WHAT TO MAKE OF SOCIAL INNOVATION?
TOWARDS A FRAMEWORK FOR POLICY DEVELOPMENT

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WHAT TO MAKE OF SOCIAL INNOVATION?
TOWARDS A FRAMEWORK FOR POLICY DEVELOPMENT

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Abstract
Over the past few years, there has been a growing interest on the part of the scientific community (and, more recently, of policy makers) in the concept of social innovation. The notion of social innovation is particularly appealing in light of the difficulties facing traditional welfare systems and, more broadly, a development model essentially based on only two actors (the market and the state) that is finding it increasingly difficult to meet the growing and diversified needs of society. However, the uses and definitions of the concept are so disparate that it is becoming increasingly difficult to assess whether social innovation is in fact a helpful construct or just another fad that will soon be forgotten. This paper focuses in particular on the usefulness of the concept of social innovation for the purposes of policy development. Therefore, the goal is not to find the “true” definition of social innovation. Rather, it is to search for a useful framework on which to build sound policies that could tackle the complex social issues that have caused scholars and practitioners to pay attention to social innovation in the first place.

Building on a review of the literature, and in particular on a paper by Eduardo Pol and Simon Ville, we propose an approach that recognizes a degree of overlap between social innovation and business innovation, and argue that social innovation policy should focus on the subset of social innovation that does not overlap with business innovation. This is due to the fact that social innovations that overlap with business innovations tend to be profitable, and as such the market is amply equipped to supply them, perhaps with the support of existing business innovation policies. “Pure” social innovations, on the other hand, are not driven by a profit motive, and thus need either to be subsidized or to be developed by enterprise types that are not motivated by profit maximization. Indeed, by focusing on the characteristics of different enterprise types we find that not-for-profit enterprises with an explicit social mission are ideally suited to develop pure social innovation, even in the absence of public sector intervention. The paper then concludes that targeted policies should be more mindful of the role of different types of enterprise in generating social innovation, and, more broadly, that the debate on social innovation should be more closely aligned with the debate on the pluralism of enterprise forms.

Keywords
social innovation, social enterprise

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1. Introduction

Three years into the economic crisis that started with the collapse of the subprime market in the United States, the situation on both sides of the Atlantic Ocean is showing no signs of improvement. On the contrary, the economic downturn in Western countries has been compounded by the issues of rising public deficits and increasing social unrest. The United States has witnessed the unprecedented downgrading of its debt by a major rating agency, while the European Union is struggling with the impending bankruptcy of some of its Member States, the increasing strain on the Euro system, and widespread protests that threaten its social cohesion.

In Europe in particular, the current situation can actually be seen as the result of a crisis that has been brewing for much longer – some would say since the failure of the welfare system starting in the 1980s. The wave of privatizations that took place in the 1990s, when many welfare functions were transferred to the private sector, did not solve the problems it was meant to address and, in some ways, has made them worse. Indeed, the belief in the ability of unfettered market forces to meet the needs of society, which was at the root of those privatizations, is widely regarded as the source of the recent financial crisis as well.

The ensuing quagmire has left policymakers looking for new solutions that can enable them to tackle growing social problems with dwindling resources. Of the ideas that have come to the fore, few have been as popular as the notion of “social innovation”.

To be sure, this is not a new term. The idea of social innovation can be traced as far back as Max Weber and Émile Durkheim, and the first research centres devoted to this topic were created in the late 1980s and early 1990s (such as the Centre de Recherche sur les Innovations Sociales founded in Canada in 1986). However, the concept has dramatically risen in popularity over the last decade, as shown by the creation of a number of specialized research institutions, such as the Center for Social Innovation at Stanford Graduate School of Business in the United States (founded in 2000), the Centre for Social Innovation in Toronto, Canada (2004), the Social Innovation Exchange created by the Young Foundation in London (2005), Social Innovation Japan (Tokyo, 2005), and the Netherlands Centre for Social Innovation (2006), just to name a few (Hochgerner, 2011). Over the same period, an increasingly large body of literature has been devoted to defining and analyzing this concept.

Since the onset of the economic crisis, social innovation has been a prominent feature of the policy debate as well. Soon after taking office, Barack Obama created the Office for Social Innovation and Civic Participation; in Britain, David Cameron talked about it in the context of his “big society” approach; and at the European level, social innovation has become one of the tenets of the policies of the European Commission led by José Manuel Barroso, most recently with the launch of the Social Innovation Europe Initiative.

Still, even a cursory review of the scientific literature and policy documents produced so far reveals that the way in which the concept of social innovation is being used and

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4 For an early review of the various strands of research devoted to the idea of social innovation, see Nilsson (2003). See also Goldenberg et al. (2009).
the ideas and policy proposals that are tied to it raise at least two major issues. The first and perhaps more obvious one has to do with the definition of the concept itself. As many authors have pointed out, there is very little clarity as to what social innovation actually is, and “there is no consensus regarding its relevance or specific meaning in the social sciences and humanities” (Pol and Ville, 2009). Indeed, definitions of social innovation range from very broad ones that include virtually every kind of innovation, to very narrow ones that leave out almost everything. Moreover, the term is applied to an extremely heterogeneous set of initiatives and organizations, which range from the interventions of the third sector as a whole, to public policy initiatives, to the actions of for-profit organizations that have even a marginal social impact. The second issue is that while significant effort is expended in defining what social innovation is, relatively little attention is being paid to the actors and mechanisms that bring it about, which in turn makes it very difficult to understand what kinds of policies could be most beneficial.

The combination of these two issues, which are closely related to each other, ultimately undermines the effectiveness of the concept of social innovation, both as an analytic construct and as a framework for developing new policies. Thus, in most cases, it appears to be used simply as a heuristic device to capture a very heterogeneous set of phenomena that seem to hold some promise of change relative to the status quo. Or worse, it becomes a political expedient to “sell” as new the same set of policies that have already failed in the past.

The question this paper seeks to address, then, is whether and how the concept of social innovation can be used to design a new set of policies that can address the social problems facing Europe and chart a new way forward. In order to do so, it seems that two key conditions should be met: first, social innovation needs to be clearly defined so that we can tell what qualifies as “socially innovative” and what does not; and second, the “dynamics” of social innovation need to be understood in order to see what types of policies can be most helpful.

The approach taken in this paper is thus eminently pragmatic. We do not aspire to give a “true“ or universal definition of social innovation – rather, we seek to frame the issue and carve out a meaning of the concept in a way that can help advance the debate and inform new policies. In order to do so, the paper first reviews some of the definitions of social innovation that have been used in the academic literature and in the policy debate, and then proposes a framework for defining social innovation in the context of current European policymaking. Based on this framework, the third section of the paper discusses some of the actors and mechanisms that can lead to social innovation and that are amenable to policy intervention. Finally, the last section discusses the main policy implications that derive from the analysis and proposes a few possible next steps related to social innovation research as well.

2. Redefining social innovation

In keeping with the pragmatic approach described above, it seems that a useful definition of social innovation for the purposes of policy development should satisfy two main criteria: it should identify a set of phenomena that are amenable to policy intervention; and it should satisfactorily distinguish social innovation from other kinds of innovation. The reason for the first criterion is obvious. The second criterion is due to the fact that, since Schumpeter published his “Theory of Economic Development“ in 1912, there has been an extensive body of literature devoted to the process of
innovation, investigating how inventions come about, how a new idea can turn into a successful product or service, how this process can be fostered or inhibited by particular organizational structures, and so forth. Similarly, there have been countless policies and programs aimed at spurring innovation (with varying degrees of success), ranging from intellectual property law to business incubators. A useful definition of social innovation should thus explain in what ways social innovation differs from “traditional” innovation, and justify the need for specialized social innovation policies. To better illustrate this point, let us first consider two definitions that could be perfectly valid in their own right, but do not quite meet these criteria and consequently are not well suited to policy development.

Seeking a clear and objective way to identify social innovations, Howaldt and Schwarz (2010) propose a new “social innovation paradigm” that is based on a distinction between “normative” and “analytic” definitions of the term “social”. In Howaldt and Schwarz’s view, normative definitions refer the term social to the idea of the common good. In these definitions, a social innovation can be any type of innovation that contributes to addressing social needs or problems. However, since the definition of social good is subjective, in the authors’ view these definitions are unfit for scientific analysis. By contrast, an analytic definition of the term social would lead to distinguish “social” innovations from “technical” innovations, where the latter refer to innovations in material production, while the former refer to the immaterial aspects related to “social behavioural patterns, routines, practices and settings.” From the point of view of scientific analysis the authors note as an advantage the fact that there is no inherent goodness in social innovation defined in this way, just as there is no inherent goodness in technical innovation.

While this definition is helpful in clearly identifying the realm of social innovation, it does not meet our first criterion: many of the phenomena it identifies fall under the realm of broad social changes that are not directly amenable to policy intervention (the civil rights movement of the 1960s, for example, could be construed as a social innovation according to this definition). The need to have a “value neutral” definition, which might be desirable for analytic purposes, also does not apply to our goals. Indeed, policymaking is concerned precisely with the identification and pursuit of the common good. So while this definition might work for sociological and economic analysis, it is safe to say that it does not serve our purpose.

Another definition that proposes a clear demarcation between social and other types of innovation is the one adopted by the Bureau of European Policy Advisors (BEPA), which defines social innovations as “new ideas (products, services, and models) that simultaneously meet social needs (more effectively than alternatives) and create new social relationships or collaborations” (BEPA 2010). This definition is particularly relevant because the BEPA document, commissioned by president Barroso, has been the theoretical underpinning for the actions on social innovation recently undertaken by the European Commission. By posing a double constraint on what qualifies as social innovation (meeting social needs and creating new social relationships), this

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5 The BEPA definition, for instance, is the one that president Barroso used for his speech at the launch of the Social Innovation Europe Initiative, where he stated that “social innovation is good for society and it also enhances society’s capacity to act” (José Manuel Barroso, Europe leading social innovation, speech at the Social Innovation Europe Initiative, Brussels, March 17, 2011). A similar concept was also used, on the same occasion, by Commissioner Andor, who stated that “social innovation is not only about finding alternative solutions to gaps in the market and public sector, but it is about finding the best ways to empower people – especially deprived groups – through their active involvement in the innovative process” (Laszlo Andor, Speech at the launch of the Social Innovation Europe Initiative, Brussels, March 16, 2011).
definition appears to provide a clear way to identify social innovations. However, upon closer examination, it is both too narrow and too broad. First, by requiring a collaborative dimension to the innovation process, it excludes many innovations that could have very positive social impacts solely because they do not involve creating new social relationships (as in the case of any innovation process that takes place within an existing organization). Second, and most important, it does not clarify why social innovations should be addressed by specialized policies, as neither of the two requirements posed by this definition clearly distinguish social innovations from other types of innovation. In fact, most business innovations (from supermarkets to smartphones) could be construed as “meeting social needs”, and collaborative relations are increasingly part of the innovation process for all types of innovation.

Of the various other definitions that can be found in the literature, two seem to come closest to meeting both of the criteria we laid out. One is proposed by Phills, Deiglmeier and Miller (2008) in their article “Rediscovering Social Innovation”, while the other is advanced by Pol and Ville (2009) in their paper “Social Innovation: Buzz word or enduring term?”. Both papers point out that many innovations create benefits for society, and so there can be a significant overlap between social innovation and business innovation. However, both papers reach the conclusion that social innovation “becomes important as a way to fill needs that would not otherwise be met and to create value that would not otherwise be created” by the market (Phills, Deiglmeier and Miller, 2008). This distinction is very important because it provides both a way to separate social innovations from other innovations and a clear rationale for specific policy intervention in support of social innovation. As the authors put it, “we want to differentiate social innovations from ordinary innovations because the world is already amply equipped to produce and disseminate ordinary innovations” (Phills, Deiglmeier and Miller, 2008).

The definition of social innovation proposed by Phills, Deiglmeier and Miller is thus as follows: “A novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals”. Note that the last clause is the one that truly separates social innovations from business innovations. At the same time, though, it could pose some challenges in practice, as it would be very difficult, for any given innovation, to ascertain the balance between individual and social gains. Moreover, the definition would seem to allow ample room for “ordinary” innovations so long as the value that accrues to society is greater than the value that accrues to the individual innovator. Consider, for example, the case of retroviral drugs that were instrumental in greatly reducing the number of deaths caused by AIDS. These drugs have saved millions of lives (value for society), and in the process have earned their manufacturers millions of dollars (value for the individual). Should we consider them a social innovation worthy of policy intervention, or would they fall under the category of ordinary innovations? The authors explicitly address this question and claim that life saving drugs should not be considered social innovations; their definition, however, seems to contradict them.

The framework proposed by Pol and Ville avoids this problem and presents a definition that seems both more conceptually sound and more effective. The paper defines social innovation as “any new idea with the potential to improve either the macro-quality of life or the quantity of life”, where macro-quality of life refers to “the set of valuable

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6 Consider for instance open access platforms for new software development, or the increasing involvement of customers in the design of new products. For a discussion of these developments, see, e.g., Chesbrough (2003).
options that a group of people has the opportunity to select” (Pol and Ville, 2009, p. 882) (such as, for example, material wellbeing, education opportunities, health, job security, etc.). Given this definition, the paper then suggests that social innovation and business innovation (defined as “profit-seeking innovation, that is, the creation of new ideas with the intention of making money”) are two classes of innovation that overlap significantly, as “business innovations that generate consumer products often [but not always] bring improvements to human welfare by widening the range of goods and services available to us” (Pol and Ville, 2009, p. 882).

What we have then is basically three classes of innovations: the first would be “pure” business innovations, meaning business innovations that have either a neutral or a negative effect on quality and quantity of life. This could be measured, at least in theory, as the difference between the sum of all social benefits that derive from the innovation minus the sum of all of the social costs associated with it. Examples of innovations that fall into this category would include harmful products like cigarettes, “neutral” products like a new flavour of toothpaste, or products the benefits of which in terms of quality and quantity of life are outweighed by their negative impact on other factors (as in the case, for example, of first generation biofuels, which provided some benefits in terms of reduction in carbon emissions but also had a significant negative impact on water consumption, food supply and biodiversity).

The second class of innovations includes what Pol and Ville call “bifocal” innovations, e.g. innovations that can be considered both business and social innovations. These innovations are profitable and at the same time have a clear positive effect on quality or quantity of life. A good example is the case of life-saving drugs mentioned above, but many business innovations (from computers to wind turbines) fall into this category.

The third class is the realm of “pure” social innovation, i.e. those social innovations that are not business innovations and address needs that are not satisfied through the market mechanism. This is the type of social innovation that should be the focus of specialized policies, since “in a free-market society there will be under-investment in pure social innovation because social innovators will not have material incentives to devote their energies to the creation of pure social innovations”. Examples of this type of social innovation abound in the literature, and range from new programs and initiatives (e.g. asset-building programs like Individual Development Accounts) to new types of organizations (like charter schools).

The framework proposed by Pol and Ville meets both of the criteria laid out at the beginning of this section, and provides both a rationale and a clear guideline for developing specialized social innovation policies. In other words, it enables us to identify a set of innovations that can be defined as social innovations (and, in particular, as “pure” social innovations using the terminology of the paper) and that are amenable to policy intervention. Moreover, it provides a rationale for specialized policy intervention (based on the failure of the market to supply this type of innovation). We can thus adopt this framework as the basis for our initial exploration of the mechanisms that lead to social innovation and the types of policies they call for.

From the standpoint of policy development, though, there are two additional specifications (not explicitly discussed in Pol and Ville’s paper) that should be added to

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7 In addition to, of course, other types of innovations that cannot be classified as either business or social innovations, such as artistic or purely intellectual innovations.
this definition of social innovation. The first is that social innovations can be not only a new product or service, but also a new process, or a new way of organizing production activities (such as, for instance, a new type of enterprise). The second is that a social innovation should not consist only of an isolated incident, but should be replicable and have the potential to scale up in order to have a significant impact. While in the case of business and “bifocal” innovations the market acts as a scaling mechanism that ensures the spreading of valuable new ideas, for pure social innovation the process is not as straightforward. Consequently, more attention needs to be paid to the scalability of the innovation in addition to its novelty.

Moreover, there is a significant misconception that should be addressed: Pol and Ville (as indeed much of the literature, including the other papers cited above) refer to the market as if it were only populated by for-profit enterprises, and consequently equate market failure with the inability to make a profit. In reality, though, the market is populated by a variety of enterprise types (shareholder companies, cooperatives, mutuals, social enterprises, and so forth), only some of which are motivated by profit maximization. Therefore, it is not correct to talk about “market failure” in the case of pure social innovation. Rather, this observation implies that pure social innovations are not profitable, which is what truly distinguishes them from business innovation (defined above as “profit-seeking” innovations). As we will see, this point also has important implications both for the mechanisms of social innovation and for the policies that are designed to influence them.

3. Exploring the dynamics of pure social innovation

Now that we have a working definition of social innovation we can turn our attention to a critical issue that is too often ignored in the literature. While most of the debate on social innovation is centred on the outcome (“what” is social innovation, what types of new products or initiatives qualify as socially innovative, and what their characteristics are), very little attention is being paid to the two aspects that are most important in order to really understand this phenomenon: the process that leads to social innovation (“how” social innovation happens), and the characteristics of the actors or organizations that carry it out (“who” can best deliver social innovation). With respect to the actors in particular, the tendency is to pool everyone together (for-profit firms, government agencies, civil society) as if all types of organizations had the same ability to be socially innovative.

This overly simplistic view stems, at least in part, from the scant attention that the economic literature has paid to the diversity of enterprise types and their characteristics. This view is implicit in Pol and Ville’s framework as well. Without taking into account enterprise types that differ from the for-profit corporation, they conclude that if pure social innovation cannot generate a profit it needs to be subsidized, either by the public sector with public funds, or by philanthropy with grants and donations. As we have seen, the universe of social innovation thus appears to be split in two: profit-seeking social innovations (“bifocal” innovations that overlap with business innovations) and “pure” social innovations that need to be subsidized.

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8 The need for new policies typically arises when the social needs to be met are significant and widespread. It follows that the proposed solutions need to be deployed on a large scale in order to have an impact. Still, the literature on social innovation is full of case studies of individual programs or initiatives with little attention being paid to the fundamental issue of replicability.

9 The term “profit” is never explicitly defined in this literature, but based on how it is used we take it to mean the remuneration of capital above the market rate, which is what for-profit enterprises typically seek to maximize.
In this view, it does not matter what type of organization develops and implements social innovations: in principle, any organization could develop a profitable social innovation, and any organization (including for-profit corporations) could develop a "pure" social innovation, so long as it can secure the subsidy needed to fill the gap between the cost of the innovation and its expected revenue stream.

This approach is in line with the neoclassical economic concept of the firm and the market, which revolves around the implicit notion of profit-maximizing companies as the only viable type of enterprise. However, several more recent theories of the firm (including for instance the ones that emerge from institutional and evolutionary economics) point out how enterprises should be seen primarily as devices to coordinate economic activity, and as such can have very different sets of goals and respond to very different sets of incentives. In this view, the main driver of economic activity is not the profit (intended as the remuneration of capital above the market rate), but more broadly the production of surplus directed to the satisfaction of needs, and these needs can be either private or social in nature (Nelson and Winter, 1982). Accordingly, the firm is a coordinating device that enables people to come together and join in entrepreneurial ventures with the aim of enjoying the surplus, be it economic, social, or psychological in nature (Borzaga, Depedri and Tortia, 2009).

Indeed, profit is not the only economic motivation that leads people to come together and create an enterprise to engage in the production of goods and services. Take the case of user cooperatives, for instance (of which the consumer cooperative is perhaps the most widespread example), that are created so that their members can purchase the goods or services they need at a lower price than they would otherwise find on the market. Or again worker cooperatives, created to provide employment opportunities to their members. None of these are profit-maximizing organizations, but they operate on the market and engage in the production of goods and services nonetheless, in some instances more successfully than their for-profit competitors.

Furthermore, the production of goods and services can be undertaken for motives that are not primarily economic. This is the case for all of those organizations in which the workers are intrinsically motivated (i.e. driven by an interest in the work itself), rather than extrinsically motivated (i.e. driven by a reward, like a salary). The primary example of this type of enterprise would be volunteer organizations that rely on the donation of labour from volunteers and that engage in a wide range of activities, from cleaning the environment to providing social services.

As it relates to our discussion, this approach has two major implications. First, it suggests that the universe of social innovation is actually composed of not two but three different types of innovation: in addition to the social innovations that need to be subsidized and for-profit “bifocal” innovations, there is a class of social innovations that are economically sustainable (in the sense that they generate enough resources to pay for their factors of production) without being profitable. When we define “pure” social innovation as “non profit-seeking” social innovation, thus, we must include this third type of innovations as well. The second implication is that, once we take into account a plurality of enterprise forms, we realize that the structure and characteristics of different types of organizations matter, as they impact the ability to generate different types of social innovation. Let us illustrate this point by considering the characteristics of for-profit, not-for-profit and public enterprises in relation to the three types of social innovation we have identified.
Profit-seeking innovations could in principle be developed by any type of organization, though for-profit corporations likely have an advantage given their incentive structure, which drives them to seek out new markets, and their ability to raise risk capital, which is greater than any other kind of enterprise. When it comes to pure social innovation (whether economically sustainable or subsidized), though, both public sector agencies and private sector for-profit corporations face structural constraints that might make it more difficult for them to be socially innovative, even when subsidies are available.

In the case of public sector organizations, for instance, there might be greater difficulties in identifying and serving the needs of minorities or of those individuals that differ from the norm, due to what Douglas (1983) calls a “categorical constraint” (i.e. the need to provide services in a uniform and universal way) and to the fact that elected officials that manage public agencies tend to cater to the median voter. Moreover, due to their bureaucratic nature and the legal constraints they face, public sector agencies tend to operate based on standardized procedures and are increasingly constrained by very tight budgets, leaving very little room for innovative behaviours that more often than not carry some degree of risk and uncertainty.

In the case of for-profit corporations, social innovation is generated for the most part in the instances in which it is profitable. The need to generate market-rate returns on investment for the shareholders poses a challenge when it comes to engaging in the type of low-profit activities (such as social services, for instance) that characterize what we called “economically sustainable” social innovation, or when social innovation entails the provision of goods or services that are characterized by significant positive externalities or whose customers are unable to pay (i.e. the type of social innovations that need to be subsidized). In the absence of an explicit social mission, these organizations rarely enter these sectors and when they do they are more likely to engage in the production of more established and traditional goods and services that can ensure a more stable revenue stream.

None of these limitations apply to organizations that are entrepreneurial in nature but do not seek to maximize profit, and that are created with the specific goal of addressing social problems, as in the case of social enterprises. We use the term social enterprise here according to the European model as described by EMES (Borzaga and Defourny, 2001), which refers to private, autonomous collective organizations established with a social aim and providing goods and services in a stable and continuous way. Due to their structural characteristics, social enterprises are more likely to be vehicles of pure social innovation (whether subsidized or economically sustainable) than other types of organizations, and provide a better institutional vehicle to implement, replicate and scale up social innovations once they are developed.

Consider, for instance, the case of Italian social cooperatives - a new type of cooperative (in a sense, a social innovation in and of itself) created in Italy in the early 1990s. There are two types of social cooperatives in Italy: type A social cooperatives, which manage social, welfare and educational services; and type B cooperatives, which can engage in any kind of production activity, but have a specific focus on the employment of “disadvantaged workers”, who must constitute at least 30% of their employees. Both types have an explicit social (and not only mutualistic) aim, and both types engage in the production of goods and services. We focus on this particular form of social enterprise because it exhibits all of the key traits of a social enterprise in the European tradition (not-for-profit and collectively owned) and
because it is a type of enterprise for which a wealth of data is available and that has been extensively studied over the years.

Social cooperatives exhibit several structural characteristics that make them particularly well suited to the development of social innovation. As we review these features, it is important to note that none of them are unique to social cooperatives, and all of them (though in different combinations) are a hallmark of social enterprises throughout Europe.

First, the social aim of the organization means that improving the quantity or quality of life (in the terms we used in the previous section) is not the by product of other activities, but the key focus of the organization. Indeed, social enterprises face explicit legal or statutory constraints that prevent them from pursuing goals that are not social in nature. As all other firms, they face market pressure and need to innovate, but in their case the innovation is directly targeted to the achievement of their social mission.

Second, the social mission is strengthened by the ownership structure of these organizations: as collectively owned and democratically managed enterprises, they are more likely to align the interests of the organization with the interests of the community in which it is located. Moreover, many social cooperatives are characterized by multi-stakeholder governance, i.e. they involve different stakeholders (clients, workers, volunteers, etc.) both in their membership base and in their governing bodies. This governance structure enables social cooperatives to be more effective in attracting volunteers (which lowers production costs), and ensures an even stronger alignment between the goals of the organization and the goals of the community in which it operates. Not coincidentally, social cooperatives with multi-stakeholder governance have been shown to have a stronger non-distribution constraint for their profits and to be more likely to offer services to their clients at or below cost.

Third, the profit distribution constraint, which characterizes all social enterprises, plays an important role in at least two respects. From an economic standpoint, it ensures greater capitalization (due to the locked assets rule), which contributes to the mix of resources that these organizations can rely upon and increases their ability to invest in the development of new products and services. At the same time, from a psychological standpoint, it increases trust and participation of the local community in the activities of the firm.

Fourth, these organizations tap into a diverse mix of resources, including fee-for-service from their customers, public procurement, and their own locked assets. This flexibility in funding contributes to the economic sustainability of the organization, and at the same time enables these enterprises to meet the needs of customers that cannot be served by the for-profit market because they are not able to pay the full price for the good or service that is being produced. This is precisely the realm of pure social innovation as described above.

Finally, the growth and spread of Italian social cooperatives over their twenty year history shows another important feature of this type of enterprise: its ability not only

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10 For a more in depth discussion of this aspect, see Ben-Ner and Von Hoomissen (1991).
11 The total (or partial) constraint on profit distribution results in the accumulation of assets that cannot be distributed to the shareholders, including in the event of sale of the enterprise.
to innovate, but also to replicate and scale up successful social innovations. Having an organizational model that is replicable and scalable is a key factor in ensuring that social innovation can be deployed at a large enough scale to have an impact on the social problems it seeks to address.

Based on these observations, we contend that the characteristics of different types of organizations matter, and are likely to have an effect on their innovative capacity. Consequently, the scientific and policy debate on social innovation should be more mindful of their role, and more closely aligned to the debate on the pluralism of enterprise forms.

4. Research and policy implications

The analysis conducted so far shows that the supposed market failure in providing pure social innovation is in fact only a failure of for-profit enterprises, which are by no means the only type of enterprise that operates on the market. Indeed, when we examine other enterprise types (and social enterprises in particular), we find that their explicit social mission and their not-for-profit status make them ideally suited to develop pure social innovation, even in the absence of public sector intervention.

Based on this analysis, social innovation policy should clearly focus on the realm of pure social innovation, since the profit-seeking part of the social innovation universe, whose dynamics and mechanisms can be assumed to be the same as the ones that govern business innovation, is already addressed by existing business innovation policies. Targeted social innovation policy could then be articulated along two lines, reflecting the distinction between pure social innovations that need to be subsidized and pure social innovations that are economically sustainable. The first line could aim at supporting pure social innovation by all enterprise types, in the traditional sense (explained by Pol and Ville) of providing a public good that needs to be subsidized. The second line should aim at supporting social enterprises, as the most likely source of pure social innovation (whether subsidized or economically sustainable).

Policies related to the first line include fairly well established measures such as supporting experimentation and emersion of new ideas through awards and other monetary incentives, and supporting existing initiatives through subsidies (such as grants and tax breaks) and contracting out policies. This line of intervention, though, presents two main issues: first, while it identifies and supports individual initiatives, it might have more difficulties taking them to scale. Second, in an era in which foundation endowments have been hard hit by the financial crisis and public sector resources are more scarce than ever, any approach that relies heavily on these sources of funding can be problematic, particularly if social innovation is expected to be a significant force in addressing social problems.

Due to these drawbacks, the second line of policy intervention seems more promising. As we have seen, social enterprises not only are ideally suited to develop social innovation, but they also provide an organizational form that can ensure the replicability and scaling up of the innovation itself. Targeted social innovation policies should thus begin by supporting this type of enterprise and encouraging its growth.

This requires first of all moving beyond the paradigm that sees private for-profit firms and public institutions as the only relevant economic actors and recognize the varied roles that different forms of enterprise can play with respect to our collective social
and economic goals. At the practical level, this entails moving beyond subsidies and monetary incentives, and addressing structural issues that hinder the activity, development and innovation practices of social enterprises.

Policies that go in this direction could include promoting uniform regulation of this type of enterprise across Europe (along the lines of what we have for shareholder companies); removing implicit barriers to its development such as the current international accounting standards (which are based on the characteristics of for-profit corporations); establishing a fiscal policy that favours these enterprises in light of their social mission; and developing public procurement rules for services of general interest that are more in line with the characteristics of this sector, focusing in particular on the quality of the services that are provided (rather than only on the price), on workers’ compensation, on the benefits produced for the community, and on the continuity in service provision.

Public procurement rules in particular provide an opportunity to incentivize the innovative capacity of social enterprises within the framework of public service provision. This could be accomplished, for instance, by structuring bidding processes that fix the cost of the service and let firms compete on the quantity and quality of services they can provide at that cost, thereby stimulating the search for new and innovative solutions.

Recognizing the specificity of different enterprise types also means that we should not assume that traditional innovation policies designed for business innovation can be simply adapted and translated to the needs of social enterprises. For instance, many papers and policy initiatives call for some version of a social innovation fund, thinking that the equivalent of venture capital is needed to fund the social innovation process. While this could be the case, it is not at all clear that the availability of financial capital is as important to social enterprises as it is for their for-profit counterparts.

Finally, as far as European policy is concerned, this approach also means that the two major policy streams devoted to these issues by the European Commission (the Social Innovation Europe Initiative and the Social Business Initiative) should be much more closely aligned. Recognizing the key role that social enterprises play in developing and implementing social innovation (and conversely recognizing the importance of social innovation processes for the development of social enterprises) in both of these initiatives would ensure that the programs that will stem from them will build on each other rather than running the risk of working at cross purposes.

5. Conclusions

The increased attention devoted to social innovation over the past few years seems to be indicative of a deeper shift in the way we think about the economy and society. Much of the literature links the attention being paid to social innovation to the crisis of the welfare state. However, that crisis was addressed with the wave of privatizations we witnessed in the 1990s, when many welfare functions were transferred from the state to the private sector. In effect, then, the rise of social innovation implicitly reflects the failure of that model as well, and, more broadly, the notion that the traditional paradigm based on only two actors (the market and the state) can no

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longer meet the growing and increasingly diversified needs of society - especially if the market is populated only by profit-seeking firms.

In this context, it is ironic that so much of the debate on social innovation borrows heavily from private sector strategies and underscores the importance of private sector involvement with public sector support, reverting in effect to the very same paradigm, the collapse of which has led to the need for social innovation strategies in the first place.

The framework proposed in this paper seeks to explore a different route, that can be both more rigorous (clearly staking the realm of social innovation in need of specialized policy intervention) and more fruitful (identifying concrete social innovation policies that go beyond the traditional private sector - public sector dynamic) than what has been done so far. It is only a first step to be sure, as much work remains to be done in order to flesh out the various aspects of the framework and substantiate them with theoretical and empirical research. Still, by recognizing and building on the different strengths of different types of enterprises, it could lead to much more effective policymaking, and help develop a notion of social innovation that is substantive enough to fulfil the high expectations that so many have bestowed upon it.

Bibliography


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