an accredited Masters program in social business administration. The aim of the Masters is given as follows:

“The program is focused on penetrating the acquisition of forms and methods of social care in times of change; special emphasis is placed on principles of social economy in the context of social work. These skills lay good foundations for further private entrepreneurship in the field. The knowledge is both required and innovative in the European context”⁵.

The recent interest in social issues and in the modernization of social services is demonstrated by a new national science program on social telerehabilitation. This new three-year multidisciplinary program, whose name is VPP INOSOCTEREHI (s is demonstrated by a new national science program on social principles of social economy in the context of social n social inclusion (Marzano, Lubkina, Rizakova 2015), and is being conducted by four Latvian Universities (Rezekne Technology Academy, Latvia University, Riga Technical University, and Liepaja University). VPP INOSOCTEREHI investigates the use of mobile technology in the scope of social rehabilitation⁶.

In 2014, only two years from the international forum of Providus, the Foundation for an Open Society organized a two-day international forum on social impact and social entrepreneurship: this time the Director of the Labor Market Policy Department of the Ministry of Welfare participated in the discussion named “Social entrepreneurship in Latvia — Quo Vadis?”

Latvia and other Baltic countries have started to promote awareness and understanding of social enterprise practices. Researchers and the social organizations themselves are the principal protagonists in disseminating the knowledge necessary to create a favorable environment for social enterprise. Although the ideas of some activists sometimes risk being overly utopian and theoretical, social innovation and social entrepreneurship represent key factors for sustainable development. The necessity of implementing new social services while, at the same time, reducing their global cost, makes people more creative and encourages the use of knowledge to help public benefit causes.

Conclusion

It has been observed that although the debate on globalization requires a wide perspective on global problems, a real understanding of the present situation is only possible when focusing on local instances (Morelli 2007). Accordingly, while the market and production are becoming increasingly globalized, social solutions need to be created at the local level. In this regard, social enterprises play a fundamental role, as they focus on the social needs of communities.

However, although there is a wide consensus on the general notion of social needs and innovation, the combination of practical actions of this two concepts can present many variations. Indeed, social innovation doesn't take place in an abstract space but must deal with social ideals as well as concrete social organizations and social policies. Nowadays, it must deal with the challenging changes in the contemporary society (Marzano, Grewiński

⁵ <http://en.kra.lv/studies/master-level-studies/#master-social-bus> [access date: 20.05.2016].

⁶ <http://telerehabilitation.lv/> [access date: 20.05.2016].

2017), most of all, the digital revolution, that are affecting both the people daily life and the global economy.

Not only in Italy but elsewhere too, a debate is underway concerning social enterprises and social entrepreneurship. The case of Latvia is emblematic and in certain respects, common for other ex-Soviet countries. Table 1 shows the particular barriers to social innovation that are present in European countries at different levels, depending on various contextual factors.

Table 1. Social innovation values and barriers

Social innovation values	Real barriers
Democracy	Populism, nationalism
Extending inclusion	Intolerance to immigrants and refugees
Facilitating access to services, creating new job opportunities	Social discrimination: restricted access to education, healthcare, employment, and so forth
Transparency, bureaucratic oppression	Restriction of freedom, constant surveillance and control
Open networking systems	Imposed restrictions
Pluralist social values	Intolerance
Sharing resources, goods, and services	Discrimination in distribution of resources, goods, and services
Centrality of people's needs	Restriction of freedom, constant surveillance and control
New forms of protection	Environmental deregulation
Green economy	The natural world is exploited and distrusted
Resilient social-ecological system	Rigid social-ecological system
Solidarity	Egoism, separation

Source: author's own source

However, in the majority of actual cases, social entrepreneurship is not a mainstream entrepreneurial activity, and a social enterprise is neither a mainstream non-profit organization nor is it a commercial firm (Douglas 2015). Hybridity is evident in the dual commitment to social and business functions, and can cause multiple and conflicting goals. Often, social enterprises are widely perceived to be illegitimate, inappropriate, and unacceptable for the public, commercial, and social sectors. In Italy, social cooperatives have largely exploited their privileged status against private competitors and, thanks to their close relationships with political parties, have hegemonized social governmental services.

Despite this, these distortions should not lead to a rejection of the current policy on social enterprises and social cooperatives. Rather, it would perhaps be more profitable and

beneficial to make an effort to liberalize local governmental services, and so encourage new forms of citizen participation in decision-making and control.

We can conclude observing that the current picture of the Latvian and Italian approach to social innovation shows how the history and culture still affect the local policies. However, this is a transition moment since the changes that are in action at global level will quickly impose changes in people social needs and expectations.

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Streszczenie

Innowacje społeczne są na ogół postrzegane jako zdolność reagowania na pojawiające się potrzeby społeczne za pomocą nowych rozwiązań i modeli, które nie mają na celu osiągnięcia zysku. Przedsiębiorstwa społeczne, jako organizacje, które stosują strategie biznesowe w celu maksymalizacji poprawy dobrobytu ludzi i środowiska, są szeroko zaangażowane w innowacje społeczne.

We Włoszech innowacje społeczne wydają się być prerogatywą przedsiębiorstw społecznych, zwłaszcza spółdzielni socjalnych, które są rodzajem przedsiębiorstwa społecznego typu non-profit, prowadzonym według określonych zasad.

W artykule przedstawiono specyfikę innowacji społecznych i przedsiębiorczości społecznej we Włoszech i na Łotwie. Wskazane różnice są przydatne do zrozumienia trudności, na jakie są narażone kraje byłego ZSRR w procesie odchodzenia od komunistycznej przeszłości, oraz ich potencjału do eksperymentowania z nowymi formami współpracy społecznej.

Słowa kluczowe: innowacje społeczne, przedsiębiorczość społeczna, Łotwa, Włochy, spółdzielnie socjalne