



EUROPEAN POLICY BRIEF



SOCIAL ENTREPRENEURS AS LEAD USERS FOR SERVICE INNOVATION

March 2011

INTRODUCTION

Objectives of the research

We strive to advance our understanding of the *market- and organization-level behaviours of social enterprises across Europe*. We also explore what kinds of specific knowledge social entrepreneurs can contribute to processes of service innovation led by mainstream businesses, and *how (very practically) this expertise can be leveraged to help boost the competitiveness of Europe's services sector more generally*.

Scientific approach / methodology

We have initiated a large-scale *panel* database on social enterprises across Hungary, Romania, Spain, Sweden and the UK. We have also launched a series of *action-research experiments*, where we pilot-test ways to link the intelligence of social enterprises with a real-world, innovation challenge advanced by a partnering business.

New knowledge and/or European added value

We have built the *first systematic, detailed and population representative panel database on social enterprises in Europe*. These data afford a *unique look into the phenomenon of social enterprise across different country-contexts today and over time*. Furthermore, we have evolved and *pilot-tested practical methods through which social enterprises can inspire mainstream businesses to effectively and sustainably contribute to the realization of the EU's Strategy 2020*.

Key messages for policy-makers, businesses, trade unions and civil society actors

Social enterprises seem to be *much more active in launching new services or products than comparable regular enterprises*. This makes them a remarkably rich source of insight for sustainable/socially engaged innovation in society as a whole. Our own experiments show that social entrepreneurs can effectively help regular businesses identify novel *'corporate social opportunities'*. We observe intriguing differences in the market- and organization-level behaviour of social enterprises across country contexts. This implies that we should *steer away from any blue-print thinking about social enterprises in Europe*.

KEY OBSERVATIONS

We focus on a specific type of social enterprise: Ventures whose primary goal is to create social value, and they do so in a business, entrepreneurial (market-oriented) way. We aim to generate empirically rigorous, systematic new evidence on how these social enterprises navigate markets, potentially influencing industry-wide norms; how they configure and grow their organizations; and how they (radically) innovate, and potentially produce significant knowledge spillovers.

We also wish to develop, pilot-test, and refine a SELUSI methodology that smartly links up the specific knowledge of social entrepreneurs with important innovation challenges that mainstream businesses face – challenges that invite the launch of new or improved services which create significant economic returns as well as significant societal/environmental impact. We thus aim to identify novel ways in which social enterprises (a niche player) can strengthen the competitiveness of Europe's services sector (mainstream).

Finally, we wish to draw out the implications of our findings for EU and state-level policy-making geared towards realizing Europe Strategy 2020. More specifically, we aim to leverage our research insights to help inform policy initiatives specifically targeted at responding to the needs of social enterprises, scaling social enterprise initiative, and stimulating social service innovation.

NEW KNOWLEDGE AND EUROPEAN ADDED VALUE

Radical innovators in the services arena

We find that social entrepreneurs are much more likely to have introduced new-to-the-market innovations in goods, services or processes over the past 12 months compared to commercial entrepreneurs. What's fascinating here is that this result holds true across all five distinct country contexts.

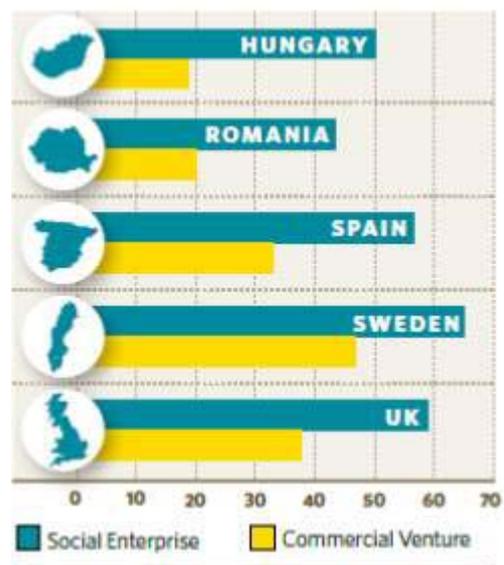
Furthermore, when we enquire about the types of radical innovations introduced, we find that 67% of all radical innovations were service-related.

These results confirm our initial SELUSI conjecture that the practices of social enterprises are particularly worthwhile investigating in light of Europe's challenge to strengthen the competitiveness of its services sector.

Relatedly, we find that overall 57% of social enterprises were at the time of starting-up, venturing into a new market in the sense that there were no other organizations that they were competing against, providing similar services or products. This share was highest in the UK, Hungary and Romania.

When asked about the market landscape today, 26% of social enterprises still observe no immediate competitors, organizations providing similar services or products in their market. What this also tells us is that in roughly half of the cases, these ‘pioneers’ have been imitated by other actors, which again underlines the significance of social enterprises in creating or opening up sustainable new markets.

The figure below presents the fraction of radical innovators for a subsample of SELUSI social enterprises, namely those with at least 10 FTE employees (blue bars), and a sample of comparable commercial ventures drawn from the Community Innovation Statistics database of Eurostat (yellow bars).



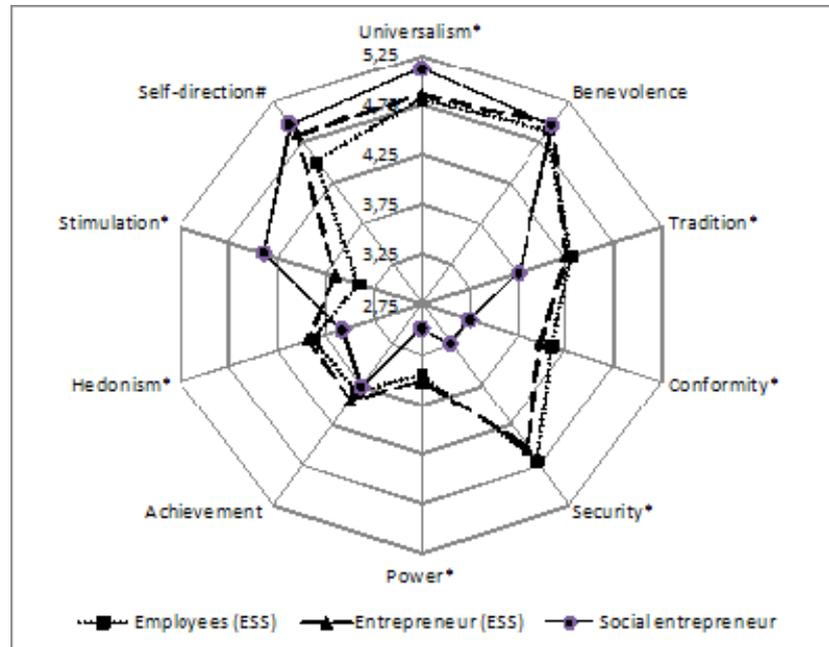
The power of values

We demonstrate that the value orientation of social entrepreneurs tends to be systematically different from that of mainstream entrepreneurs and the population at large. For instance, social entrepreneurs seem to value *universalism* and *stimulation* significantly more, while *power* and *conservation* measurably less than entrepreneurs (holding constant individuals' gender, age and educational achievement).

These results fit our intuitions that social entrepreneurs tend to care about the welfare of people and nature in general, and behave much like mavericks, tempted to (positively) deviate from established norms as they seek novelty, excitement and challenge.

Indeed, it rings a chord with the nature of their business: trying to create significant social change though deploying business methods (often against all odds).

The figure below contrasts the value profile of the social entrepreneurs that took part in an action-oriented experiment, with the value profile of comparable samples of, respectively commercial ventures and employees (drawn from the European Social Survey).



Now, it turns out that the distinct value orientation of social entrepreneurs is key to understanding the way social entrepreneurs innovate and manage their ventures.

In one study, we show that a social entrepreneur's value profile effectively impacts his or her managerial practices. More specifically, we find that social entrepreneurs who positively value universalism and benevolence and negatively value power and conservation also adopt more participatory workplace practices. We exploit these types of relationships to investigate the influence of managerial practices on measures of organizational success, such as social performance, profit and revenue development and radical innovativeness.

In another study, we examine the relationship between an individual's distinct value profile and the types of corporate social innovation opportunities he or she recognizes. We show evidence that the distinct value profile of a social entrepreneur systematically explains the distinct type of innovation opportunities he or she identifies and explores.

Finally, we also find that meaningfully affects the creativity of his or her social business ideas. To do so, we first had 5 judges independently rate the creativity of the specific ideas that social entrepreneurs came up with in response to a concrete challenge presented to them as part of an action-research experiment, and then sought to relate the average idea rating to various background characteristics of those social entrepreneurs.

We find that the most creative ideas hailed from social entrepreneurs who attached the least importance to conservation values (tradition, conformity and security) and the most importance to openness to change values (self-direction).

Personnel practices

The evidence based on our survey data as well as our case-study research looking into the organisational configuration of Europe's largest and most successful ethical bank suggests that social enterprises deliver significant social impact in providing high quality work to their employees. To gain further insight into the quality of employees' work life at social enterprises, we have added an employee survey to our second wave of survey data collection.

We are currently pilot-testing the employee survey in the UK first, collecting new data on employees' perceptions of management practices, job design, leadership, efforts and motivations. These data will notably also allow us to cross-validate entrepreneur-reported management practices with employee experiences.

More importantly, we will be the first to build systematic knowledge on working conditions and the quality of work life at social enterprises in **the UK**.

Configuring for institutional change and policy-making influence

Our analysis demonstrates that the extent to which social ventures rely on reputation resources (e.g., reputation of organization and its founders and leaders, reputation of its business and social activities, and organizational endorsement by important individuals), and to a lesser degree, collaboration resources (e.g., participation in joint ventures, informal social networks, and strategic alliances), as well as the social ventures' capacity to obtain funding from diverse sources, increases their likelihood of impacting national policy-making.

By contrast, we find no evidence that diversification of commercial and social activities or the utilization of various operational models affects the likelihood of impacting national policy-making. Finally, our analysis shows that there are few resource and capability configurations that consistently lead social ventures to influence national policy-making – i.e., there exists no blueprint configuration.

The configuration consisting of reputation and collaboration resources together with the ability to acquire funding from diverse sources is simply the configuration associated with impacting national policy-making in the largest number of surveyed social ventures.

RECOMMENDATIONS FOR POLICY-MAKERS

Social enterprises as a unique source of inspiration towards realizing the ambitions of EU Strategy 2020

In reviewing the non-profit organisations social sector areas in which the 550 ventures that we have interviewed so far operate, we observe that 75% of all ventures that we are currently tracking are active precisely in those areas of direct relevance to EU's ambitions towards inclusive, smart and sustainable growth. The 550 ventures are more or less equally divided across the following social sectors: employment and training, education, economic, social and community development, social services, and the environment.

All the enterprises we study are experimenting with alternative ways of self-sustaining their activity through selling services or products in the market. Often, against all odds given the institutional vacuum or the inefficient markets they have to navigate. And 15% of the ventures operate businesses which specifically aim to employ disadvantaged groups, and in doing so often aim to link up marginalized groups with the mainstream labour market.

Women at the helm of social enterprises:

On average across all countries, we observe a remarkably high share - 43% to be precise - of social enterprises being run by women. This is in fact most strikingly so in Hungary and Romania. This renders the organizational dynamics and success of social enterprises of special interest to all policy-makers concerned with gender equality and empowerment.

Measuring impact bottom-up:

SELUSI is also unique with respect to the large number of observations we have on the detailed practices social enterprises have in place to measure financial and social impact. Note that only 1 out of the 550 social enterprises interviewed said they use SROI, Social Return on Investment framework to measure social impact.

This goes to show that there is great opportunity here to exploit our data so to evolve a bottom-up impact measurement tool.

Context matters

Our data argues against any blueprint conceptualization of social enterprises in Europe. Rather, they show that social enterprises come in very different shades and colours depending on the country context we focus on.

Consider the sector area of social enterprises, for instance: in both Romania and Hungary, there was a clear-cut predominance of social enterprise activity in the sectors of health and social work, and education; whereas in the other three countries (Spain, Sweden and UK), a more diverse picture emerged, though with a common, significant presence of social ventures providing community, social and related services.

Or consider the sources of capital: In Sweden, the UK, and Spain, sales and/or fees were clearly *the* most important source of capital, (followed by grant finance (UK and Spain) or investors' capital

(Sweden). In Hungary, sales and/or fees and grant finance were nearly of equal importance (38% versus 36%). In Romania, by contrast, the most significant share of liquidity hailed from grant finance (52%), followed by sales and/or fees (28.2%) and private donations.

When it comes to policy suggestions for the EU that we elicited from our survey participants: Overall, the types of policy suggestions was very diverse, and their mix differed substantially by country. The UK social ventures most frequently suggested improving access to EU funds, employment and social rights, and financial support. In similar vein, Spanish social enterprises most frequently suggested improving employment and social rights, making legislative changes and improvements in financial support. Legislative changes were likewise frequently mentioned by Hungarian and Romanian social enterprises.

Leveraging the insights of social entrepreneurs to stimulate service innovation:

The action research experiments allow us to identify wherein the contributions of social entrepreneurs to a social business innovation challenge differ from say the expertise that employees from within a company can bring to the table. We find that corporate employees and social entrepreneurs effectively contribute qualitatively different ideas in response to the same challenge. The ideas put forward by social entrepreneurs involve many more integrative ideas compared to those advanced by internal, corporate employees.

That is, they put greater emphasis on behavioural change, and the mechanisms to achieve behavioural change. Hence, when it comes to innovating services more generally, the unique intelligence of social entrepreneurs lies in their integrative approach to problem-solving, particularly attuned to questions of how to achieve sustainable behavioural change.

Mainstream businesses can thus effectively benefit from social entrepreneurs' unique viewpoint by using them as 'informants' on societal trends and by leveraging social enterprises unique insights into behavioural change. Likewise, policy-makers, we contend, could equally benefit from systematically crowd-sourcing the intelligence from social enterprises to enhance the definition and evaluation of new policy reforms.

RESEARCH PARAMETERS

Scientific approach / methodology

We have developed an in-depth survey methodology that adapts the logic of respondent-driven sampling to ensure that we capture population representative data on what is essentially a 'hidden' population: Social enterprises not only represent a niche of entrepreneurial activity, also their identity cannot be readily retrieved from telephone directories or administrative databases. Our questionnaire is uniquely broad in its scope and depth - we discuss in detail a whole host of topics, ranging from the venture's innovation habits to the director's perceptions of the market environment. Furthermore, our interviewers go through great lengths to ensure high data quality - intensely training interviewers, recording all interviews and double-scoring 30% of those interviews.

In our action-research experiments, we exploit the consultancy practices led by i-propeller to rigorously study how the specific know-how of social enterprises can be effectively sourced in by mainstream companies to help identify and shape workable new social business service innovations. By staging these experiments, we are able to capture rich details about the process in real-time, and iteratively evolve a workable, pilot-tested SELUSI mechanism.

Finally, we enrich and complement these two empirical methods (survey and action-research) with case study research and lab experiments.

PROJECT IDENTITY

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Consortium	<p><u>Academic Institutions:</u></p> <ul style="list-style-type: none">• Catholic University of Leuven,• IESE Business School,• London School of Economics and Political Science,• SITE at Stockholm School of Economics,• the Harvard Business School. <p><u>Non-academic Institutions:</u></p> <ul style="list-style-type: none">• i-propeller,• NESsT,• The Hub,• the Global Institute
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Budget	EU contribution: 1.446.878 €
Website	http://www.selusi.eu/
Further reading	To find out more about our policy and business reports: http://www.selusi.eu/index.php?page=business-platform To find out more about our academic research: http://www.selusi.eu/index.php?page=research Elkington, J. and P. Hartigan (2008). <i>The Power of Unreasonable People: How Social Entrepreneurs Create Markets That Change the World</i> , Cambridge: Harvard Business School Press.

Related websites

<http://www.hbs.edu/socialenterprise/>
<http://www.i-propeller.com>
<http://www.nesst.org>
<http://the-hub.net/>

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