

What to Make of Social Innovation? Towards a Framework for Policy Development

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Over the past few years there has been a growing interest on the part of the scientific community (and, more recently, of policymakers) 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 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 article 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.

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Introduction

The economic downturn that has been affecting Europe for the past few years can 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 privatisations 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 privatisations, could be 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'.

This is not a new term. The idea of social innovation can be traced as far back as Max Weber and Emile Durkheim, and the first research centres devoted to this topic were created in the late 1980s and early 1990s. However, the concept has dramatically risen in popularity over the last decade, as shown by the creation of a number of specialised research institutions, such as the Center for Social Innovation at Stanford Graduate School

of Business in the United States (founded in 2000), the Social Innovation Exchange created by the Young Foundation in London (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 analysing this concept (Nilsson, 2003; Goldenberg *et al.*, 2009; Nicholls and Murdock, 2012: 1–30).

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 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: 878–85). Moreover, compounding the lack of clarity, the term is applied to an extremely heterogeneous set of initiatives and organisations, which range from the interventions of the third sector as a whole, to public policy initiatives, to the actions of for-profit organisations 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,¹ 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 article 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.

In working toward this goal, the article 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 article discusses some of the actors and mechanisms that can lead to social innovation and that are amenable to policy intervention.

Redefining social innovation

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 organisational structures, and so forth. Similarly, there have been countless policies and programs aimed at spurring innovation, 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 specialised 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'.² 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 us 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, and while it certainly gave rise to significant policy change it is hardly something that could be engendered through policy intervention). 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 innovations 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' (Hubert, 2010: 7). 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 (Andor, 2011; Barroso, 2011). By posing a double constraint on what qualifies as social innovation (meeting social needs *and* creating new social relationships), this 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 organisation). Second, and most important, it does not clarify why social innovations should be addressed by specialised policies, as neither of the two requirements posed by this definition clearly distinguish social innovations from other types of innovations. 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 innovations.³

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 *et al.* (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 *et al.*, 2008: 39). 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 innovations.

The definition of social innovation proposed by Phills *et al.* 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' (2008: 39). 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 options that a group of people has the opportunity to select' (Pol and Ville, 2009: 882) (such as, for example, material wellbeing, education opportunities, health, job security). 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’ (2009: 881)) 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’.

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.⁴ 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 such as cigarettes, ‘neutral’ products such as 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.

The second class of innovations includes what Pol and Ville call ‘bifocal’ innovations, for example, 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 innovations, that is 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 innovations that should be the focus of specialised policies, since ‘in a free-market society there will be under-investment in pure social innovations because social innovators will not have material incentives to devote their energies to the creation of pure social innovations’ (Pol and Ville, 2009: 883). Examples of this type of social innovations abound in the literature, and range from new programs and initiatives (for example, asset-building programs like Individual Development Accounts) to new types of organisations (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 specialised social innovation policies. In other words, it enables us to identify a set of innovations that can be defined as social innovations and that are amenable to policy intervention. Moreover, it provides a rationale for specialised policy intervention (based on the failure of the market to supply pure social innovation). We can thus adopt this framework as the basis for our initial exploration of the mechanisms that lead to social innovations 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 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 organising 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 innovations 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 with much of the literature) 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.⁵ 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 maximisation. 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 innovations (defined above as 'profit-seeking' innovations). As we will see, this point also has important implications both for the mechanisms of social innovations and for the policies that are designed to influence them.

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 organisations that carry it out ('who' can best deliver social innovation). With respect to the actors in particular, many authors assert that social innovation can arise in all sectors (or at the intersection of different sectors, as in the case of public-private partnerships),⁶ implying that all types of organisations have the same ability to be socially innovative.

This view, which is implicit in Pol and Ville's framework as well, stems, at least in part, from the scant attention that the economic literature has paid to the diversity of enterprise types and their characteristics. Without taking into account enterprise types that differ from the for-profit corporation, it is easy to conclude that if pure social innovation cannot generate a profit it needs to be subsidised, either by the public sector with public funds, or by philanthropy with grants and donations. In this view, it does not matter what type of organisation develops and implements a social innovation: in principle, any organisation could develop a profitable social innovation, and any organisation (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-maximising 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. The main driver of economic activity is thus not the profit (intended as the remuneration of capital above the market rate), but more broadly the production of value added directed to the satisfaction of needs.⁷ Accordingly, the firm is a coordinating device that enables people to come together and join in entrepreneurial ventures with the aim of enjoying the value added, be it economic, social or psychological in nature.⁸

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 (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 is a profit-maximising organisation, 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 organisations in which the workforce is intrinsically motivated (that is driven by an interest in the work itself) rather than extrinsically motivated (driven by a reward, like a salary). The primary example of this type of enterprise would be volunteer organisations 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 innovations: in addition to the social innovations that need to be subsidised and the 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, we must include this third type of innovation as well. The second implication is that once we take into account a plurality of enterprise forms, we realise that the structure and characteristics of different types of organisations matter, as they impact the ability to generate different types of social innovations. 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 innovations we have identified.

Profit-seeking innovations could in principle be developed by any type of organisation, although 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 subsidised), however, 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 organisations, 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 standardised 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 characterise what we called 'economically sustainable' social innovation, or when social innovation entails the provision of goods or services that are characterised by significant positive externalities or whose customers are unable to pay. In the absence of an explicit social mission, these organisations 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 applies to organisations that are entrepreneurial in nature but do not seek to maximise 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 enterprises here according to the European model as described by EMES (Borzaga and Defourny, 2001), which refers to private, autonomous collective organisations established with a social aim and which provide 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 subsidised or economically sustainable) than other types of organisations, and provide a better institutional vehicle to implement, replicate and scale up social innovations once they are developed.

First, the social aim of these organisations 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 organisation, usually enforced by legal or statutory constraints that prevent them from pursuing goals that are not social in nature. As with 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 organisations: as collectively owned and democratically managed enterprises, they are more likely to align the interests of the organisation with the interests of the community in which it is located. This feature also makes it easier for social enterprises to identify emerging needs in their communities, and to develop innovative products and services that enable them to respond to those needs (Ben Ner and Von Hoomissen, 1991 :519–50).

Third, the profit distribution constraint that in many countries characterises social enterprises plays an important role in at least two respects. From an economic standpoint, it ensures greater capitalisation (due to the locked assets rule),⁹ which contributes to the mix of resources that these organisations 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 organisations 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 organisation, 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 social enterprises all over Europe shows another important feature of this type of enterprise: its ability not only to innovate, but also to replicate and scale up successful social innovations. Having an organisational model

that is replicable and scalable is a key factor in ensuring that social innovation can be deployed on a large enough scale to have an impact on the social problems it seeks to address.

At the same time, social enterprises have their own set of limitations when it comes to the innovation process. The main one is likely to be a greater challenge in raising risk capital, given their constraints in profit distribution. Social enterprises might have potentially innovative projects that have a hard time getting off the ground because it is difficult for the enterprise to raise the necessary funding.

Based on these observations, we contend that the characteristics of different types of organisations 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.

Conclusion

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 privatisations 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, populated only by profit-seeking firms, and the state) can no longer meet the growing and increasingly diversified needs of society.

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 article seeks to explore a different route, that can be both more rigorous (clearly staking the realm of social innovation in need of specialised 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 recognising 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.

Notes

1 Indirectly some of these dynamics have been explored in the literature on social enterprises and social entrepreneurship, but, as we will see, these phenomena only partly overlap with the universe of social innovation.

2 As Nicholls and Murdock (2012: 13–17) among others point out, this distinction is a divide of sorts in the literature, separating research that sees social innovation as ‘innovation in social relations’ and research that constructs social innovation as ‘innovation to address social market failures.’

3 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, for example, Chesbrough (2003).

4 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.

5 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.

6 See, for example, Nicholls and Murdock (2012) and The Young Foundation (2012).

7 See, for example, Nelson and Winter (1982).

8 See, for example, Borzaga *et al.* (2011: 19–30).

9 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.

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