



# Social enterprise and social innovation: Strategies for the next ten years

By Charles Leadbeater

A social enterprise think piece for the Office of the Third Sector,  
November 2007

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This think piece represents the views of the author alone. It is intended to stimulate consideration of the issues and debate. The ideas and analysis contained in this paper do not represent the views of ministers or government policy.

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# 1. Introduction

This paper argues that government needs a framework for social innovation in which social enterprise is likely to play a critical role. Social enterprise policy needs to be framed within a more comprehensive strategy for social innovation that is designed to deliver social impact by finding new ways to address unmet social needs.

All innovation involves the application of new ideas – or the reapplication of old ideas in new ways – to devise better solutions to our needs. Innovation is invariably a cumulative, collaborative activity in which ideas are shared, tested, refined, developed and applied. Social innovation applies this thinking to social issues: education and health, issues of inequality and inclusion.

Social enterprise offers a new way to do business that is animated by a social purpose.

Although most social enterprises are small, and many are fragile, the sector has attracted growing interest from policy-makers, young people, entrepreneurs, funders and established businesses.

That interest is testimony to the way that social enterprise addresses weaknesses in the operation of both markets and government.

Bill Gates, the founder of Microsoft, in his commencement speech at Harvard in June 2007, explaining why he and his wife had decided to invest \$39bn in projects addressing stark inequalities in health and education, particularly affecting children, put the case for social enterprise this way:

“If you believe that each life has equal value then it is disgusting to learn that some lives are worth saving and some not... We asked “How could the world let these children die?

“The answer is simple, and harsh. The market did not reward saving the lives of these people and governments did not subsidize it. So the children died because their mothers and fathers had no power in the market and no voice in the system.

“We can make market forces work better for the poor if we develop a more creative capitalism – if we can stretch the reach of market forces so that more people can make a profit, or at least a living, serving people who are suffering from the worst inequities. We can also

press governments around the world to spend taxpayers’ money in ways that better reflect the values of people who pay taxes.

“If we find approaches that meet the needs of the poor that generate profit for business and votes for politicians we will have found a sustainable way to reduce inequity in the world.”

Social enterprise is critical to what Gates calls a more creative capitalism that can adapt business and the market to better address unmet social needs.

## Markets

Social enterprises trade products and services to further social and environmental goals. They are led by a sense of social purpose and aim to show that businesses and markets can deliver social benefits and tackle intractable social problems.

A growing number of businesses, created in recent years, claim to marry commerce with an enhanced sense of social obligation and purpose.

Sari UK recycles discarded saris to create fashionable products. Its profits are reinvested in developing countries.

Fifteen Foundation, begun in 2002 by Jamie Oliver the chef, helps under-privileged young people get training and jobs in the catering business.

CaféDirect, is one of the leading fair trade businesses in the country, paying above market rates for coffee, tea and cocoa growers to aid development.

The Furniture Resource Centre in Liverpool employs people disconnected from the mainstream economy to recycle discarded furniture which it sells.

Many of the most impressive examples of social enterprise – the micro credit leader Grameen Bank is a prime example – have come from the developing world.

Social enterprises deliberately adopt an uncomfortable position: they are in the market and yet against it at the same time.

This ambiguous position is based on a recognition that solutions to many problems – poverty and employment, environment and fair trade development – depend on changing the way markets work. There can be no long-term solutions to many of these problems based entirely on

government grants, subsidy or charitable donations. Long-term solutions have to be self-sustaining and in a market economy that usually means finding a way to make money from them so producers can sustain themselves. The products and services offered by companies that are sold through the market only succeed by addressing social needs, from soap to keep us clean, to mortgages that pay for our housing, to heating in the winter and smoke alarms that keep us safe.

Social enterprises are based on the recognition that innovative solutions to difficult social problems are unlikely to come from markets left to their own devices.

Some social businesses operate much like a mainstream business but covenant their profits to social causes. Many social enterprises, however, internalise their social mission. They make it central to the way they operate. A business that focuses on employing people long disconnected from the jobs market or ex-offenders needs to make an additional effort to do so. Extra time and costs are involved. Social enterprise is sometimes a more complex, difficult and costly way to run a business. There are often easier ways for a business to make a profit.

Open markets promote choice, make transactions efficient, stimulate competition and enable profit-driven innovation. Yet as Jeremy Nicholls points out in his paper in this collection, markets suffer from well-known downsides and limitations.

Prices may take little account of externalities – the impact a transaction might have on people not involved in it. A classic example is pollution. Markets often take more account of obvious and short-term costs and benefits and are less effective in accounting for long-term factors, such as climate change. Not everything that has a value can be traded. True personal care, for example, involves more than just labour; it depends on the quality of the relationship between the person caring and the person being cared for. The value of many cultural experiences cannot be captured by the price we pay to access them.

So although social enterprises make up only a small part of the total enterprise sector of the economy, they matter in the overall business ecology because they are pioneering approaches to show how business can operate successfully while also taking into account social and environmental issues. Social enterprises are one vital source of new business approaches to fair trade, social inclusion, community

regeneration, creating jobs for those most marginalised in labour markets and environmental sustainability.

Most businesses would claim to have a social mission: they create jobs for people; provide consumers with products they need; pay taxes that support public services; donate to charities and foundations; often the best play a role in their communities.

The challenge that social enterprise poses is whether businesses could be doing more to internalise social and environmental costs, to do business in a different way not just to donate to charity or pay taxes.

## Government

The way social enterprises operate is often, at least implicitly, a critique of the limitations of public service provision. Some social enterprises, often based on charities, are established to meet needs – for example of particular patient groups – that government services cannot or do not reach. In other respects social enterprises may deliver government-commissioned services in a more responsive, personalised and joined-up way.

Social enterprise has become more significant to the state as markets have extended into the organisation and provision of public services in the past two decades, through contracting out, so social enterprises have taken on an increasingly important role. In more areas government now funds and commissions services but does not necessarily provide them, relying on for-profit and not-for-profit providers instead.

Examples of these public sector oriented social enterprises include the very successful Ealing Community Transport, which operates in the local authority sector, and Nuffield Hospitals, the largest not-for-profit healthcare business in the UK.

The social enterprises build their position on a critique of the state's shortcomings in providing public services.

The state provides public goods that profit-driven companies will not provide; services where there is a significant market failure or where a market-driven distribution, based on what is most profitable and consumers' ability of pay, is considered morally or politically inappropriate, such as healthcare.

However, there is also a growing acceptance that the state finds it difficult to cope with diversity of needs of users, especially niche and specialist needs. Consumers have become

increasingly aware of their distinct needs and able to voice their demands. Social enterprises often develop to cater for needs which the state does not fully meet: for example independent living schemes for young adults with learning disabilities. Public services can be distant and clumsy, hierarchical, beset by bureaucracy, rules and regulations. Public services are often delivered by separate departments – social services, housing, health, job training, education – each with their own targets and accountability structure. A frequent complaint is that these service silos are often not joined up. Social enterprises have emerged to create more integrated and personalised solutions that are more people-focused.

A further strand of criticism of public services is that they can be paternalistic, encouraging a dependency culture in which people are treated and come to see themselves as recipients of solutions delivered to them by professionals rather than participants in creating solutions. Social enterprises in contrast are often out of necessity and their own values built on a model of self-help that encourages people to be participants in creating solutions for one another. They often mobilise peer-to-peer systems of support, for example, rather than relying on professionals.

In short social enterprise approaches to public services often claim to be more personalised, engaging, joined-up, adaptable – providing better outcomes and value for money.

## 2. Where social enterprise sits

One way of defining where social enterprise sits in the economy is this table with a continuum from mainly profit-driven, mainstream business at one end to purely voluntary, and non-market solutions at the other.

On the left-hand side of the grid below, profit is the main driving force, but brings social benefits in its wake as an unintended consequence.

On the right-hand side, in the voluntary, gift economy, profit plays no role as an incentive and social benefits are the deliberate and intentional goal of the activity.

In between are systems that work with a mix of motives, means and incentives.

Social enterprise increasingly shares common ground with more socially responsible mainstream businesses that sell fair trade products for example. Even mainstream, profit-

maximising companies – private equity funds – are increasingly highlighting their social credentials and reinvesting in social entrepreneurs. The Gates and Skoll Foundations in the US are among the most ambitious and inventive funders of social enterprise. Mainstream businesses create products and services with a social value. The public sector increasingly relies on social enterprises as suppliers and the social enterprise sector in turn relies on voluntary contributions as a form of subsidy. Social enterprises sustain themselves within the market, but often they do so by relying on non-market resources and motives.

Public policy to shape the role of social enterprise in social innovation would have to work on the overlaps and relations between these sectors rather than treat them in isolation. All these sectors can in different ways make a contribution to social innovation and social enterprise development.

	Mainstream business	Socially responsible business	Social enterprise	Public services	Voluntarism
<b>Inputs, finance and resources</b>	Financial and commodity markets	Financial and commodity markets	Ethical investment and fair trade sources	Tax and borrowing, public employment	Donations, charity, giving
<b>Processes and work</b>	Value chain, lean production, just-in-time	Greater attention to supply chain management for ethical and environmental issues	Heavily biased towards social inclusion and environmental objectives	Public service value chains combined with contracting out	Volunteering into social projects
<b>Outputs, consumer markets</b>	Consumer markets selling on price, quality and brand	Some green and fair trade branding	Green, fair trade and social inclusion central to brands	Access to public services, politically determined non-traded, limited co. payment	Gift, given away, no charge
<b>Social value claim</b>	Business generates jobs and profits, pays taxes, allows philanthropy provides useful goods and services...	Business can be done in a more socially responsible way – meeting social goals builds a better business	Social goals are primary, business is a way to achieve them – meeting business goals creates more social impact	Government essential to provides non-market public goods at scale which neither voluntary sector nor business can	Giving culture underpins efforts at public good creation in all sectors, new wave of voluntary solutions

### 3. Public policy for the next decade of social enterprise

Social enterprise is not new. Indeed in common with most inspiring innovations it borrows from ideas that are quite old. As the papers in this collection point out, social enterprise solutions started to develop in the nineteenth century with Rochdale's cooperative pioneers and utopian industrial communities, like New Lanark mills. In the twentieth century it has embraced charities and community organisations. Modern ethical consumerism, as Alex Nicholls shows in his paper, can trace its roots back at least to the Rochdale pioneers and the creation of cooperative retailing in 1844. Modern campaigns against animal testing of products and companies such as the Body Shop stand in a tradition that stretches back to the creation of the Royal Society for the Prevention of Cruelty to Animals in 1840. The Victorian and Romantic passion for parks and open spaces is echoed in today's green movement. Social enterprise has deep roots; that is one reason to expect it to have a continuing influence on business and politics.

Just as importantly the demand for social enterprise solutions is likely to grow.

The issues that social enterprises deal with will not go away: social justice, inequality and inclusion; community integration; environment; trade justice and development. Many commentators believe that globalisation and the spread of the market are becoming more contested in the developing world and amongst those who see little prospect of benefiting. Tensions created by the operations of markets are unlikely to lessen.

Meanwhile governments face pressing challenges which often require novel approaches: the ageing society; climate change; diffuse security risks and threats; the disaffection of some groups of young people; the rise of lifestyle related long-term health conditions. All these challenge existing public service institutions to innovate.

Interest in creating social enterprises is likely to be sustained among younger people. Survey evidence shows that younger people are more likely to be interested in starting their own business at some point in their lives than older generations. Although younger people may be less interested in and engaged with formal politics, they remain very engaged with single issue, social causes. The combination of these two – an interest in social causes and a more entrepreneurial culture – means it is likely there will be a continuing supply of people interested in creating social enterprises.

The spread of Web 2.0 technologies, which allows people to connect and collaborate, at lower cost, may also make it easier for people to create low cost, bottom-heavy social enterprise models that encourage user involvement.

Interest in social enterprise has grown remarkably in the last ten years; it is unlikely to tail off in the next ten years. What should guide government policy towards social enterprise over the next decade?

When interest in social enterprise first reignited in the mid 1990s, a widespread assumption was that a social enterprise was a particular form of organisation (invariably a non-profit organisation or one based on the trading arm of a charity), usually created by a social entrepreneur.

As Mike Aiken puts it in his paper, this fostered a sometimes uncritical espousal of the idea that a social enterprise could be financially sustainable while offering to employ the socially disadvantaged and engaging users while also providing highly quality services that were environmentally sustainable.

Early accounts of the emergence of social entrepreneurs – including my own in the 1997 Demos pamphlet *The Rise of the Social Entrepreneur* – dwelled on the similarities between potential high growth social enterprises and high growth businesses in Silicon Valley. The implication was that if public policy could create more social entrepreneurs, they would create more social enterprises, which would then grow, so long as they had access to both capital and markets, and that in turn would generate more social impact.

More social entrepreneurs = more social enterprises + well-managed growth of social enterprises = more social impact.

Before addressing the likely direction for social enterprise policy in the next ten years, first we should consider how much of this original, stylised story remains relevant.

Should the focus of policy be on social entrepreneurs (a type of person), social enterprise (a type of organisation), social innovation (an activity or process) or social impact (a goal or outcome)?

Public policy issues from foreign policy to health and crime often revolve around answers to four generic questions. Those four questions are also worth asking of social enterprise policy. For the sake of simplicity this next section compares the situation in 2007 with ten years before.

### Is the field under-populated and simple or well-populated and complex?

Is the area made up by a few players, with relatively predictable behaviour or is it composed of many players, with more complex, unpredictable and even chaotic behaviours?

In the mid-1990s the social enterprise field was relatively under-populated. A few early, sometimes maverick social entrepreneurs attracted much of the attention. One of main goals was to encourage more social entrepreneurs to create more social enterprises, to attract more players into the field.

Ten years on, there are many more social enterprises. The field is increasingly well-populated, in part thanks to the growth of fair trade and socially responsible businesses as well as local social enterprises linked to public service programmes.

The best estimate is that there are about 55,000 social enterprises. As the papers in this collection show, these enterprises cover a wide range of activities, even within a single field such as pre-employment training and work integration.

As the field has become increasingly complex and well-populated the original policy goal of increasing entry into social enterprise is no longer sufficient. The focus needs to shift to what social enterprises can achieve, together and with other players, measuring their impact more accurately.

### Are public policy goals and the case for public intervention clear?

Ten years ago the assumption was that social benefits were produced by a special category of organisation – the social enterprise – which were created by social entrepreneurs.

To improve social outcomes policies were needed to increase supply of entrepreneurs (a question of incentives and skills) as well as the resources they had to work with (social venture capital).

Policy-making was heavily influenced by the model of venture-backed start-ups in the private sector such as Silicon Valley where venture capitalists played a critical role in helping entrepreneurs build high-growth businesses.

Ten years on a more sophisticated outcomes-based approach to policy is emerging. There is growing acceptance that public policy should be guided by the outcomes it seeks: social impact and sustainability.

Often these outcomes will be achieved through social enterprise working with other organisations, public and private. Some goals might be best achieved through the regulation of mainstream business. Others might depend on volunteering and mass behaviour change.

Government needs a framework for social innovation that improves social outcomes in which social enterprise is likely to play a critical role.

### How much do we know?

If the goals of policy are clearer how much do we really know about how these goals – increasing the take-up of green technologies and sustainable consumption – are achieved? What do we know about the linkages that spread the impact of social innovations?

The issue that bedevils social enterprise policy is how to scale impact. To scale up social impact do you need to scale up particular forms of social enterprise and organisation?

In the mid 1990s the answer to that question seemed to be that fledgling social enterprises creating new solutions to health care, education or social inclusion, which often started in a particular locality, needed to be given help to scale up their activities, through taking over other providers or franchising. The implication was that we would need a new generation of large social enterprises operating at national scale to achieve social impact.

Ten years on there is a recognition that public policy needs to focus on issues of scale of impact; the growth of the social enterprise sector and of individual social enterprises is just one way to achieve that.

*In and Out of Sync*, a report for the National Endowment for Science, Technology and the Arts by the Young Foundation, argues that social innovations diffuse through a wide variety of channels, including word of mouth, consumer imitation, and formal learning networks, to link together organisations, licensing, franchising, policy prescription and regulation, merger and acquisition and organisational growth.

An initial social innovation – to ban animal testing of products – might be created by a social enterprise but then taken up and spread to other organisations through emulation, regulation and market competition as well as organisational growth. Body Shop had a huge impact on the high street in part through its

own success and growth; in part through competition forcing others to emulate it; in part through its influence on politics and judgements of what was socially acceptable business behaviour.

If the goal of policy is to promote valuable social innovations that help solve pressing social needs then we need a clearer account of the role that social enterprises might play in first creating these new solutions and then spreading them.

### Does public policy have the right tools?

Even if we have an answer to all three questions above – we understand the field, have clear goals, know how those goals can be reached – there may still be significant issues about whether policy-makers in central and local government have the tools and the power to bring about change.

This is especially true in fields where many players and problems are more like clouds (complex and diffuse) than clocks (complicated but in principle soluble).

In the UK a robust public policy platform has been put in place, much of it since 2000, to support social enterprise which is widely admired elsewhere, as Alex Nicholls points out in his paper. This platform includes a Compact between the government and the voluntary sector and promises of longer term contracting and more attention to full cost recovery government and social enterprises; and a variety of measures to increase investment in social enterprises and to build their management capacity.

The growth of social enterprise activity in the UK reflects the support this platform has offered. Over and above the practical benefits these measures also make clear the political significance attached to social enterprise.

However, as the field becomes more diverse and complex and as policy goals shift towards achieving outcomes, so the set of policy tools used will need to develop as well.

### Conclusion

UK's policy platform for social enterprise development is widely admired.

What is needed now, however, is to create not just more but stronger social enterprises which create more sustained social impact.

That will mean increasing focus on interactions between social enterprises that might open up new markets or promote new solutions, and other organisations, public and private, that have the assets and networks to spread, replicate and implement social innovation at scale.

The next section examines four ingredients of a strategy to promote social innovation through social enterprise.

## 4. Four ingredients for social enterprise policy

### I. Expand the Giving Economy

The first strand is cultural change, to promote a more widespread and deeply rooted culture of giving and volunteering to sustain the social enterprise sector.

Social enterprise solutions generally depend, especially at the outset, on voluntary contributions to get them going through donations of money, time, skills, contacts or buildings.

One of the best known examples, the Bromley by Bow Centre in London's East End started with a church giving over its hall to be used by a social entrepreneur.

The Furniture Resource Centre in Liverpool and Green Works in London are businesses built on discarded furniture which they recycle.

Increasing the overall scale of the 'giving economy' runs with the grain of social and economic change. Volunteering has been one of the success stories of the UK social sector in the past ten years. It would also bring some marked social benefits on top of supporting social enterprise development.

Giving can involve people right across society, from young to old, very rich to those on modest means, city-based venture philanthropists to school children saving their pocket money. It embraces a lot of people rather than relying on an elite of specially talented social entrepreneurs.

Giving cuts across cultures, religions and nations. Islam, Judaism and Christianity each have an ethics of giving.

Just as giving comes from many sources, it can be applied to a very wide range of projects, causes and issues, from niche interests to global crises. Gifts can create and convey emotional bonds and relationships than transactions do not.

Increasingly public services will rely on mobilising people to change their behaviour in tandem with a service they receive. Recycling only works if people put more effort into sorting their waste. Social care, for young and old, rests on a vast informal care economy, in which mainly women donate vast amounts of time to the care of others.

The opportunities to engage in this kind of gift exchange are being expanded by Web 2.0 technologies that make it much easier for dispersed groups of people to connect and collaborate, drawing together people into more cohesive networks and communities.

The most impressive of these volunteer efforts is Wikipedia, the volunteer-created free online encyclopedia. In six years Wikipedia has generated six million articles in all languages, more than 1,000 articles in more than 100 languages and yet only has five employees and limited cash funding.

Another example is Book Crossing which aims to turn the whole world into a library by getting people to donate books sitting on their shelves. Book Crossing marks the book which is then left in a public place for anyone to pick up. It then keeps track of the book as it circles around. As of February 2007 it claimed to have 3.7 million books in public circulation and 534,000 members, donating and sharing resources in new ways.

Shared Strength is a US organisation that allows chefs to donate their time to help cook for the homeless.

A strategy to promote a wider, deeper culture of giving would focus on four main areas:

- Money – extending the Gift Aid regime and encouraging in particular rich philanthropists to create venture philanthropy funds. One possibility would be to create shared giving targets for cities, industries and professions to raise UK giving to above 2% of GDP.
- Time – even people with little money have time to donate, especially the young and old. In the US 55% of the population, 84 million people, give some time each year to a social cause, equivalent to more than nine million full-time employees, worth \$239 billion, almost as much as the amount donated in money, \$269 billion. This policy strand could: extend British experiments with time banks; promote peer-to-peer forms of giving such as the expert patients programme and extend it into other areas such as education (the expert learner programme); and focus on the organisation of the informal economy of care which is the main area for giving.
- Things – donations of resources are still critical to many social enterprises and deprived communities. The blood donation service is a model for this. Another example is the US social enterprise GoLoco, which is using social networks to allow people to share cars.

- Skills – people can also donate their skills and know how to help others. This is the model pioneered by Wikipedia and now being taken up in the UK by the School of Everything created by the social entrepreneur Paul Miller, which aims to be a learning exchange.
- Knowledge – one of the most promising global social enterprises is One World Health which uses unwanted intellectual property donated by large pharmaceutical companies to address diseases in the developing world.

However, a strategy of cultural change, on its own, will not be enough to ensure giving is translated into social enterprise with social impact.

So the second goal of policy should be to strengthen the social enterprise sector, to build not just more but stronger, more sustainable and innovative social enterprises.

### II. Strengthen social enterprise

Over the past ten years the social enterprise field has become increasingly well-populated. In some areas social enterprises will continue to grow in scale and number – for example in social care. In other areas the main role of social enterprise will be to act as a catalyst for further change in other sectors of the economy.

One avenue would be to build some impressively large social enterprises that can shelter, inspire and guide others. To come of age social enterprise needs to create some household names.

The Grameen Bank has achieved this, first in Bangladesh and then around the world. Grameen is impressive because it operates at scale: it has made seven million small loans, 97% of them to women, most of them without a formal loan agreement or contract. Yet 98% of those loans have been repaid and even 60% of loans made to homeless beggars. Grameen is profit-making and 57% of its borrowers have lifted themselves out of poverty.

Another example of social enterprise at scale is the US Local Initiative Support Corporation (LISC), which works through community development companies to invest in housing, education, health and economic regeneration projects in low income areas. LISC has invested \$7.8 billion given by 3,100 investors and donors to more than 300 communities, helping to refurbish 196,000 houses and building 80 schools for 28,000 students.

In the UK some social enterprises have reached a reasonable scale – Ealing Community Transport, Café Direct among them – but none have matched the scale of Grameen and LISC.

Most successful sectors have some large companies that help to train people, set standards and lead public debates. The social enterprise sector in the UK lacks such role models. One aim of the next ten years could be to create a social enterprise that operates at national scale and becomes a household name. This might be the appropriate goal in some sectors – for example in social care and perhaps even in emerging sectors such as environmental services.

However, building a social enterprise to large scale may be only one option. Others might include ways of clustering social enterprises together, helping them to form alliances, federations and networks that give them scale. One could imagine social enterprise hubs, business parks and networks.

Scale of organisation is no measure of potential impact; small disruptive and innovative organisations can have a huge impact on entire industries. The business model of the pop music industry was arguably holed beneath the water line by an organisation, the file sharing site Napster, that no longer exists and was never really a corporate entity.

So as well as seeking to scale social enterprise organisations, we need more intelligent strategies to scale their impact, even if the social enterprise itself remains small.

The key to that will be to develop the links between innovative social enterprises, the public sector and mainstream business. Universities have become more closely linked to business innovation in the past decade through a variety of policies for transferring knowledge and people. We need something analogous to allow the rapid transfer of innovation from social enterprise into other sectors.

In short, policy should increasingly distinguish between the different roles that social enterprise might play in different sectors. In some the goal might be to develop a few larger social enterprises which can operate at a scale to match business and the public sector. In many sectors there may be scope for more, but smaller social enterprises. Perhaps the critical areas to identify will be those where innovative social enterprises can act as a catalyst for innovation in public and private sector organisations.

### III. The social enterprise state

The third strand of policy should be to enhance the impact of social enterprise within the public sector.

Social enterprises already play a significant role within the public sector as the providers of contracted-out services. The goal for the next ten years should be to:

- sustain the social sector's position as a supplier
- provide a clearer account of the benefits that social enterprise brings and use social enterprise more strategically to promote innovation in public services, especially for key challenges the state will face to meet the needs of an ageing population, climate change, community safety, social disorder and the engagement of young people

Demands on the state to provide solutions to complex problems as well as personalised services are not going to diminish. The public sector needs more sustained innovation; social enterprise could play a critical role in providing it.

Social enterprises working within and for the public sector clients have a track record of producing innovative services.

Ealing Community Transport grew from a public sector base as a supplier. MacMillan Cancer Support uses charitable donations to fund nurses providing cancer support that the NHS then takes up.

One of the most impressive social innovators is in Control, created as a joint venture between the Department of Health and the mental health charity Mencap. In Control is promoting innovative, person-centred approaches to social care in which people get individual budgets and intensive support to decide how to spend their money. By 2007 in Control had more than 100 local authorities signed up as members of its programme.

There are many more opportunities for social enterprises to stimulate innovation in key areas of public policy. What should be done to exploit these opportunities?

- The government should create public innovation platforms, which bring together the public sector, private companies and social enterprises to address shared problems and opportunities, such as provision of home-based services for the elderly, to combat social isolation. These public innovation platforms would focus on key

issues and opportunities, to galvanise innovation from several sources.

- A shift towards greater local discretion in commissioning, especially for leading cities to devise their own approaches to tackling local social problems, with local players. Centralised, top-down targets are not good for local innovation. Services run in this way tend to regard social enterprises as service providers rather than tap their potential to act as innovators. A shift towards more local governance – local carbon trusts to drive down CO2 emissions, community ownership of assets – would create the conditions for much more local social innovation.
- A shift towards more direct consumer commissioning of services should, in the long run, be good for social enterprises.

Over the next few years many councils are likely to reorganise social care provision to give people individual budgets to commission their own care, rather than relying on block contracts and in-house provision of services, such as respite care and home helps. This will give individual service users and their families much greater say over what kinds of services they want.

Early evidence from the UK, as well as schemes in Australia, the US and Canada, show that when users get individual budgets they spend it on a much wider range of services than those available from the state. This should be a huge opportunity for social enterprises to create new kinds of services to meet this demand, as well as providing people with guidance and support in buying services.

A shift towards individual budgets would be initially disruptive for social enterprises that have grown used to block contracts. However, in the long run if social enterprises really are more adaptive, lower cost, more innovative and higher quality than standard public services they should benefit from a move to give consumers more control over the services they get. Social enterprise should be on the side of consumers having a greater say in shaping services; they should not get stuck defending services provided through block contracts that many users do not want.

Social enterprise development will be heavily affected by how public services are commissioned in future. At the moment social enterprises are largely suppliers to the state, often providing services for people who slip between the silos of public service provision.

Strategies for the future must pay more attention to mobilising social enterprises as a force for innovation. The key to that will be to commission for innovation more intelligently, either through strategic commissioning by local authorities, consumers or even more localised vehicles for investment in social innovation, such as environmental trusts.

### IV. Socially responsible business

Arguably the biggest impact social enterprise will have will be to change the way that businesses and markets operate. This policy goal would be to make Britain the leading centre of innovation in socially responsible business practices, showing how social responsibility can be a new source of competitive advantage and innovation.

Markets will often not address the needs of the hardest to reach, poorest consumers, especially those with special needs because there is no profit to be made from serving these consumers.

Profit-maximising mainstream businesses often find it more difficult to invest in disruptive innovations with uncertain pay-offs than smaller, nimbler, low-cost companies.

Large mainstream businesses need to make reliable returns from mass markets. Disruptive innovations, however, often emerge from smaller markets serving consumers with needs that are in advance of the mainstream market.

In many industries – extreme sports such as windsurfing and kitesurfing are examples – radical innovation often starts with smaller companies and passionate pro-am users. The large incumbent companies then follow in the footsteps of the early innovators.

There is growing evidence that social enterprises can play the role of early disruptive innovators which mainstream businesses then follow, for example in the application of disruptive environmental technologies.

Social enterprises that are disruptive innovators, which are only a minority of the entire social enterprise pool, find ways to do one of two things.

- a. They can deliver goods and services at radically lower costs – so bringing them in reach of poorer consumers.

The Clinton Global Initiative has done something like this with Aids drugs for the poor, by finding a way to eliminate middle men and distributors and so get generic versions of drugs more cheaply. By working on the demand side, with governments in the developing world, the Clinton initiative has also helped to expand the market for these drugs, giving the producers larger runs. The market for generic Aids drugs in the developing world has expanded, production has increased and costs have fallen closer to the level that the developing world can afford. A course of treatment that was costing \$3,500 five years ago now costs closer to \$300.

Project Impact, a social enterprise based in San Francisco, is trying to do something similar with health technologies created in the West such as digital hearing aids, which could have a vast market in the developing world were they cheap enough.

- b. Social enterprises can make the products and services in a different way so reducing the externalities their production creates, for example, in the form of environmental or development side effects.

Fairtrade producers such as Café Direct have shown how corporate supply chains can be reorganised to provide commodity producers in the developing world with a higher margin. Companies such as the Body Shop and Innocent drinks have each in their way set standards for their industries. Body Shop showed it was possible to make attractive beauty care products without their being tested on animals. Innocent is widely recognised as a disruptive innovator in the food and drink industry by creating products without artificial additives.

Social enterprises can challenge mainstream businesses to operate in more socially responsible and inclusive ways. They can also inspire consumers to demand such products.

This policy strand to spread the socially responsible business practices could involve several ingredients.

- Government funding for social enterprises that may set new standards for business practices and introduce innovations that are too risky or marginal for mainstream business. This could include, for example, experiments with biofuels or reducing packaging in products. Social enterprises often set new standards of behaviour for business.
- Creating new metrics of social value creation – and damage – which existing stakeholders and investors could use to pressure companies to improve their social performance. The value of these metrics is the main focus of Jeremy Nicholls' paper in this collection. Nicholls argues that better metrics for social value creation should provide investors with better information about corporate performance and management of reputational risks. Companies that are better run, against these yardsticks, should be less risky and so attract a lower cost of capital, Nicholls argues. Social responsibility should be a source of competitive advantage: cheaper capital, more loyal consumers, more engaged consumers.
- Expand the scope for and improve the performance of social investment funds which specialise in investing in socially responsible businesses. Ethical investing has deep roots in Christian movements against slavery for example. Alex Nicholls' paper in this collection argues that while ethical investing has expanded considerably in recent years there is still a need to improve the scrutiny of how these funds operate as well as expanding the amount invested through them.
- Consumers are increasingly interested in where and how products are made, both on grounds of safety and social responsibility. The way products are sourced – organic, fair trade, additive free, carbon neutral, local – is increasingly part of how they are branded and sold. Policy could encourage best practice encouraging companies to provide consumers with more information on where and how their products are made.
- Probably the single most important lever for change, however, is mobilising consumers.

Innovation policy-makers are increasingly interested in the role of lead users and markets in shaping innovation,

building on the work of Eric von Hippel at MIT which shows that lead users are often sources of innovation. The Aho report on the future of innovation and competitiveness in Europe argued that demand pull of innovation was as significant as supply push.

Creating informed, demanding consumers will be vital to this strand of policy, starting with education at school but extending to the rights consumers have to challenge companies to provide more information about how products are made.

Effective public policies will also use regulation and taxation to stimulate innovation. In London congestion charging is encouraging consumers to switch to more environmentally sustainable forms of transport and encouraging suppliers to respond to their demand, with new hybrid cars. Consumer campaigns in towns across the UK are starting to make supermarkets consider alternatives to plastic bags.

- While government has a poor track record for using industrial policy to pick winners, it has had better success in identifying losers: products and practices that should be discouraged, phased out or even outlawed.

As well as working with social enterprisers to set standards for business behaviour government can also set a floor of what is unacceptable. This particularly applies for products and technologies that have environmental impacts, such as lead in petrol and CFCs. Smoking has also been dramatically reduced by taxation putting up prices, information and education and regulations, most recently with the banning of smoking in public places, pubs and restaurants. Often it is easier for government to say what business practices and technologies have become socially unacceptable than specifying what is socially acceptable.

## 5. Conclusions

Government can help to swell the rising tide of voluntarism and giving that in turn supports social enterprise by focusing on four main areas of activity:

- support social entrepreneurs to operate at greater scale, through organisational growth where appropriate, clustering, networks and licensing
- encourage a wider giving culture and sense of social responsibility that will feed into consumer behaviour in ethical markets, charitable giving to support social enterprises and voluntary contributions to support public services, for example in the care economy
- commission public services to promote social innovation and more effective social outcomes, including encouraging user-led innovative public services
- encourage and where necessary require a more urgent sense of social responsibility from business.

All of this will be underpinned by a growing body of techniques and tools for assessing and reporting on social value, alongside more traditional measures of financial performance.

The four-pronged approach set out above connects social value creation in the five areas of the economy identified in the grid at the outset by linking the voluntary economy of giving, to social enterprise, public services, socially responsible and mainstream business and the rise of ethical markets. These connections make up the skeleton of a social innovation system shown in the diagram on the following page in which social enterprise sits as a junction box between a wider culture of giving and volunteering and innovation in business and public services.

Demand for social enterprise solutions will not lessen. They attack fundamental issues of how to create public goods and solutions to social problems in an open market economy.

The last ten years have seen some important steps forward: more volunteering and giving; more venture philanthropy and investment; a robust and comprehensive policy platform for social enterprise development; a growing role for social enterprises in public service provision.

The key now is to focus on how social enterprise can sustain its growth and generate more impact. That in turn raises questions about how social enterprises trigger wider processes of social innovation engaging both the public and private sectors.

Social innovation – like many other forms of innovation – is a process of collective innovation involving many players: social enterprises, companies, service users, regulators, funders, politicians.

Complex public goods – like a clean and safe environment – have to be created through collaborative innovation involving many contributors, the public, private, not-for-profit sectors as well as citizens and neighbourhoods. They cannot be delivered in the way that an innovative product is: a Dyson vacuum cleaner.

The role of public policy is to stimulate and orchestrate this process of collective innovation.

Politicians, policy-makers and civic leaders can make a unique contribution by changing the way society frames its challenges and mobilises public, private and voluntary resources to meet them. That job – framing the process of collaborative social innovation – involves three ingredients:

- diagnosing the challenges and opportunities a city faces
- prescribing actions and responsibility for different players
- motivating and sometimes equipping people to take action, together.

Government needs a framework for social innovation in which social enterprise is likely to play a critical role.

# Appendix: The social innovation system

