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Welfare Enhancement through Social Innovation: Balancing State Direction and Grassroots Action*

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Abstract: This article advances the understanding of social innovation (SI) by examining how public policy frameworks support the development of robust SI ecosystems in dynamic contexts. Using a hybrid framework that integrates ecosystem theory—highlighting multi-actor interdependencies—and Mazzucato's entrepreneurial state theory—emphasizing the state's market-shaping capacities—the study offers a new lens to assess public interventions. It asks: How can public institutions address key challenges to expand and implement SI within growing ecosystems? The research design employs a systematic qualitative approach, bridging a content analysis of key international reports and policy documents with original qualitative field data from the author's doctoral research. This empirical foundation includes semi-structured interviews with 25 public officials across six ministries, conducted between July 17, 2015, and March 18, 2017, to explore institutional strategies and barriers within a growing ecosystem. The study identifies six core public sector roles: initiator, facilitator, resource provider, capacity builder, catalyser, and regulator. Findings show that public institutions operate not as passive enablers but as entrepreneurial actors that de-risk innovation, coordinate stakeholders, and embed SI principles in institutional structures. By combining collaborative ecosystem dynamics with entrepreneurial state functions, the article demonstrates how governments can strategically shape, scale, and sustain inclusive and transformative SI ecosystems while overcoming systemic barriers.

Keywords: welfare economics, social innovation, public policy design, ecosystem theory, entrepreneurial state, well-being

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Introduction

Social innovation (SI) has gained significant attention in innovation research (Moulaert et al., 2017; Nicholls & Murdock, 2012b; Rao-Nicholson et al., 2017; Tracey & Stott, 2017; Ziegler, 2017). Stakeholders at local, regional, and national levels acknowledge the importance of SI in effectively addressing the social, economic, political, and environmental challenges of the twenty-first century (Domanski et al., 2020). However, a sustained and systematic analysis of a thriving social innovation ecosystem, its underpinnings, characteristics, and requirements has been lacking.

The humanitarian and socioeconomic crisis triggered by COVID-19, coupled with current social and environmental challenges, has had impacts on a scale that have transformed, and will continue to transform, the economy and society across various contexts. Specific implications are already evident across areas of public health (e.g., pressure on primary care as well as social care and the social determinants of health); local and global economies (e.g., sector disruption, and the impact on global supply chains) and public budgets (e.g., greater health and welfare expenditure and the need to raise tax revenue)(Bozkurt, 2020; Daly, 2020; Montgomery & Mazzei, 2021). These developments compel policy makers at both the local and state levels to turn their attention to the innovative practices that citizens, in a bottom-up manner, undertake to meet their needs when state and market institutions fall short of meeting the population's requirements.

Although the term SI is a buzzword, its most common definition describes it as the introduction of new social relations that involve new ways of doing, organizing, framing, and knowing (Avelino et al., 2019). Beyond being a popular term, social innovation functions as a critical social policy tool for local, regional, and national governments to enhance citizen well-being and address unmet social needs (Ates, 2020). SI refers to a wide range of developments, including community currency, community-supported agriculture, maker spaces, time banks, and crowdfunding or new sharing schemes (Ates et al., 2019; Ates, 2020; Avelino et al., 2014; Moon & Hwang, 2018; Stiver et al., 2015). Thus, SI practices are embedded within these periods of economic and societal upheaval and form something of a nexus for understanding responses to periods of radical uncertainty about the future. For instance, a report by NESTA examines, along with innovative technologies, SI approaches ("disruptor"s) that already exist, are within our grasp, and have the potential to make a significant impact on reducing carbon emissions in the UK (Willis et al., 2007). These disruptors resemble social entrepreneurs that ultimately fulfill both a social need —carbon reduction— and a consumer need. They provide a public good that is undersupplied by markets. In this sense, they resemble social entrepreneurs in other sectors, such as healthcare or education. .

Given that similar SI practices are in place around the world, governments face the challenge of fostering a supportive ecosystem where these bottom-up initiatives can fulfill their potential. This process is also associated with the emergence of new institutional forms involving economic and civil society stakeholders (Moulaert & Ailenei, 2005), —namely, a shift from the idea of "government" to that of "governance" (Shucksmith, 2012). Just as innovation ecosystems foster technological advancements, regional growth, and sustainability shifts, a supportive ecosystem for SI, comprising essential conditions and support structures, is vital for the flourishing of socially innovative initiatives (Oh et al., 2016; Pel et al., 2020). Accordingly, this article aims to illuminate the conditions under which a socially innovative governance can flourish.

In light of these strategic considerations, we address the following questions: how SI spreads, how it can be stimulated, and what a favorable SI ecosystem looks like. How can public institutions contribute to the proliferation and implementation of SI in growing ecosystems to overcome challenges and obstacles? To answer this, we examine data and best practices from actors involved in growth-stage SI ecosystems.

Enabling well-being and social progress: Recognizing the power of the SI ecosystem

With the emergence of new participatory and human-centered approaches to public policy and the renewal of existing approaches, embracing an SI approach has significant potential to solve "tackled" social problems at all levels (Joy et al., 2021). Particularly in some developing countries where the federal state is strong, there is considerable potential for scaling up SI. This requires a supportive SI ecosystem, the enhancement of public awareness regarding its successful applications, and the support of new ideas in various policy areas. The ecosystem concept takes into account the networked, and co-produced agency that characterizes contemporary innovation (Etzkowitz & Leydesdorff, 1995; Papaioannou et al., 2009; Rinkinen & Harmaakorpi, 2018). The SI ecosystem attracts increasing attention and expectations from civil society, governmental bodies, and non-profit organizations, all aiming to realize its full potential. The quest to understand how to increase the role of civil society, citizens, and public agents in solving social problems, sustaining and improving the well-being of people has triggered interest in the concept (Ates et al., 2019). For some developed countries, including the

EU, the United States, the UK, and Japan, SI and its ecosystem are considered essential for achieving sustainable and inclusive growth (Eriksson et al., 2014; Fujisawa et al., 2015).

SI is expected to become a mainstream concept in the politics of other governments considering heterogeneous policies and measures to support public goods provision or generally strengthen their countries' innovative capabilities through non-public sector means (Reinstaller, 2013). It is a widespread belief that SI is crucial to achieving maximum social inclusion and justice, as the current era requires new approaches to a variety of issues: the difficulties of the elderly; changes in working life; new risks and needs in households, especially families with children; the challenges of creating gender equality; and the sustainability of everyday quality of life within planetary boundaries (Esping-Andersen, 2002).

The emergence of multiple global challenges, including COVID-19 and environmental risks was underpinned by a widespread shift from government toward "governance". The failure of the state to promote an all-inclusive governance was one of the most significant factors that prompted this shift, as well as its ineffectiveness in regulating the processes and consequences of globalization (Shucksmith, 2010; Epp & Whitson, 2001). Traditional state forms have often been presented as hierarchical and bureaucratic in the face of these shortcomings, as well as inefficient in addressing the global and local challenges of the twenty-first century. These considerations led to redefinition of the state in building a thriving SI ecosystem as "coordinator, manager or facilitator, rather than as provider and director" (Shucksmith, 2010).

An appropriate ecosystem is a crucial prerequisite for the development and proliferation of socially innovative initiatives. Although some believe that the state's involvement might limit the competition of ideas among civil society and other actors (Caulier-Grice, 2010; MacCallum, 2009). It has also been argued that supporting and enabling a fertile ground for SI to achieve collective well-being is public responsibility (Moulaert & Nussbaumer, 2005; Novy et al., 2012). Previous studies revealed that policymakers are largely convinced that conventional approaches are falling short in providing solutions to the state-of-the-art challenges of the current era, including the difficulties of the elderly; changes in working life; new risks and needs that arise in households, especially families with children; the challenges of creating gender equality; and the sustainability of everyday quality of life within planetary boundaries (Ateş, 2017). In this framework, countries are expected to introduce new systems, processes, values, services, institutions, products, and policies that overcome social challenges while simultaneously contributing to social and economic development. The need for innovative approaches, ideas, and practices, as well as SIs that guide these transformations in the right direction and create new opportunities, is greater than ever before.

Exploring the role and potential of public sector in fostering social innovation ecosystem

Today, the public policies implemented by countries are undergoing various transformations in line with multifaceted global developments.On the one hand, the existing models are insufficient in fulfilling social demands. On the other hand, the unprecedented challenges faced by countries with limited budgets, coupled with economic uncertainties, have revealed the need for civil society and the private sector to play a role in realizing these demands (Ates, 2020). In governance, SI relates to community participation and empowerment (Lindberg & Portinson Hylander, 2017) and mainly supports the community's capacity to participate in collective processes (Jungsberg et al., 2020). To achieve this, it expands the governing space by including non-traditional, marginalized actors with a view to establishing a supportive ecosystem for SI (Moulaert et al., 2007; Bock, 2012). The term "stakeholder" gains currency against this background, driven by a bio-political engineering of the social toward greater individualized responsibility (Maclean et al., 2013) . The inclusion of civil society relates to the use of modern governmental technology (Foucault, 2014).

An "innovation ecosystem" describes a cooperative endeavor involving various sectors, where organizations collaborate to generate value through shared innovation goals, utilizing strategies like co-creation, co-evolution, co-specialization, coopetition, ecosystem orchestration, and governance (Jütting, 2020). Tools employed to achieve this shared value creation include regulations, user practices, cultural meanings, infrastructure, maintenance, and supply networks (Silva-Flores & Murillo, 2022). However, the establishment process of a thriving SI ecosystem faces several key challenges that threaten its efficacy. As public policy is such a powerful tool to drive social change, the role of public policy in promoting the SI ecosystem is vital. By understanding the challenges that actors face in these innovation systems, policymakers can enact policies that most effectively spur positive change. The implementation of SI by different welfare regimes, the structure of political and local institutions, and their supporting tools have a significant impact on the emergence of the SI ecosystem and its sustainability. There are three features that distinguish SI insights from other approaches to public management.

First, SI emerges from and develops innovation theory and management to achieve social and public policy objectives. Secondly, SI has a collaborative nature. The main role of public institutions is to cooperate with creative and productive social innovators (can also be a public manager) to identify current problems together and offer potential solutions. Thirdly, it aims to benefit from SI in order to increase society's innovation capacity and to enhance social welfare and well-being by creating new collaborations between the state and citizens (DeMille et al., 2018). Consequently, policymakers and public administrators are expected to support and encourage individuals, non-governmental organizations, universities, and private sector entrepreneurs financially and non-financially to increase awareness of SI ecosystem and foster its scaling at national and global levels.

A framework for the SI ecosystem incorporates the larger context within which organizations function. This framework is especially critical for SI agents who must navigate intricate systems involving various actors within swiftly changing political, economic, physical, and cultural landscapes (Bloom & Dees, 2008). The policy types and categories to support SI initiatives at the local, regional and national levels can be conceptualized as follows (see Figure 1).

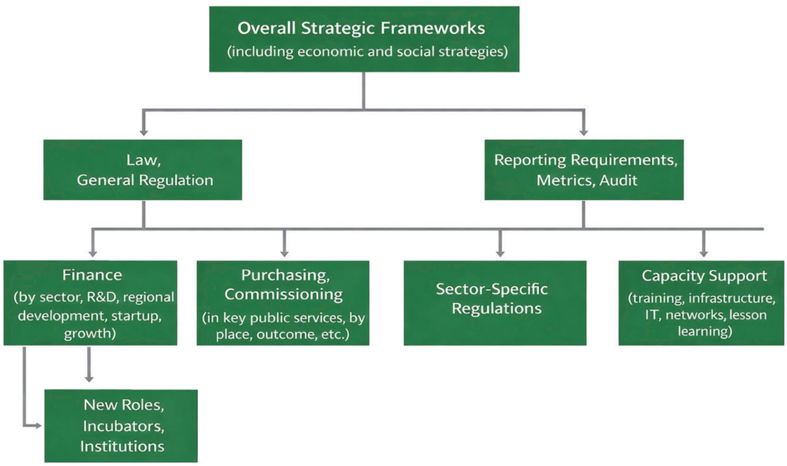

Figure 1: Policies To Support SI (Source: Own elaboration)

Each of the aforementioned categories is regarded as a tool that directly or indirectly promotes the SI ecosystem in terms of providing solutions to social problems and needs. Individual or participatory budgeting, social return on investment

(SROI), social entrepreneurs and incubation centers are examples of best innovative practices. Essentially, the development and growth of the SI ecosystem depend on the existence of effective supply and demand (Westley & Antadze, 2010). To create social value, countries can play an implementing role in fostering SI solutions through their public units. As a matter of fact, many innovation units and labs that contribute to designing innovative methods and instruments have been established in recent years to integrate them in policy-making processes. While some of these units and labs operate within the public sector, some others carry out their activities as independent centers supported by public institutions as stakeholders (Boelman & Heales, 2015). Therefore, horizontal, networked, and collaborative institutional structures between active agents are the socially innovative forms of governance that promise to resolve the major challenges of the twenty-first century, such as demographic aging, global security, climate change, and shortage of resources (Swyngedouw, 2005; Neumeier, 2017; Benneworth & Cunha, 2015).

Theoretical framework and methodology: A hybrid approach to social innovation ecosystems

This study employs a hybrid theoretical framework integrating ecosystem theory (ET) and Mazzucato's entrepreneurial state theory (EST) to analyze how public institutions foster SI ecosystems (Moore, 1993; Adner, 2017; Mazzucato, 2011). The research design follows a systematic qualitative approach, moving beyond a purely conceptual framework to analyze empirical policy instruments across diverse contexts. While ET emphasizes the interdependence of diverse actors—governments, NGOs, businesses, and civil society—in co-creating value through collaborative networks, EST redefines the state's role as a bold investor and risk-taker, positioning it not as a passive market fixer but as an active market shaper that drives systemic change. Together, these theories provide a nuanced analytical lens for understanding how policy frameworks can simultaneously orchestrate multi-stakeholder collaboration (ET) and advance mission-oriented innovation (EST).

The research design bridges a content analysis of key international reports and policy documents on the role of the state or government in promoting and implementing social innovation, including the OECD and EU perspectives on public sector innovation ecosystems, the Young Foundation/NESTA guides for policymakers, and the UNDP insights on social innovation for public service excellence. These sources provide empirically informed insights into effective institutional strategies and state roles worldwide. This empirical foundation is complemented by original field data from the author's doctoral research—which explored the state's role in supporting social innovation in Türkiye through semi-structured interviews with 25 public officials across six ministries and a qualitative analysis of public sector practices. Prior research investigating the awareness of social innovation among Turkish policymakers has revealed that while innovative practices exist, the conceptual framework remains inadequately comprehended, often associated primarily with EU accession processes (Ates, 2019; Ateş, 2020). Through these systematic thematic analysis, this study critically examines the role of public institutions in advancing social innovation, highlighting how they strategically function as initiators (setting agendas and triggering early-stage momentum), catalysts (scaling high-impact innovations through targeted interventions), funders (de-risking social innovation via strategic resource allocation), facilitators (orchestrating stakeholder collaboration and governance), capacity builders (enhancing ecosystem resilience), and regulators (designing incentive structures and accountability mechanisms)(See Figure 2).

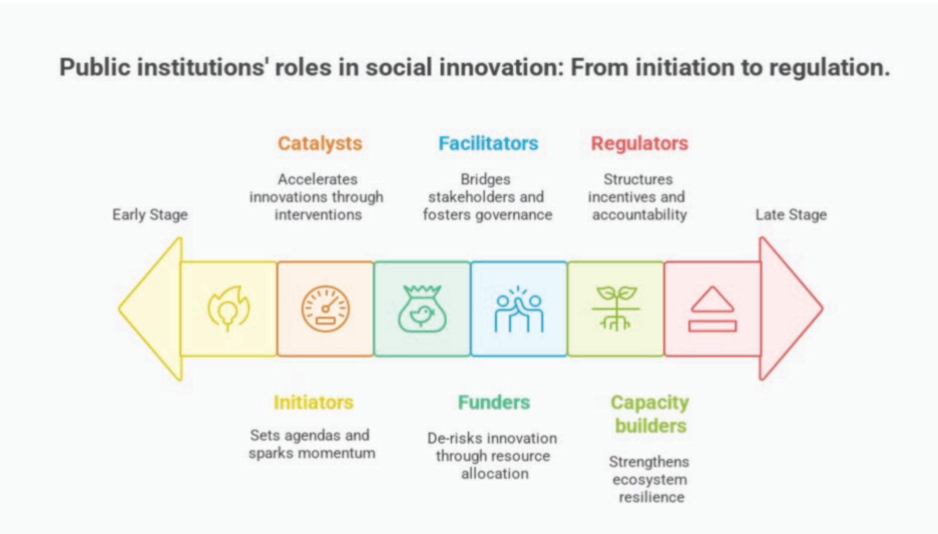

Figure 2: Public Institution's Roles in Supporting Social Innovation Ecosystem (Source: Own elaboration)

The systematic search and analysis were complemented by primary field data collected during the doctoral research period, with semi-structured interviews conducted with public officials between July 17, 2015, and March 18, 2017. By examining empirical cases and policy instruments from these high-growth contexts, this paper demonstrates how public institutions can balance top-down direction with grassroots empowerment, ultimately shaping SI ecosystems that are both inclusive and transformative.

The state as an implementer and initiator of SI

An ecosystem encompasses the necessary resources (financial, human, social, political, and intellectual capital) crucial for the prosperity of the SI ecosystem, as well as the external conditions (like public policy, media, economic and social factors, and related contexts) that may either bolster or hinder the advancement of socially innovative initiatives (Nicholls & Murdock, 2012a). There is no doubt that the public sector is one of the leading actors providing social benefit. The public sector is the main source and provider of public services in a country enabling all citizens to equally benefit from common services (Boelman & Heales, 2015). The public sector's large budget, organizational and administrative capacity, and ease of resource access—alongside the political infrastructure, regulatory institutions, and implementation networks—constitute tools that enable systemic change (Mguni et al., 2012). Thus, both in developed and developing countries, public sector is seen as one of the most influential actors for SI. Christian Bason, the director of the government-led innovation lab "Mindlab" in Denmark, points out the pivotal role of the public sector as follows (Bason, 2018):

- To manage human resources that will build innovation capacity at all levels of public bodies,
- To develop regulatory mechanisms that involve citizens in decision-making processes and create new solutions,
- To shift from ad hoc innovations to a conscious and systematic approach to renewing the public sector,
- To not only manage public institutions but also enable a shift toward pioneering innovation in other sectors.

Table 1 illustrates the cases in which public bodies are the source of SI.

Table 1

Public bodies as a source of SI

Institution / Initiative(-Country)	Funding / Affiliation	Core Objectives / State's Role as Initiator and Implementer of SI	Key Interventions and Contributions
Mind Lab **(Denmark)**	Different ministries of the state in Denmark	Established by ministries to generate key policy ideas, create a shared national vision, and model public sector innovation.	Focuses on producing systemic, co-created innovative solutions across central government levels.
Strategies with Kids – Information for Parents (SKIP) **(New Zealand)**	Funded and managed by the Ministry of Social Development (MSD)	This state-initiated family program (active since the early 2000s) enables positive parenting; the government acts as a direct initiator and implementer of preventive SI.	Initiates nationwide parenting seminars, training modules, and materials; integrates community ideas into state programs; and funds local NGOs for grassroots innovation.
Office of Social Innovation and Civic Participation **(USA)**	White House /and Domestic Policy Council (Obama Administration, 2009–2017; archived)	Designed (2009–2017) to optimize public resources and catalyze cross-sector solutions; positioned the state as a proactive initiator of systemic SI.	Initiated strategy development, cross-sector coordination, and resource mobilization; supervised SI projects and disseminated best practices.

Public Services Innovation Lab (Design Thinking Unit) **(Singapore)**	Public Services Division (Prime Minister's Office); supported by the UNDP Global Centre for Public Service Excellence (established 2013; ongoing)	Dedicated to redesigning public services through human-centered design; embeds citizen-inclusive and SI-oriented approaches in policy formulation.	Provides consultancy, coaching, and design thinking workshops; promotes innovative mindsets and executes participatory public service reforms.
Helsinki Design Lab (HDL) **(Finland)**	Funded by the Finnish Innovation Fund SITRA (operated 2008–2013; closed 2013)	Designed to equip government leaders with holistic problem-framing tools; positioned the state as an initiator of systemic redesign.	Implemented strategic design interventions to reframe policy problems; provided decision-makers with guidance and produced actionable change frameworks.
Behavioural Insights Team (BIT) – "Nudge Unit" **(UK)**	Initially established by the UK government; partnership with Nesta, it is now a social purpose company owned by Nesta (established 2010; active and global in 2026)	Established in 2010 to translate evidence-based insights into policy design; positions the state as a foundational initiator and implementer of nudge-based SI.	Conducts randomized controlled trials and experiments; implements scalable interventions in public administration; and disseminates behavioral policy tools globally.
Centre for Social Impact (CSI) **(Australia)**	This university consortium includes UNSW Sydney, Swinburne, UWA, Flinders; it operates through cross-sector partnerships (established 2008; active in 2026)	Aims to build collective social impact capacity through research, education, and collaboration; the government acts as an indirect initiator via strategic partnerships.	Implements impact assessment tools, education programs, and research; facilitates collaborative knowledge production; and drives systemic change through cross-sector alliances.

Source: Authors own elaborations

It has been previously stated that the public authorities play different roles in the development, dissemination, and execution of the SI ecosystem, such as initiators, facilitators, resource providers, capacity builders, catalysts, and regulators. Furthermore, public institutions may assume a proactive role as an accelerator in the process of devising mechanisms to bolster the development of the SI ecosystem. Their multifaceted engagement in initiating, catalyzing, and supporting innovative endeavors is believed to exert a significant influence on the emergence, maturation, and dissemination of grassroots innovations. Recently, many states have turned to being the catalyst for innovative initiatives towards civil society, the private sector, third sector organizations, and citizens. In carrying out this approach, they also reshape public policies through professional support. This perspective, called design thinking, brings stakeholders into the SI process, and disseminates certain responsibilities to each stakeholder, and invites them to play an active and constructive role in shaping decisions. Public service innovation laboratories and design centers bring together different stakeholders and conduct hands-on analyses on how new public services or existing services can be provided or redesigned in more efficient and effective ways.

The role of the state as facilitator, accelerator and motivator

In addition to supporting social enterprises through public procurement, public bodies play a substantial role in providing financial, informational, and human resources to social innovators (social enterprises, cooperatives, and NGOs). Furthermore, there are examples around the world where states develop mechanisms to support and develop communication networks between actors generating SI, to encourage citizen participation and to establish the legal framework of social entrepreneurship to strengthen social ties. There are many structures that lead to capacity building and create synergies in the field of SI through cooperation at different levels and intensities around the world. These organizations play an undeniable role in the discovery, realization, funding, and sustainability of their social innovative ideas. Some of these initiatives are summarized in Table 2, which highlights mechanisms such as Innoweave, founded in Canada, which supports users and practitioners in the field of SI; Nesta in the UK, which develops various tools for applications that will benefit society; and the Rockefeller Foundation in the USA, which brings together alternative, innovative, effective, and practical instruments to address social challenges. These examples represent key structures that make capacity-building resources available to institutions and organizations.

Table 2

Capacity Building Supports to Social Entrepreneurs by Public Institutions

Name of the Mechanism	Country / Region	Type of Support
Innoweave	Canada	Initiating capacity building through collaborations, supporting users and practitioners operating in the field of SI.
NESTA	UK	Systematic knowledge production in the field of SI, conducting scientific research, developing prototypes, reporting SI examples, and providing access to funding sources.
Knowledge / Experience Sharing Platforms	General	Providing an open data flow on issues such as climate change, biodiversity, and poverty; bringing together different actors and components by playing a catalyst role in the field of SI.
Social Investment Cooperation Fund	General	It provides technical support to social entrepreneurs, advising on issues such as public service contracts and how to find new sources of finance.
Mi Chacra Emprendedora	Peru	Increasing income-generating activities by strengthening the capacities of households and entrepreneurs living in poverty, increasing product diversity, and encouraging farmers to introduce new products to the market.

Source: Authors own elaborations

Ensuring capacity building in terms of SI is primarily possible through access to information and the use of acquired knowledge. Knowledge sharing platforms, created to provide an open flow of information on twenty-first-century challenges—such as climate change, biodiversity loss, and poverty—offer cross-country knowledge and experience to address global problems for social benefit. Thus, innovative information and methods that meet the needs of societies serve all humanity with less energy consumption (Mulgan, 2018). Another example of capacity building for social enterprises is the Investment and Contract Readiness Fund, which operates in the UK with a £10 million budget. This fund, developed through cross-sector participation, is managed by a third party board where representatives from relevant sectors come together. This initiative also provides social entrepreneurs with technical support, consultancy on public service contracts, and guidance on identifying new financial resources.

Financial support for SI by public bodies and leveraging public procurement

In many countries, public institutions provide indirect and/or direct financial resources, both through their own institutions and out-of-state actors, in various fields with the goal of improving the potential and capacity of the SI ecosystem and increasing the level of well-being of citizens. Organizations and innovators (such as social entrepreneurial individuals or firms, cooperatives, associations and foundations) that bring SI solutions to the field of application also produce and develop mechanisms to support them through various methods. In this context, it is important for the public institutions to provide some financial resources and/or take an active role in mobilizing other funder sectors in order to strengthen these organizations and facilitate more effective and quality services related to SI. In other words, the state, which is considered as the most reliable entity in many countries, can take a leading role in encouraging the private sector in supporting SIs. Examples of the state's role as a resource provider include the different forms of policy practices of the governments in the USA, UK, Slovakia, Portugal, Australia, China and Peru, especially in many EU countries. SI plays a transformative role in alleviating poverty, moving beyond traditional top-down methods to implement grassroots solutions such as the KIVA online crowdfunding microcredit platform, which creatively de-risks entrepreneurship for vulnerable groups (Ateş, 2023).

Table 3

The Role of the State as a Financial Resource for Social Innovators

Name of the Mechanism / Country	Type of Fund / Region	Explanation / Type of Support
EaSI and other EU Programs	EU (International)	It supports sustainable employment and fights social exclusion and poverty. The program is divided into three axes: PROGRESS (61%), EURES (18%), and Microfinance/Social Entrepreneurship (21%) with a total budget of €919,469,000.
Big Society Capital (BSC)	UK	It is an independent social investment company with £600 million in capital. It invests in projects that create social impact by using funds from dormant bank and building society accounts.
CEDIF	Canada	It was established with government support to provide local businesses and social enterprises with alternative funding from a pool created via corporate tax income.
SI Fund (SIF)	USA	SIF operates under the US Federal Government with a budget of over $800 million. It prioritizes economic opportunities, healthy living, and youth development through public-private cooperation and “What Works” models. The SIF has provided financial resources to 35 intermediary institutions and 290 non-governmental organizations across the USA for social needs and solutions.
Portuguese SI Fund	Portugal	It is financed by EU Structural Funds (€150 million) under the Ministry of Development. The fund aims to consolidate and expand social enterprises while supporting new forms of social innovation.

Source: Authors own elaborations

As shown in Table 3, state-funded financial mechanisms such as the EU *Employment and Social Innovation Programme (EaSI), The Big Social Capital* in the UK, the *Social Innovation Fund* in the US, the Investment Fund for the Economic Development of Society in Canada, the Portuguese Social Innovation Fund make up a few of the funds created to develop and spread social innovations. On the other hand, social impact bonds which were first implemented in the UK and then spread to countries such as America, Canada and Australia are considered as an alternative funding method. With an aim of providing financial resources to SI solutions, public authorities motivate private equities to support Social Impact Bonds through investment (Warner, 2013). Social Impact Bonds (SIBs) have found more application areas in recent years as an innovative financing model, which aims to reduce government spending on the social space in the long term and lead to positive social change. Furthermore, this method has the potential to improve targeted outputs, overcome barriers to SI and encourage investment in cost-saving protective services while also bringing together a performance-based payment system and professional market discipline (Azemati et al., 2013). This promising innovative approach to the financing of services for social welfare by the state can also attract interest from the private sector given that appropriate regulation and incentive mechanisms are in place.

Socially innovative public procurement

Public procurement is one of the main policy tools that will mobilize and nurture the local dynamics of countries (such as products, resources, and services). Public procurement, which was an important industrial policy tool used by developed countries such as the USA and Japan in the past, is now handled in a much broader context. Economic and human development are supported in many ways, especially through "innovation-based public procurement" policies (Yülek & Tiryakioğlu, 2013). In general, it is observed that the public procurement policies of many countries lack robust support for SI—a vital tool for advancing human development alongside economic progress (Boelman & Heales, 2015). Furthermore, due to the lack of a legally binding framework governing cooperation between the public sector and small enterprises in tender processes, government institutions remain reluctant to work with social enterprises.

The Town of Qualicum Beach, located within the borders of British Columbia, put into effect Canada's first "Social Public Procurement Policy" in June 2016. Previously, British Columbia had created the "Social Impact Procurement Guide", while the town of Cumberland created the "Social Public Procurement Draft" (Chandra

& Young, 2017). These steps taken on a regional basis are important in terms of providing the effect that will facilitate the emergence of SI. In England, the legally binding Social Value Act establishes a framework that requires social benefit to be taken into account at the beginning of the public tender process (Boelman & Heales, 2015). The guaranteed employment project implemented by the Istanbul Development Agency in 2022 is an example of innovative public procurement. The project aimed at training and employing a workforce possessing the knowledge, skills and abilities required by the software industry. Public procurement was based on performance rather than direct payments to the awarded companies. According to the framework of the program, €3,000 was paid for each young person who received software training and subsequently worked in a company for at least six months after the training.

Mechanisms of promoting SI infrastructure and capacity building

While the state plays a leading role in the development and dissemination of the SI ecosystem and its associated capacity, it also bears the responsibility of auditing whether related SI practices have fulfilled their desired functions. For this purpose, states employ various mechanisms, including funding initiatives operating in this field, conducting research, providing education and training, and supporting related academic studies. Among the most important issues at the global level are policy areas covering a wide spectrum such as health and social protection, fighting poverty, increasing social welfare, early intervention policies, aging, education, and regional economic growth (Alexander & Letwin, 2013). SI laboratories such as Mindlab (Denmark), LivingLab (EU), SI Generation (Canada), La 27e Region (France) are established within public institutions and serve as resources of SI. Additionally, some initiatives operate mostly independently of the state and focus on making evidence-based assessments using academic knowledge. Countries such as the USA, the UK, and Norway provide examples of such structures that operate on a regional, national, and international scale. Table 4, policy testing and evaluation centers based on evidence and scientific data, which are directly and/or indirectly supported by the state, are compared.

Table 4

Centres for Testing and Evaluating Evidence-Based Innovations

Institution/ Country	Area of Activity	Supporting Institutions
J-PAL, **USA**	Founded in 2003, The Abdul Latif Jameel Poverty Action Lab (J-PAL) was formed by the gathering of 131 academics from over 40 universities. The centre, which have six regional offices worldwide, carry out many studies in social policy including microcredit, public health, agricultural education and capacity building.	A wide variety of stakeholders—including governments, public institutions, the private sector, NGOs, universities—support the institution.
What Works Centres, **UK**	In these centres, analysis studies are carried out on the classification of social innovative initiatives, highlighting useful examples, and evaluate the impacts of these initiatives in their respective fields.	Relevant ministries, the UK National Lottery Public Administration, universities.
The Campell Collaboration, **Norway**	Within the scope of the Institute, worldwide examples in the fields of crime, justice, education, international development and social welfare are systematically followed and analyzed scientifically.	Various institutions, including both public and private sector affiliates, participate in this formation.

Source: Authors own elaborations

The above-mentioned organizations help support SI and create an ecosystem by providing the most effective interventions and practices that are known and measurable, especially in the fields of social policy.

Public Institutions as catalyzers: Promoting civic participation and amplifying social contribution

The growing importance of the SI ecosystem and SI practices highlights the need to foster citizen involvement in SI solutions and enhance social connections. First of all, it is necessary to understand social challenges thoroughly in order to devise and execute effective solutions. In traditional public institution models, citizens typically lack the "big picture" and often do not have a say in the development of new solutions (Boelman & Heales, 2015). Instead, policy makers, public servants and representatives or leaders of non-governmental organizations often prefer to address social issues without direct engagement with the affected communities. Therefore, it is vital to motivate, encourage and empower citizens to actively participate in developing and implementing SI solutions.

This situation often leads to applications that are far from responding to the social need in a real sense, causing a waste of resources and a loss of time. Regardless of the sector, the approach proposed by Davies et al. (2012) suggest that "social innovator citizens are experts in their own lives and no one can claim to take on this role" approach Therefore, it is vital that people in a region take an active role in solving the problem they face and be a part of the solution themselves. Another aspect that makes community participation necessary and valuable is that the individual is the source of the SI ideas (Boelman & Heales, 2015; Davies & Simon, 2013). Carstensen and Bason (2012) argue that citizens themselves are the source of innovation and "the driving force and source of inspiration for public sector innovation". In addition, Von Hippel (2005) emphasizes the importance of employing users with leadership capacity in generating new ideas. On the other hand, the people facing the problem have the potential to produce innovations with a different perspective than the state. Because the problems faced are so complex and transitory that producing a unique solution depends on the inclusion of different groups in the process, their diversity and the recombination of the parts of the whole (Westley et al., 2009). To exploit this resource, as illustrated in Table 5, the governments can support participatory co-design activities and competitions for generating innovative ideas, thereby maximizing the resulting social impact in various ways.

Table 5

Examples of Institutions Supporting Citizen Participation

Initiative	Country	Explanation
legislationlab.org	**Morocco**	This initiative, which took place in Morocco, contributed to the new constitution-making process undertaken by the King of Morocco, and the legislative proposals of the people were opened for discussion on the platform. Legal advisors appointed within the scope of the system informed the public about the potential outcomes of the proposed legislation. The draft constitution created through the system was submitted to the parliament, and approximately 40% of the final draft consisted of the articles submitted via LegislationLab.
Cheong-Chek (Policy by Listening) Forum (CCF)	**South Korea**	CCF, derived from the Korean words for “listening” and “policy”, is a communication method aimed at public participation in the new policy development process for the city of Seoul. This entity supports citizen participation starting from the initial design phase of the policy-making process. Through town hall meetings, ideas and suggestions are collected, evaluated, and taken into account at the very beginning of the policy-making process (Kim et al., 2015).

Source: Authors own elaboration

All these methods are innovative SI practices that provide the fastest, easiest and most effective way to meet a need or solve an entrenched problem in a society.

Public Institutions as catalyzer: New legal regulations

When it comes to establishing a supportive ecosystem for SI, one of the integrative roles of the state is the preparation and implementation of new legal regulations that will produce social impact. In this context, it is important to legally recognize social enterprises whose primary objective is to produce innovative solutions that will benefit society. Today, countries such as the USA, the UK, Belgium, Canada and Slovenia recognize social enterprises as a new legal form. In the USA, 40 out of

52 states have developed varying policies to accelerate SI, among which Vermont, Massachusetts, Maryland, and Illinois states have proposed and created new legal forms (such as L3C, Benefit Corporation, SIBs) that will support SI compared to the others (Berzin et al., 2014). Legislation, policies, and programs for SI vary in different regions and provinces of Canada. Among these, the provinces of British Columbia, Quebec, Ontario, Manitoba, Nova Scotia, Alberta, and Saskatchewan have implemented practices that enhance the visibility of social enterprises at both legal and financial levels (Volynets, 2015). As stated before, social enterprises with similar or different characteristics on the basis of countries use their income to reach their social missions and reinvest almost all of their profits to spread this social mission again (Boelman & Heales, 2015). Examples of different forms of social enterprises whose primary goal is to provide social benefit are given in the Table 6.

Table 6

Examples of Countries with Legal Status of Social Enterprises

Country	Legal Status	Purpose of the Institution
USA	Low-Profit Limited Liability Companies (L3C)	The L3C structure was established in 2008 with an understanding that transcends the borders between the private and civil society sectors. Its primary goal is to create social benefit, unlike the classical company status. These taxable companies cannot be funded by tax-exempt donations.
USA	Benefit Corporations	This is a legal status that supports for-profit organizations with a defined social mission. This dual-purpose structure, which gained legal status in 2010, primarily works for the creation of social value and for the interests of investors and shareholders.
UK	Community Interest Company (CIC)	CICs are designed to carry out initiatives that will produce results for the public benefit and where the social benefit is defined by the regulatory authorities.

Belgium	Social Purpose Company	The profits made by these companies are not used for the profit maximization of the partners, but rather reinvested for social benefit purposes. Relevant conditions are determined by law.
Slovenia Social Entrepreneurship Law (2011)	Nonprofit Legal Entities	This includes cooperatives, companies, institutes, and foundations that carry out activities related to social assistance, family assistance, protection, and education.

Source: Authors own elaboration

In the UK, the government has strongly supported social entrepreneurship through a series of policy documents and established organizations since the late 1990s. In this sector, which has a highly developed institutionalized support structure, the number of entrepreneurs has increased rapidly. According to statistics, social enterprises in the UK, which were around 5,300 in 2003 (Healey, 2015), exceeded 100,000 as of 2025 (Social Enterprise UK, 2025). More than 11,000 Community Interest Companies (CICs) have been established since 2005, and the number of financial instruments to support the growth of this movement has increased significantly in the last five years. In this context, social enterprises are estimated to contribute approximately £78 billion to the economy while providing employment for 2.3 million people. An organization can operate as an NGO, cooperative, or company while carrying out social enterprise activities. The recognition of social enterprises as a separate legal form makes them more sustainable. As a result, social enterprises are becoming one of the key actors in the SI ecosystem.

Conclusion

This study employs a hybrid theoretical framework integrating Ecosystem Theory (ET) and Mazzucato's Entrepreneurial State Theory (EST) to analyze how public institutions foster SI ecosystems (Adner, 2017; Moore, 1993; Mazzucato, 2011). While ET emphasizes the interdependence of diverse actors—governments, NGOs, businesses, and civil society—in co-creating value through networked collaboration, EST redefines the state's role as a bold investor and risk-taker, positioning it not merely as a market fixer but as a proactive market-shaper that drives transformative change. Together, these theories provide a nuanced analytical lens, enabling an examination of how policy frameworks can simultaneously orchestrate multi-stakeholder collaboration (in line with ET) and drive mission-oriented innovation (according to EST). Building on this framework, the study investigates growth-stage SI ecosystems—contexts where nascent innovations transition toward systemic impact—through a combination of empirical case analysis and cross-regional best practices. Our research highlights six critical roles of the public sector in shaping resilient social innovation ecosystems, strategically functioning as initiators (setting visionary agendas and igniting early-stage momentum), facilitators (bridging silos and building trust among diverse stakeholders), resource providers (mobilizing financial, infrastructural, and knowledge-based capital), capacity builders (enhancing ecosystem actors' skills and institutional readiness), catalyzers (accelerating high-potential innovations through targeted interventions), and regulators (designing incentive structures and governance mechanisms to align public and private interests).

Our findings reveal that public institutions act not merely as passive enablers but as entrepreneurial accelerators, leveraging policy tools—such as challenge grants, innovation hubs, and participatory governance models—to de-risk experimentation, coordinate fragmented stakeholders, and embed SI principles into institutional structures. Crucially, this study bridges Ecosystem Theory's focus on organic, bottom-up collaboration with the Entrepreneurial State's top-down strategic direction, demonstrating how public institutions can balance centralized leadership with distributed agency. By doing so, the paper contributes a policymaking blueprint for transforming the SI ecosystems from fragmented initiatives into scalable, systemic solutions—offering valuable insights for scholars and practitioners navigating the intersection of public policy, innovation economics, and social change.

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