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### SUSTAINABLE ECONOMIC DEVELOPMENT: SCENARIOS FOR PROMOTION OF SOCIAL INNOVATION IN LATVIA

Lasma Dobele<sup>1</sup>, Gunta Grinberga-Zalite<sup>2</sup>, Linda Kelle<sup>3</sup>

<sup>1,2,3</sup>Latvia University of Agriculture, Liela Str.2, Jelgava, Latvia, LV-3001

E-mails: <sup>1</sup>[lasma.dobele@llu.lv](mailto:lasma.dobele@llu.lv); <sup>2</sup>[gunta.grinberga@llu.lv](mailto:gunta.grinberga@llu.lv); <sup>3</sup>[linda.kelle@inbox.lv](mailto:linda.kelle@inbox.lv)

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**Abstract.** Promotion of social innovation has been identified as one of the EU priorities because it contributes to the improvement of the quality of life of citizens and national competitiveness. In Latvia, concrete ways to promote social innovation remain not defined yet, therefore the study focused on elaboration of alternative scenarios of social innovation development that would enhance the growth of the economy of Latvia: self-initiative scenario, enterprise initiated development scenario and public participation scenario. The authors defined the aim of the research to evaluate social innovation scenarios for the development of the economy of Latvia. The scenarios were evaluated based on the analytic hierarchy process, which led to the conclusion that the most appropriate scenario for the promotion of social innovation in Latvia is the development of public participation scenario. This scenario emphasizes the need to create an appropriate legislative framework for promoting social innovation and the development of financial and information support tools for social innovation promoters and implementers in Latvia.

**Key words:** sustainable development, social innovation, scenarios, hierarchy analysis.

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**JEL Classifications:** O35; O31; A13.

## 1. Introduction

Since 2009, an increasing number of discussions on social innovation initiatives and their implementation opportunities in the Member States have taken place at the European Commission level. Social innovation has been promoted as the solution to the growing social needs, and as an innovative solution for those issues that require structural changes to promote the welfare of the population and more efficient use of financial resources.

Although scientific literature analysis reflects many different views on the definition of the term “social innovation”, its role is gradually growing in the discussions on the EU policy priorities. This is evidenced by the fact that social innovation is one of the “Europe 2020” strategy’s seven flagship initiatives that the European Commission has drawn up to determine the national, European and international measures that would be implemented in the field of innovation in order to achieve the goals set by the “Europe 2020” strategy. Moreover, special attention to the social innovation is provided in scope of the European Union’s initiative “Innovation Union”, which emphasizes the need to incorporate social innovation support measures for the European Social Fund programmes in 2014-2020. In this programming period, for the first time a separate support programme

dedicated to social innovation was established – *the EU Programme for Employment and Social Innovation* with a total budget of 919 million EUR. The urgency of social innovation can be justified by its importance for economic development and ability to reduce costs or to solve social problems in society (Mulgan et al. 2006) as well as to improve the overall welfare of the society. Social innovation is also important to overcome the market imperfections, in particular to deal with minorities or some specific groups in society (Kacou 2011; Murray, Caulier-Grice & Mulgan 2010; Saul 2011; Evers et al. 2004) or to address the problems faced by government related to provision of public services (Mulgan & Landry 1995; Leadbeater 1997). It is also important to mention that behind business innovation usually stands targeted investor, but social innovation requires different and diverse set of support resources, including policy makers' recognition and support, and often volunteering and charity (Mulgan et al. 2006). The authors conclude that social innovation is an essential tool for solving social problems, however in Latvia there is lack of research on the importance of social innovation development for the growth of the economy of Latvia. Therefore, the authors have studied the promotion of social innovation in the Latvian context by elaborating the scenarios of social innovation development and performing their evaluation.

The **aim** of the research is to evaluate the scenarios of social innovation promotion for enhancing the development of the economy of Latvia. The aim of the research has set the following **tasks**:

- 1) to elaborate the potential scenarios of social innovation promotion for enhancing the development of the economy of Latvia;
- 2) based on the experts' opinion, to define the most appropriate scenario for promotion of social innovation in Latvia.

**Materials and methods.** In order to summarize the essence of social innovation, the authors used literature analysis. Abstract logical method was used to establish logical constructions that were necessary to identify the problem. The authors also used the methods of analysis and synthesis. Analysis was applied to divide the integrity into components and thus get a view of certain parts of interest, but synthesis allowed consolidating particular elements of the research object in unified integrity (Kozlinskis et al. 2005).

In order to ensure an in-depth study of the current situation in the field of social innovation, the researchers organized a focus group discussion on 20 May 2015, in which experts representing different areas of social innovation participated. The focus group discussion was recorded and afterwards thoroughly investigated by the authors. By using content analysis, the authors summarized and classified the viewpoints expressed during the focus group discussion. The discussion participants represented different spheres of Latvian society: entrepreneurs of different industries, representatives of education institutions, founders of social movements and representatives of NGOs. Since the intention of the authors was to explore the opportunities of enhancing social innovation from the economic perspective, in the subsequent research stages the authors determined three extensive sectors that, on the one hand, by their activities influence the development of the national economy, but, on the other hand, benefit from this development. These sectors are: social sector (individuals of society), business sector (entrepreneurs) and public sector (public institutions). The viewpoints of the discussion participants were useful for further scenario elaboration of social innovation development because the participants represented all the three sectors that are important stakeholders of social innovation promotion.

Based on the findings obtained in scope of the focus group discussion, the authors of this paper elaborated three scenarios of social innovation promotion that would enhance the growth of the economy of Latvia. The scenario method was used because up to now concrete ways to promote social innovation have not yet been determined in Latvia. Therefore, the authors have envisaged several possible future alternatives for promoting social innovation focusing on social innovation topicality from the economic perspective. A scenario is a story about possible future; it is not intended to predict how it will be, but to outline the borders for future development (Rotmans et al. 2000). The scenario method makes it possible to reduce the subjectivity of decision-making, because it is designed for a variety of possible future perspectives (Van der Heijden 2005). Moreover, the scenario planning takes into account the views of various stakeholder groups (Durand 2003; Meissner & Wulf 2012). In scenario elaboration for social innovation promotion in Latvia, the authors used *intuitive logic approach* (Van der Heijden et al.

2002; Schwartz 1996; Porter 1998). According to its guidelines, the elaboration of social innovation scenarios was based on three subsequent steps:

1. to determine the aim of scenario analysis and the scope of the research;
2. to identify the driving forces that determine the development of social innovation;
3. to characterize the scenarios based on the previous research (identification of the driving forces and the results of the focus group discussion);
4. to perform the scenario evaluation.

To define the most appropriate scenario for the promotion of social innovation in Latvia, the authors used the analytic hierarchy process (AHP) developed by American scientist T. Saaty. This method is intended for complex decision making. The essence of the method lies in a systemic hierarchical arrangement of the problem elements. The problem is gradually divided into several simpler parts that are compared eventually in pairs, thus assessing the level of the problem elements' interaction in hierarchy. Since the AHP intends to involve several experts in assessing priorities, the interests of all the stakeholders of the analysed problem are respected. The evaluations of the experts are presented in numerical values using a relative importance scale (Saaty 1994, 1977).

After filling in the hierarchy matrix, it is necessary to calculate the priority vector for each of the hierarchy elements indicating its importance relative to each criterion of the higher level (Alphonse 1997). The priority vector is obtained after calculation of eigenvector set for each pair evaluation matrix and finally normalizing the result to 1 (Kronbergs, Rivza & Boze 1988). There are several methods for obtaining the coordinates of the priority vector. One of the most common methods uses the calculation of the geometric mean, according to which the elements of each row are multiplied and  $n$ -degree root is extracted ( $n$  = the number of elements). After dividing each number by the sum of all the numbers, the obtained set of numbers is normalized.

In the hierarchy analysis, the evaluation results obtained from each expert are processed separately and afterwards aggregated in the evaluation summary, thus obtaining the final coordinates of priority vectors for each criterion. The results of criteria comparison are reflected graphically showing the minimum, maximum and average coordinate of the priority vector.

The authors decided to use the AHP method for the current study because it has many advantages. Firstly, the subjective decision making is systemic, which results in precise evaluations. Secondly, the decision takers receive information on evaluation criteria and relative importance scale (Narasimhan 1983). Thirdly, the AHP ensures understanding and reconciliation among the decision-makers (Harker & Vargas 1987).

## **2. Characterization of the scenarios of social innovation promotion in Latvia**

**The aim of scenario analysis and the scope of the research.** The aim of the scenario method is to elaborate three scenarios for social innovation promotion and of them determine one most appropriate scenario that would most effectively enhance sustainable economic development in Latvia. In order to achieve this aim, it is necessary to investigate the essence of social innovation. To understand the concept of social innovation in the context of Latvia, it is essential to explain each of the two words – “innovation” and “social” because there is no particular definition for this concept.

James Phills points out that innovation is characterized by four essential elements (Phills, Deiglmeier & Miller 2008). Firstly, by innovation we understand the *process* of innovation creation – the creation of a new product or solution to the problem, which includes technical, social and economic factors. Secondly, innovation is a *product* or invention (the result of the process). Thirdly, it includes dissemination of the innovation (*diffusion*) and *adaption*, to ensure its wider use. Fourthly, it is important to emphasize *the ultimate value* provided by innovation. Moreover, innovation should include the elements of *novelty* and *improvement*. Innovation does not necessarily have to be something original, but it must be something new for its user, its creator or the particular society. In addition, the process or result should be more efficient compared to other alternatives and contain

organizational and environmental *sustainability* element, namely, innovation must operate over a long period of time.

The term “social” is mainly used to describe the needs or problems of certain social groups, social motivation or intentions, social values, or for denoting the social sector. In the context of social innovation, the creation of social value is understood as a reduction of social costs or creation of social benefits, or satisfaction of particular social needs (Phills, Deiglmeier & Miller 2008). It is important to emphasize that the benefits for society is a priority over personal benefit or profit. Many innovations have resulted in benefits to society by promoting employment, increasing productivity and economic growth.

Based on the findings made in scientific literature, the authors understand social innovation as a new, sustainable, effective solution to social problems that primarily provides benefit for society as a whole, rather than particular individuals (Surikova, Oganisjana & Grinberga-Zalite 2015; Dobele 2015). Social innovation can be a product, production process or technology; it can also be an idea, principle, part of a legal act, social movement or the combination of these elements.

**Driving forces determining social innovation.** Social innovation is influenced by different factors and conditions that exist in the external and internal environment of an organization, which accordingly determine the development of social innovation in the country (Raisiene 2012). One of the biggest political and legal obstacles for social innovation in Latvia is lack of legal recognition. Social innovation is not defined as one of priorities how to mitigate social problems; there is insufficient social innovation “policy coordination” (cooperation in the policy domain) and “operational coordination”. This explains the fact that activities related to social innovation are held periodically. Social innovation development is significantly influenced by external funds. In Latvia, social innovation activities mainly are financed from the EU Funds and foundations, however, special support instruments should be made for development of social innovation at national level. There is insufficient information on social innovation in Latvia, which leads to the lack of data and measurement. Social innovation development depends also on society values and norms, their ability to take a risk and accept changes. For successful development of social innovation collaboration skills between different stakeholders are very important (Dobele 2015).

Social innovation depends also on different factors at organizational level (resources, level of risk, social innovation strategy, social innovation management practice, organizational learning, and organizational culture) and knowledge, abilities, skills, motivation and the attitudes of individuals. Lack of such characteristics may constitute a significant barrier for social innovation (Moore & Westley 2011; Dufour, Lessard & Chamberland 2014). Finally, it is important to emphasize that social innovation is relevant to all sectors of economy to address the unmet needs of society, which is also an important driving force of social innovation.

Considering the influencing factors and driving forces of social innovation, in the process of scenario elaboration the authors based on two important preconditions of social innovation: taking the initiative of the promotion of social innovation and intensity of support instruments for the promotion of social innovations.

*Taking the initiative.* Considering the fact that almost all social problems are complicated and interconnected, it is necessary to involve differentiated stakeholders in their solution. (Khutrakun 2013; Tanimoto & Doi 2007). Scientists from various countries have shown that self-organization of society and targeted involvement in socially significant initiatives are an essential prerequisite for harmonization of interests of various members of society (Barnes 2006; Yaojun & Marsh 2008; Petrova & Tarrow 2007; Habermas 1995). Social innovation is often associated with individuals and non-profit organizations, however, many social innovations are created in the business sector. Moreover, the government, the market, a variety of social movements, organizations and educational institutions are also interested in the creation of social innovation (Bulut, Eren & Halac 2013; Phills, Deiglmeier & Miller 2008; Balkiene 2013). This finding was also confirmed by the results of the focus group interviews, in which participants strongly agreed that social innovation is important for all the sectors of the economy of Latvia to satisfy unmet needs of Latvian society.

That means that the initiative of social innovation promotion can be taken by the state, entrepreneurs and/or individuals of the society.

*Intensity of the support instruments.* There could be different support instruments used for the promotion of social innovation. The state can support social innovation by financially considerable support instruments – tax incentives, grants, raising ESF financing for promotion of social innovation. The entrepreneurs and individuals of the society can also promote social innovation by using their own resources.

**The characterization of the scenarios for the promotion of social innovation.** Based on the two before mentioned important pre-conditions that determine the development of social innovation, the authors defined three equally possible future alternatives of social innovation development in Latvia:

*self-initiative* scenario – social innovation as voluntary work;

*public participation* scenario – social innovation as a promoter of the country's sustainable development;

*enterprise initiated* development scenario – social innovation as an economic existence security guaranty.

The *self-initiative* scenario provides that the incentive of social innovation is undertaken mainly by individuals of the society by doing voluntary work in return receiving no fee or special public aid for promotion of social innovation. Social innovation is implemented as a self-initiative that is motivated by particular community's unmet needs.

The *public participation* scenario provides that the state is the main initiator of promotion of social innovation. In this case, state ensures access to particular support instruments (financial, legal, informative etc.) for creators and implementers of social innovation. This scenario includes also municipal support, namely, the municipality can promote the development of social innovation by providing infrastructure or informative support. In general, the implementation of this scenario enhances sustainable development of the society because social and economic problems are solved by using financial and other support instruments for social innovation promotion.

The *enterprise initiated* development scenario focuses on entrepreneurs as the main promoters of social innovation including the support instruments that are at their disposal (e.g. mentoring). This scenario enhances social innovation as an economic existence security guaranty for a business.

### 3. Evaluation of the scenarios promoting social innovation

The scenarios of promoting social innovation were evaluated by using hierarchy analysis. In order to apply the hierarchy analysis, the authors elaborated the hierarchy pyramid that was divided into four levels (Figure 1). At the first level, the general objective is defined – choice of the most appropriate scenario for promotion of social innovation development in Latvia. The second level reveals the objects that are interested in social innovation development. Each object is characterised by specific set of criteria and was determined by asking the question: "To whom is it important that social innovation development is promoted in Latvia?" Based on the findings of the scientific literature analysis and the results of the focus group discussion, the authors distinguished three groups of criteria:

- individuals;
- entrepreneurs;
- state (national interests).

At the third level, the authors determined evaluation criteria (interests of the criteria groups). The components of the criteria groups were determined based on the results of the focus group discussion, experts' evaluation and theoretical study of components that characterise social innovation development.

The fourth level is intended to analyse the three alternative scenarios (self-initiative scenario; public participation scenario; enterprise initiated scenario) for social innovation promotion in Latvia.

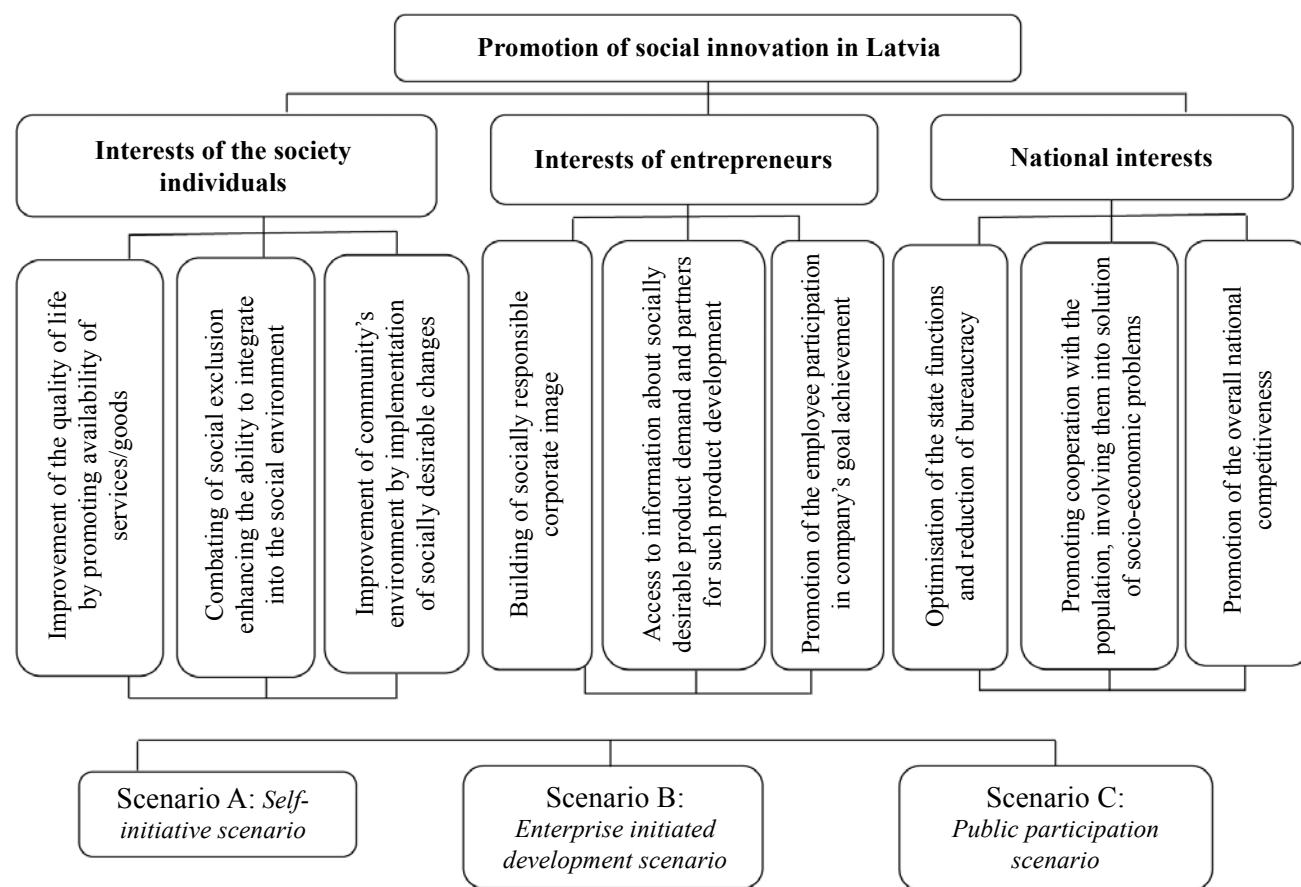


Fig.1. Hierarchy of the evaluation criteria of social innovation promotion

Source: elaborated by the authors

The experts had to evaluate the three above-mentioned scenarios (alternatives) in relation to the second and third group of criteria. The authors used differentiated approach for elaboration and evaluation of the scenarios – the scenarios were elaborated by the authors, but the evaluation of the scenarios was performed by five **experts** that represent different groups of interests.

1. An entrepreneur and founder of a small enterprise “*Oskars un partneri*” Ltd. The company has been operating for 10 years in the Latvian market. Its core activity is maintenance and trade of computer technologies. The founder of the company is proud of being able to create a workplace for himself (he is the only employee of the company, all other services are outsourced), is an active participant of the socially innovative project “*Laika banka*” (“*Time bank*”) and is planning to create a new better platform for exchanging with services in Latvia.
2. An entrepreneur, the member of the board of “*Galas parstrades uzņēmums Nakotne*” Ltd., which is a well-known meat processing company in Latvia, founded in 2000, having more than 300 employees, thus referred to as a large company for Latvia’s scale. The company has won Latvia’s public recognition owing to the high quality of their products and the fact that the company is active in introducing social innovations at the enterprise level.
3. The State Secretary of the Ministry of Economics of the Republic of Latvia who has been appointed to this position in July 2015. The Ministry of Economics of the Republic of Latvia is the leading state administration institution responsible for the development of innovation policy in the country.
4. The leading manager of the State JSC “*State Real Estate*” who is responsible for sustainable maintenance and development of public properties in Latvia.
5. The chairman of the board of rural partnership “*Lielupe*” who has been awarded a special prize of the Ministry of Agriculture of the Republic of Latvia for active promotion of social projects with rural initiative groups in 2013.

The main aspects that the authors took into consideration to ensure appropriate methodology of scenario evaluation were the number and sphere of activity of the experts.

1. Necessity to have at least four experts involved because too small group of experts can result in a situation when the subjective evaluations of particular experts can significantly influence the coherence of evaluations.
2. Selected experts' knowledge and competence in social innovation.

Initially, the experts had to compare the criteria groups of the second level in pairs in relation to the overall objective of the first level. To compare the criteria, the authors used a standardised scale of relative importance. Each expert filled in his/her results of criteria group comparison in a specially designated table. After summing up all the experts' assessments, the authors concluded that national interests or benefits are the most important in promoting social innovation in Latvia (0.38). This criteria group also has the lowest variation coefficient, i.e. 14.6%, which shows the largest expert consensus on this issue (Figure 2).

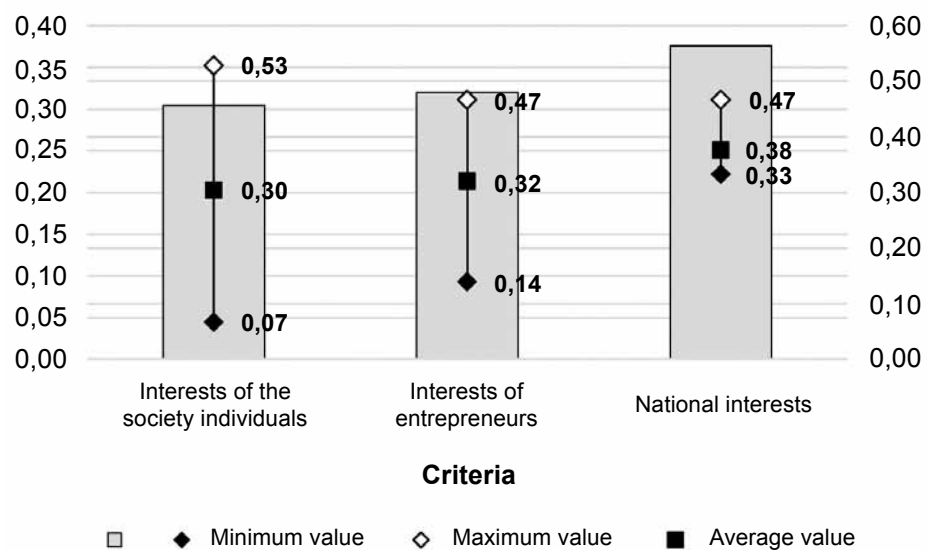


Fig.2. Evaluations provided by experts in criteria groups

Source: authors' calculations and construction

Such results suggest that the state will obtain the most benefit of social innovation development. According to such an assumption, the national competitiveness increase will enable the state to focus on social and economic problems and involve the population in this process. Consequently, later on these benefits will pass over to business community and individuals of the society who will also feel those benefits. This explains the experts' assessments within this criteria group, namely that individuals of the society will feel less benefits resulting from social innovation development (the arithmetic mean value of the priority vector coordinate – 0.30). However, this priority group indicated the largest variation coefficient – 48.7%, thus revealing sharp differences of experts' opinion on this issue. This is explained by the fact that people will feel the positive effects of social innovation by improved quality of life, reduction of social exclusion, but at the same time, this effect may be small and little felt in reality.

As a result of AHP, the authors detected the role of the alternatives to the achievement of the main objective according to the nine criteria. In experts' opinion, the most optimal scenario is public participation scenario (global priority vector – 0.45) followed by enterprise initiated development scenario (0.35) (Figure 3).

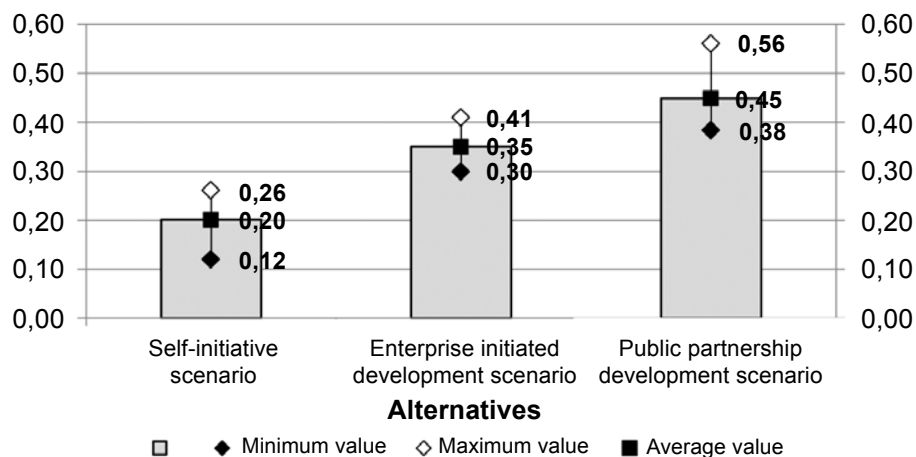


Fig.3. Global priority vectors of social innovation promotion alternatives

Source: authors' calculations and construction

The state participation scenario dominates also according to the priority calculations within individual groups of criteria, with the exception of entrepreneur interest positions, in which experts have suggested enterprise initiated development scenario as the most optimal one.

The experts' assessment has led to the conclusion that the state support instruments are currently most necessary to promote social innovation in Latvia, which includes the establishment of an appropriate legislative basis and informative support instruments for social innovation promoters and implementers. This is evidenced by experts' determination of public participation scenario as a priority. In addition, the calculations revealed low dispersion around the average value (14%), which can be explained by the fact that all the experts are aware that it is essential to provide a legislative framework for social innovation and introduce support tools for their development to solve social and economic problems in the country. Whereas high evaluation of the enterprise initiated development scenario (global priority vector - 0.35) shows that in Latvia enterprises have an important role in driving social innovation. Experts' assessment results also show that without the individual's own activity and initiative, social innovation cannot be successfully promoted in Latvia. In addition, the evaluations of this scenario showed that there is basically consensus achieved in the experts' views (dispersion around the average value is 23%). This suggests that basically all the experts believe that social innovation is impossible without provision of a variety of support tools, but at the same time individuals' own initiative is also of high importance.

#### 4. Conclusions and recommendations

Social innovation is a new, sustainable and effective solution to social problems and the value created primarily provides benefit for the society as a whole, rather than individuals. Social innovation can be a product, a production process or technology; it can also be an idea, a principle, and a part of a legal act, social movement or a combination of these elements.

In Latvia, specific instruments for social innovation promotion are not specified at the national level. Therefore the authors elaborated three scenarios for social innovation development: self-initiative scenario; enterprise initiated development scenario; public partnership development scenario.

In the process of the scenario elaboration, the authors determined two main pre-conditions: initiative taking over social innovation promotion and intensity of support instruments for the development of social innovation. The scenarios were evaluated based on the hierarchy analysis method, which led to the discovery that the most appropriate scenario for the development of social innovation in Latvia that would enhance sustainable development of the economy of Latvia is public participation scenario. This scenario emphasizes the need to create an appropriate



legislative framework for promoting social innovation and the development of financial and information support tools for social innovation promoters and implementers.

Since the Ministry of Economics of the Republic of Latvia is the leading state administration institution in the field of economic policy as well as to implement and develop innovation policy in the country, it should take the initiative to create the legislative framework for promoting social innovation in Latvia.

In the further research directions it would be necessary to explore the experience of other European countries in creating their legislative framework for promoting social innovation as well as available support tools in these countries for innovation promoters and implementers. Future studies should also gather experience of other countries in measuring the efficiency of support measures provided by different public partnership projects.

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