

# ECONOMIC UNDERPINNING OF SOCIAL INNOVATION

## SOCIAL INNOVATIONS' CONTRIBUTION TO INCLUSIVE GROWTH

**Social innovation will realise its potential contribution to inclusive growth only to the extent it can unfold its social and economic impact for beneficiaries as well as society at large. For social innovation to flourish an inspiring environment that provides support and enables mutual learning is essential.**

*Judith Terstriep / Maria Kleverbeck*

### INTRODUCTION

Europe is confronted with many complex and interrelated socio-economic challenges such as youth unemployment, migration, ageing population or poverty to name but a few. Individuals and groups affected by hard to solve problems resulting therefrom – also referred to as wicked problems – face significant constraints notably in their ability to fully participate in social, economic, cultural and political life. Social innovations emerging in Europe and around the world offer a promising avenue to sustainably address the problems at hand.

However, social innovation will realise its potential contribution to inclusive growth only to the extent it can unfold its social and economic impact for vulnerable and marginalised populations as well as for society at large. It is argued that empowering these groups helps to overcome the daunting problem of resource shortcomings by enhancing peoples' quality of life through empowerment of individuals to engage in society which strengthens integration, welfare, and social cohesion in the long-term. In this sense, exclusion is not viewed as individual inadequacy, but is imputable to institutional blockings and shortcomings, market failures, public sector silo thinking and growing fragmentation of the civil society. One can logically conclude that a shift from viewing vulnerable groups as burden to society to one that values their individual potential and their contribution to society constitutes a cornerstone in the social debate.

The paper is organised as follows: next the meaning of »economic underpinning« is introduced followed by a presentation of SIMPACT's model of components, objectives and principles (COP) which was used to elaborate sustainable business models (section 4). The last section discusses the role of a conducive environment for social innovation.

**Social innovation refers to novel combinations of ideas and distinct forms of collaboration that transcend established institutional contexts with the effect of empowering and (re)engaging vulnerable groups either in the innovation process or as a result of it.**

*Terstriep (2016), p. 5*

This article substantially builds on the findings of the FP7-SSH project »SIMPACT«<sup>1</sup>, which centred on the economic dimension of social innovation in an attempt to better apprehend social innovations' impact on social and economic transformation [1].

### THE MEANING OF »ECONOMIC UNDERPINNING«

By placing emphasis on the economic underpinning of social innovation, SIMPACT points to the pivotal role of social innovation as a lever for individual wellbeing, collective welfare, social justice and effectiveness, in sum sustainable social impact. Such orientation contributes to bridging the gap between large scale societal challenges and small-scale social innovation activities.

Social innovation as novel combination of ideas and distinct form of collaboration cover a broad range of practices that transcend levels of governance (micro, meso, macro), institutional boundaries and sectors (public, for-profit, not-for-profit or social enterprise). At the micro level the many small, locally embedded initiatives address a variety of distinct needs. By empowering vulnerable groups, they actively facilitate processes of inclusion. At the meso level

it is about institutional change. That is, social innovators as »rule breakers« challenge existing practices, established welfare and market institutions (e.g., rules, laws, attitudes, modes of governance). At the macro level, social innovation entails a new division of labour between the sphere of politics, i.e. welfare regimes and institutions that govern them, civil society and market-driven economy.

### INTERPLAY OF COMPONENTS, OBJECTIVES & PRINCIPLES

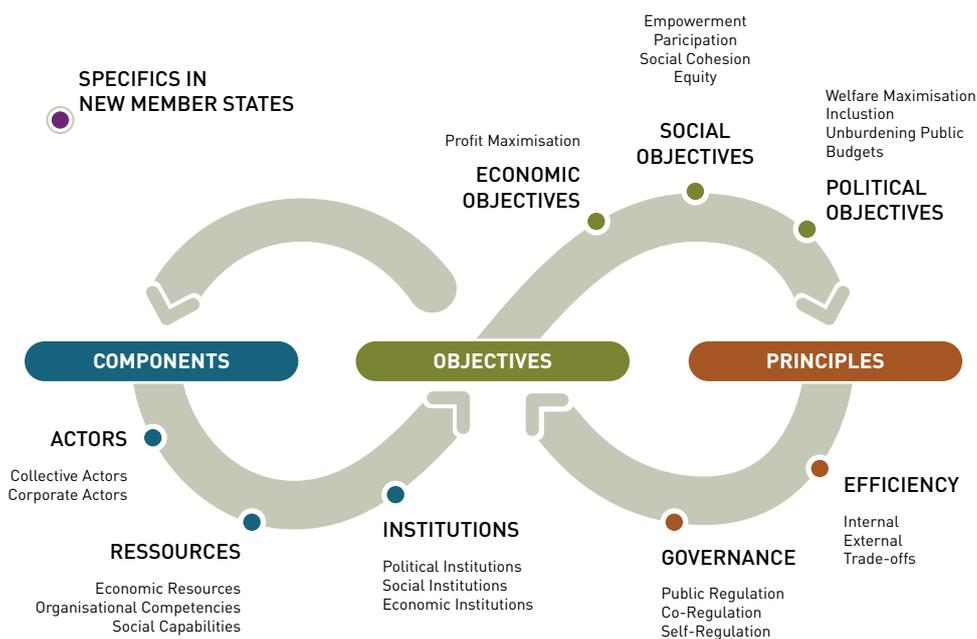
Social innovation as an evolutionary process comprises the development, implementation, practical application and consolidation of novel combinations of ideas and collaboration among a variety of actors. Hence, social innovations are characterised by an iterative process of experimentation and learning with an open end including abandonment and failure. That is why the economic foundation of social innovation hinges upon the proper identification of social innovation actors, resources and institutions (i.e. components), actors' objectives and under-lying principles (COP).

**Components** comprise actors and resources as production factors and institutions as given context factors. From an economic perspective, actors from civil society (formal and informal), the economic and policy field are central elements. The nature and extend of resources mobilised throughout the innovation cycle substantially affect the solution. Commonly, social innovators have to combine economic, political, social and personal resources to bring their solution into life. Knowledge is assessed as an essential economic resource for social innovators' seizing opportunities. Social resources interact with economic resources and include, for

example, relational capital. In turn, they imply investments in relational assets, knowledge sharing routines, complementary resources and capabilities. In addition, political resources such as human rights either influence or complement the use of economic resources. Finally, political, welfare, social and economic institutions can be designed to empower social and economic actors as well as to foster social innovation. Moreover, social innovators are embedded in a specific institutional context where actors' behaviour and interactions take shape.

**Objectives** comprise social innovators' motives and goals which are either economically or socially driven or a combination of both. Economic objectives comprise, for example, profit maximisation, cost reduction, welfare maximisation, discharge of public budgets, whereas social objectives embrace empowerment, social cohesion, solidarity or quality of life. Foremost, social innovators' motivation bases on commitment and collaboration.

**Principles** refer to mechanisms of decision making and interaction between actors and the context. With regard to the economic foundation of social innovation, efficiency and modes of governance are most relevant principles. Acting under conditions of resource scarcity, efficient resource allocation in accordance to actors' objectives is crucially important for social innovation actors to achieve their objectives. Modes of governance describe mechanisms of decision making, leadership and ownership and range from public regulation to co-regulation and self-regulation. Distinct modes of efficiency can best be described as dilemmas [3]. Examples are contradictions and trade-offs between economic and social goals, short-term success and long-term impact, competition and collaboration.

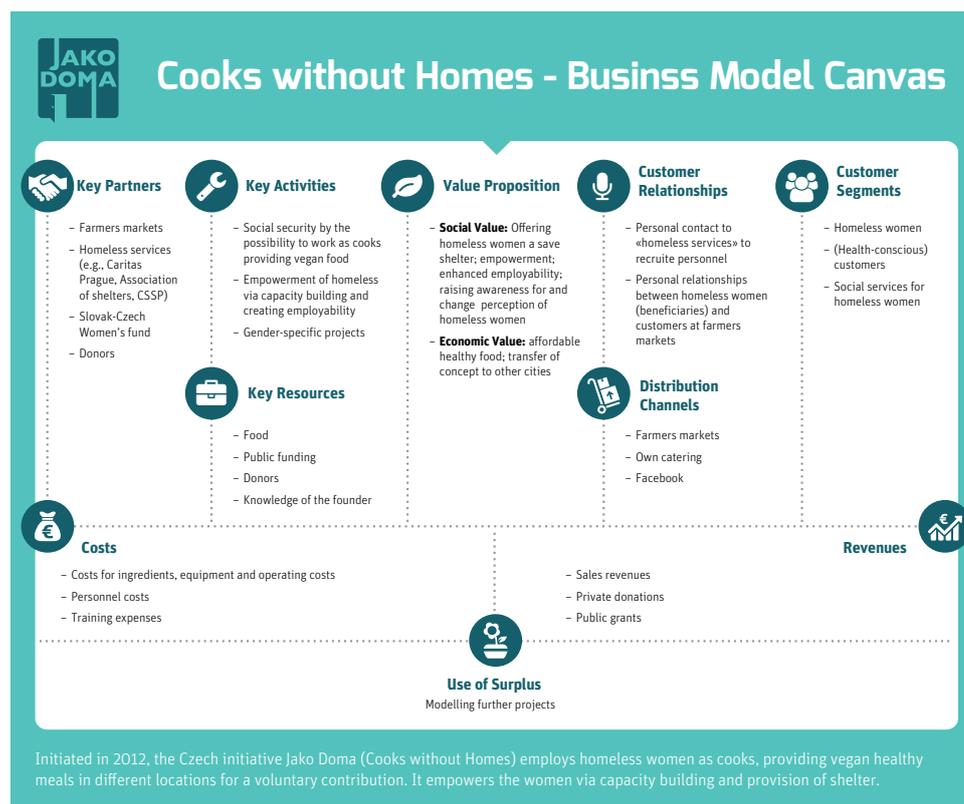


In the social innovation process, the outlined elements are mutually dependent. The model anticipates that the interplay between factors within an element and the dynamics between components, objectives and principles drive social innovations' economic and social impact. For example, subject to the actors involved in the innovation process available resources such as knowledge, human and relational capital, and finance are expected to vary, and therewith affect the scope of action. Likewise, the specific institutions actors are embedded in may fuel or hinder social innovation, while in turn – over the course of time – actors' innovations ideally result in institutional change. Moreover, social innovation actors' objectives are shaped by actor constellations and motivations on the one hand and available resources on the other hand. Changing objectives or diffusion of the solution might call for the involvement of new or distinct actors, whereas the allocation of resources to achieve defined goals is closely related to modes of efficiency and governance.

Hence gaining a detailed understanding of the components, objectives and principles as well as underlying processes and contexts of social innovations allows to explore potential levers and mechanisms that accelerate social and economic transformation, develop improved business models as exemplified in the following, and elaborate public policies that support social innovation processes.

## SUSTAINABLE SOCIAL INNOVATION BUSINESS MODELS: UNITING SOCIAL AND ECONOMIC INTERESTS

Our research has revealed that social innovation business models are shaped by the vision of creating, delivering and capturing social and economic value. They are structured as multi-actor models, crafting multiple value propositions (e.g., combining economic and social objectives) for various target groups and depend considerably on broad networks of supporters [4].



Business Model Canvas »Jako Doma«, Source: Adapted from [4]

Due to resource scarcity, most social innovations are operated under a bricolage approach often resulting in frugal solutions. Although pursuing primarily a social mission, most social innovation initiatives rely significantly on additional revenue streams to sustain their operations. Hence, hybridity, i.e. creating a commercial offer from a social mission, emerges as a common feature of social innovation business models. Social innovators may choose, for example, to work with beneficiaries whose capabilities are perceived by traditional companies as antagonistic (e.g. long-term unemployed, ex-offenders) or may lack necessary distribution channels. It follows that social innovation business models are built on the social mission and on finding complementarity between economic and social transactions [5]. In addition, social innovation business models are often structured around a divergence in the allocation of costs, use and benefits resulting in multiple value propositions and distinct customer segments.

Economic value is captured through the derivate currency of social value. Distinct from traditional business models, value is not only created by satisfying demands but also through the process of delivery (e.g. used resources, service delivery). Founded in 2012, the Czech social innovation initiative »Jako Doma«, for example, not only generates social value through the provision of healthy vegan food at farmers markets for a voluntary contribution, but also by employing homeless women as cooks. In other words, social value is what allows social innovators to create a unique offer and

SI BUSINESS MODEL	DESCRIPTION
 <p><b>Beneficiary as Actor</b></p>	Social value is generated through the active use of beneficiaries in the production of a commercial value proposition.
 <p><b>Beneficiary as Customer</b></p>	Social value is generated through goods or services that are sold to beneficiaries at below market rates subsidised by financing supporters.
 <p><b>Beneficiary as User</b></p>	Social value is generated through goods or services that are delivered to beneficiaries through the support of financing supporters.
 <p><b>Community Asset</b></p>	Social value is generated through the active use of all assets in the community to create mutual benefit supported by the actors themselves.

### Social Innovation Business Models

thus, competitive advantage. Finding the appropriate business model able to generate economic value while maintaining and increasing social value is thus crucially important for social innovation organisations' long-term success. Komatsu et al. [5] identified four types of business models:

The construction of a business model is connected to the use of a set of service design tools meant to sustain the development of each of its building blocks.<sup>ii</sup>

## A CONDUCTIVE ENVIRONMENT FOR SOCIAL INNOVATION

Next to the business model, for social innovation to flourish an inspiring environment that provides support and enables mutual learning is essential. In due consideration of social innovations' local embeddedness, the region is a promising space to design such social innovation ecosystem. To overcome the strategic and operational shortcomings outlined

in the previous section, networking and collaboration emerge as a common pattern in social innovation. Although the concrete composition of such networks varies largely, they all share trust, reciprocity and relational capital as a basis of interactions stemming from a combination of contingency and strategic planning. According to SIMPACT's empirical findings, a well-established regional social innovation ecosystem has to meet four requirements:

1. Provision of an open and enabling environment that functions as seedbed for a broad range of distinct social innovation activities and is open to change.
2. Presence of supporters and promoters facilitating social innovation activities and help ensuring a fertile balance between economic and social objectives are present.
3. Regional governance capacities that utilise social innovation in a broader frame of problem solving and future shaping of integrated project (e.g., smart or sustainable city).
4. Local/regional nodes and pipelines beyond the region that allow for an accelerated circulation and combination of knowledge.
5. Acknowledgment; the importance of applying open innovation practices to not only increase the flow of knowledge, but also to enhance social innovations' effectiveness.

## CONCLUSION

To successfully shape future transition processes from micro level social innovation activities to the solution of macro level socio-economic challenges it is necessary to better harness the societal and economic potential of the many dispersed local social innovations. Also, it is to be acknowledged that social innovations' contribution to inclusive growth is essentially based on open innovation models and sustainable business models characterised by distinct forms of interactions which, in turn, require behavioural shifts at the level civil society, public and private sectors.

<sup>i</sup> SIMPACT – Boosting the Impact of Social Innovation across Europe through Economic Underpinning» has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under Grant Agreement No. 613411.

<sup>ii</sup> SIMPACT's «Social Business Toolbox» is available at <http://simpact-project.eu/tools/business.htm>

## REFERENCES

- [1] Terstriep, Judith (Ed.) (2016): Boosting SI's Social and Economic Impact. Institute for Work and Technology: Gelsenkirchen.
- [2] Terstriep, Judith/ Kleverbeck, Maria/ Deserti, Alessandro/ Rizzo, Francesca (2015): Comparative Report on Social Innovation across Europe. Deliverable D3.2 of the project «Boosting the Impact of Social Innovation in Europe through Economic Underpinning» (SIMPACT), European Commission – 7th Framework Programme. European Commission, DG Research and Innovation: Brussels.
- [3] Rehfeld, Dieter/ Terstriep, Judith (2016): Coping with Social Innovation Dilemmas: An Exploratory Study of Middle Range Theory. In: Alijani, Sharam/ Karyotis, Catherine (Eds.): Finance and Economy for Society: Integrating Sustainability (Critical Studies on Corporate Responsibility, Governance and Sustainability, Volume 11). Emerald Publishing: Bingley, pp. 349-360.
- [4] Rizzo, Francesca/ Komatsu, Tamami/ Deserti, Alessandro (2015): Report on Existing Forms of Social Innovation – PART I. SI Processes and Business Models. Deliverable D4.1 of the project «Boosting the Impact of SI in Europe through Economic Underpinning» (SIMPACT), European Commission – 7th Framework Programme. European Commission, DG Research and Innovation: Brussels.
- [5] Komatsu, Tamami/ Deserti, Alessandro/ Rizzo, Francesca/ Alijani, Sharam (2016): Social Innovation Business Model: Coping with Antagonistic Objectives and Assets. In: Finance and Economy for Society: Integrating Sustainability. Emerald Publishing: Bingley, pp. 315 - 347.