Social Innovation, Social Entrepreneurship and Survival of the Third Sector

NIAZ M PATWARY
Assistant Professor

FOREWORD

With increasing worldwide attention on corporate social responsibility (CSR) of the corporate sector and market-orientation of development sector programs, a new field has generated considerable interest among government, business and academic circles. The burgeoning field of "social enterprise" includes a variety of organizations that align their business interests with a social orientation or philanthropic interests with a business orientation, essentially combining social and financial goals. In the case of for-profit private sector organizations, a social orientation enables a closer relationship with the communities they engage with commercially, facilitate improved relations with communities, enabling visibility, and overall, ensuring business sustainability.

In the case of not-for-profit organizations, a business orientation ensures their non-reliance on grants and donations, thus ensuring sustainability, and in many cases, efficiency. However, despite the increasing attention on CSR by for-profit organizations, social enterprises have in fact developed from and within the social economy sector, which lies between the market and the government and is often associated with concepts such as "nonprofit sector" and "third sector."

It is however more difficult to define "social innovation". Many organizations undertaking various CSR and even marketing-related initiatives, have been quick to claim that they are contributing to social innovation. It is first important to understand what is implied by social innovation and whether social innovation has been the prerogative and preserve of third sector organizations only.

TABLE OF CONTENTS

2	INTRODUCTION
2	SOCIAL INNOVATION: A THEORETICAL FRAMEWORK
4	SOCIAL INNOVATION IN THE PRIVATE SECTOR: REAL-LIFE EXAMPLES
5	DISCUSSION
6	CONCLUSION

Center for Enterprise and Society,
University of Liberal Arts Bangladesh
House 56, Road 4/A, Dhanmondi, Dhaka – 1209
Telephone: 9661301, 9661255, Fax: 9670931,

Email: ces@ulab.edu.bd
Website: http://www.ulab.edu.bd/CES/home/
Blog: http://ces-ulab.blogspot.com/

INTRODUCTION

Social innovation, social entrepreneurship and the third sector have become heavily researched topics due to increasing awareness of societal and environmental problems and changes to the provision of once public services. The aim of this essay is to critically discuss whether social innovation is the sole preserve of third sector organizations. Certain arguments, both 'for' and 'against' are going to be provided to justify the point of view of particular statements. Social innovation is an under-studied topic, as has been posited by Rodríguez & Guzmán (2013). Vesa (2006) also notes that social aspects of the innovation processes are significant despite limited findings at hand regarding the subject. Moreover, as difficult as it is to define "social innovation," many organizations undertaking various CSR and even marketing-related initiatives, have been quick to claim that they are contributing to social innovation.

A discussion on this topic will provide a reader with an understanding what actually is 'social innovation' and help answer the key research question of this report: whether social innovation is exercised only in third sector organisations. The report will begin with defining the term of 'innovation'. It will continue by describing the main characteristics of the social innovation to highlight the difference between ordinary and social innovation and provide some real-life examples to actually answer the research question, following by a conclusion presenting key points.

SOCIAL INNOVATION: A THEORETICAL FRAMEWORK

In order to answer the main question it is essential to define social innovation. Williams and Nadin (2012) have argued that social innovation involves social entrepreneurs who are driven not by the need to increase profit for shareholders or owners, but by the impulse to generate social value. In other words, social innovation's primary goal is to benefit society, not to generate profit. Social innovation can involve both capital and the individual. However, the individual has to become the primary object of the entire social entrepreneurial activity. There are also different types of innovations.

According to Damanpour & Gopalakrishnan (2001), innovation can encompass new products, processes, managerial innovations and market innovations. Therefore, innovation does not have to imply the development of a new product or an entirely new idea. It can be a new way of tackling existing issues or managing an organization. Damanpour et al., (2009) argue that new social relationships or collaborations between organizations also are seen as an element of social innovation. These co-operations and collaborations can be networks with clients and suppliers. Often, according to Rodríguez & Guzmán (2013), social economy enterprises are characterised by their close links to their nearest local

Center for Enterprise and Society,
University of Liberal Arts Bangladesh
House 56, Road 4/A, Dhanmondi, Dhaka – 1209
Telephone: 9661301, 9661255, Fax: 9670931,
Email: ces@ulab.edu.bd
Website: http://www.ulab.edu.bd/CES/home/
Blog: http://ces-ulab.blogspot.com/

environment and to local development in the services sector. Third sector organizations that fit most closely to this description are charities and this is a classical and well-recognised example within the sector. McElroy (2002) believes that innovation is a social process and first of all should be positioned as a source of competitive advantage. In other words innovation is something new that can differentiate organizations from one another. Therefore social innovation creates new ways on facilitating benefit to the individual within a society differently and more efficiently.

But what really makes social innovation unique and distinct? Stahle et al. (2004) try to differentiate it and defines it as the sum of a new idea, implementation and value creation. Value creation constitutes the key element. The European Union (1995, cited in Stahle et al., 2004) defines innovation as the effective production, integration and development of novelty in the economic and social spheres. This still refers to innovation in general terms and does not differentiate social and economic innovation. It seems that innovation can be either social or economic. Nevertheless, these two are quite distinct in their theoretical underpinnings.

For instance, economic innovation is based on the principle that in order to receive more financial value, more investment has to occur in producing goods or services. (Stahle et al., 2004) These are also called financially and commercially successful innovations. In this case the innovation is of interest primarily due to its positive financial effect. These can include accumulation of cash flows or decreasing costs of production. This is a reflection of a principle that states spend less- receive more. Usually it leads to the dynamic growth of the enterprise and enables profit creation.

However, social innovation looks primarily at the needs of the society. It presumes to obtain financial source in order to do well, unlike mainstream commercial innovation wherein a good is produced in order to obtain finance. Thagard & Croft (1999, cited in Stahle et al.,2004) explain that the main difference between economic and social innovation as a process lies in goal orientation. In other words, the difference is borne out in response to the question, “What is a primary motive of innovation?”

Frequently, commentators are not clear on the difference between both types of innovation and they posit that social innovation belongs to both private/public sectors as well as third sector organisations. Nevertheless, Norberg-Hodge (2000) states that large corporations using “hard” Western technological innovation often endanger traditional cultures and local communities, while justifying their activities through the mantra of economic development. This is wrong and such unsatisfactory levels of corporate social responsibility evidenced by application of innovation and underestimation of the wellbeing of a community is not evidenced in the activities of third-sector organizations. Phills et al. (2008) emphasize that social innovation can be a product, production process,

Center for Enterprise and Society,
University of Liberal Arts Bangladesh
House 56, Road 4/A, Dhanmondi, Dhaka – 1209
Telephone: 9661301, 9661255, Fax: 9670931,

Email: ces@ulab.edu.bd
Website: http://www.ulab.edu.bd/CES/home/
Blog: http://ces-ulab.blogspot.com/

technology, principle, social movement or even intervention. Social innovation can also exist as a combination, as long as value creation is addressed primarily in regards to the society rather than for private individuals.

Knut & Zsolnai (2014) explain that commercial innovation is focused on products/services that can be profitably sold mainly benefiting the rich because they have more purchasing power than the poor. Such a purview cannot be accommodated by social innovation, and therefore cannot be part of the third sector either. In contrast, social innovation aims at benefiting people who cannot afford to pay the standard market price for products offered by profit-driven corporations (Knut & Zsolnai, 2014). Nevertheless, it does not necessarily mean that private sector organizations cannot undertake social innovation.

SOCIAL INNOVATION IN THE PRIVATE SECTOR: REAL-LIFE EXAMPLES

The first example is based on Nestlé and the marketing of baby-milk formula in Africa. Knut & Zsolnai (2014) explain that the company invented the formula for a baby-milk substitute. It targeted upper-middle class women in Europe who were not able to breastfeed their babies. Subsequently, Nestle, despite reports on negative consequences of milk substitutes to health, targeted this product to Third World countries. The Nestlé milk substitute was advertised as a risk-free, healthy product, which is more beneficial than breast milk. Eventually, many of babies suffered from health problems caused by the product.

Knut & Zsolnai (2014) highlight UNICEF findings such as the 6 to 25 times increased likelihood of death from diarrhoea and 4 times increased likelihood of death from pneumonia of children consuming the milk substitutes, in comparison to a breastfed child. As a result, the International Baby Food Action Network boycotted Nestle. This is a clear example of a private sector company in pursuit of innovation. However, in Nestlé's case, the innovation does not qualify as social innovation, because it had put profits above the health of its clients.

Another example is with regard to a Merck & Co., an American drug company. In the 1980s, the company discovered that an animal drug, Ivermectin, could destroy the parasites that cause river blindness. Knut &Zsolnai (2014) highlight that people who suffer from this disease are typically poor and do not have any purchasing power. Therefore, there is no any profit perspective to develop and market a medicine for these people.

The scientist group turned to the chairman of the company to ask for a funding in order to develop the drug. Although the business context did not justify funding the project, it was given a go-ahead, towing to the moral obligation of the affected people despite the high costs and almost no chance to make a profit. The main argument to support such a project that required millions of US dollars

Center for Enterprise and Society,
University of Liberal Arts Bangladesh
House 56, Road 4/A, Dhanmondi, Dhaka – 1209
Telephone: 9661301, 9661255, Fax: 9670931,
Email: ces@ulab.edu.bd
Website: http://www.ulab.edu.bd/CES/home/
Blog: http://ces-ulab.blogspot.com/

was the company credo that states: *"Medicine is for the people. It is not for the profits. The profits follow"*. (Knut & Zsolnai, 2014, p.189) Moreover, Merck decided that the pills should be delivered to the victims of the disease completely free-of-cost. There still were certain challenges related to infrastructure and distribution and Merck initiated a collaboration with World Health Organisation (WHO), and the two jointly financed an international committee to provide the necessary infrastructure for distributing the drug to people in developing countries. The outcome was that the drug was supplied to millions of affected people through the help of voluntary organisations and governments. This was a case of a private sector organization successfully implementing strategy aimed at social innovation.

The third example is based on the case of Microfinance by the Grameen Bank. Knut &Zsolnai (2014) believes that the concept of Microfinance focus on poor people as beneficiaries, in particular, those who do not have access to financial capital on reasonable terms. By lending small amounts of money ("microloans") to poor people, they could achieve actualize business ideas and financial goals.

The concept was developed by Mohammad Yunus, the founder of Grameen Bank in Bangladesh. Yunus (2011) explains that it is not the lack of skills that makes people poor. It is rather the institutions that exist in the society. It is explained that a society needs a change in terms of institutional context. Yunus (2011) also explains that charity is not the best tool to avoid poverty, because it is often counterproductive. Charity creates a vicious circle of dependency, which may destroy personal responsibility and initiatives and in this lay a contradiction with regard to the concept of social innovation. According to Ims and Jacobsen (2010), the idea of the Microfinance is to enhance people confidence and release their energy and creativity so that they can earn themselves. Grameen Bank works on trust and encourages borrowing partners to save funds regularly to insure against unexpected risks (Yunus, 2011). Microfinance's narrative is an example of social innovation practiced by a third sector organisation.

DISCUSSION

Before a discussion can occur, it is essential to remember the concepts of social innovation. All three cases presented in the preceding section entail innovation. Nevertheless, in the case of Nestlé, according to Knut & Zsolnai (2014) marketing techniques exploited the vulnerability of the customers. Post (1995, cited in Knut & Zsolnai, 2014) states that Nestlé had to withdraw the product or limit the selling of the product when it was necessitated by corporate social responsibility.

In the case of Merck (private sector organisation), according to Vogel (2005) employees included those who initiated the innovation through the organization. To compare two cases of Nestlé and Merck for example, the first company aimed to increase profits, while the second was focussed on improving health of beneficiaries. Kasser (2011) distinguishes such objectives using the dichotomy of materialistic and spiritual orientations. Nestle's example exemplifies the objective of a commercial organization, while Merck's underscores a spiritual orientation. Spiritual value orientation is aimed at reducing human suffering (Kasser, 2011) and these are characteristics of social innovation principles. This point of view is supported within Bottom of the Pyramid (BoP) concept by Prahalad (2004).

In the case of the microfinance initiative by the Grameen Bank (third sector organisation) the founder introduced a new socially innovative approach. Yunus realised that there are many poor people who have initiatives and skills, but lack the money to start projects. Instead of just helping them with food and clothes as most charities do, he actually worked towards changing the circumstances and their mindset.

An important concluding statement from Knut and Zsolnai (2014) that underpins the required ethos for social innovation: "Sensitivity to local cultural needs and an ethos for serving the common good appear to be the preconditions of any successful and lasting social innovation by business."

CONCLUSION

The aim of this article was to critically discuss whether social innovation is the sole preserve of third sector organisations. Secondary literature along with theories and practical examples were discussed in order to understand the subject and provide an objective judgement and eventually to answer the question.

The main characteristics of social innovation were identified. It has also been proposed that social innovation encompass new products or services, but the new approach, co-operations/collaborations and ideas that can lead to transformational performance.

The evidence shows that social innovation can be either within third sector organisation or by private sector companies. It was found that both organizations applied the concepts of social innovation and successful implementation of their projects. Microfinance by the Grameen Bank performed social innovation by introducing a unique approach towards helping poor people. It offered a financial assistance that led to changes within a society. Merck & Co. also implemented a concept of social innovation and provided medical help to the poor. Their project led to benefitting those who could not afford the medicine to battle river blindness.

The conclusion is that social innovation is not the sole preserve of third sector organizations. It is recommended to all private and public sector organizations strive to apply at least certain principles of social innovation in adherence with their corporate social responsibility mandates. Third sector organisations should also consider introducing new approaches and more efficient ways to perform social innovation so that social problems are addressed at the root level rather than superficially, at the level of symptoms.

Center for Enterprise and Society,
University of Liberal Arts Bangladesh
House 56, Road 4/A, Dhanmondi, Dhaka – 1209
Telephone: 9661301, 9661255, Fax: 9670931,

Email: ces@ulab.edu.bd
Website: http://www.ulab.edu.bd/CES/home/
Blog: http://ces-ulab.blogspot.com/

References

1. Bouckaert, L. and Zsolnai, L. (Eds) (2011), *The Palgrave Handbook of Spirituality and Business.* Palgrave Macmillan, New York, NY.
2. Christabell P. J. (2013) Social innovation for women empowerment: Kudumbashree in Kerala, Innovation and Development, 3:1, 139-140
3. Damanpour, F. and Gopalakrishnan, S. (2001), “The dynamics of the adoption of product and process innovations in organizations”, Journal of Management Studies, Vol. 38 No. 1, pp. 45-65.
4. Damanpour, F., Walker, R. and Avellaneda, C. (2009), “Combinative effects of innovation types and organizational performance: a longitudinal study of service organizations”, The Journal of Management Studies, Vol. 46 No. 4, p. 650.
5. Doherty, B., Foster, G., Mason, C., Meehan, J., Meehan, K. and Rotheroe, N. (2009), Managment of Social Enterprises, Sage Publications, London.
6. Geobey S., Westley F.R. &Weber O. (2012) Enabling Social Innovation through Developmental Social Finance, Journal of Social Entrepreneurship, 3:2, 151-165
7. Hannelize J. (2013),"Co-innovation through multiple social identity processes", European Business Review, Vol. 25 Iss 1 pp. 42 – 64
8. Hart, S.L. and London, T. (2005), “Developing native capability: what multinational corporations can learn from the base of the pyramid”, *Stanford Social Innovation Review,* Vol. 3 No. 2, pp. 28-33.
9. Hira, A. and Ferrie, J. (2006), “Fair trade: three key challenges for reaching the mainstream”, *Journal of Business Ethics*, Vol. 63 No. 2, pp. 107-118.
10. Hitt, M., Hoskisson, R., Johnson, R. and Moesel, D. (1996), “The market for corporate control and firm innovation”, Academy of Management Journal, Vol. 39 No. 5, pp. 1084-1092.
11. Ims, K.J. and Jakobsen, O. (2010), “Fair Trade Production” in Tencati, A. and Zsolnai, L. (eds): *The Collaborative Enterprise. Creating Values for a Sustainable World,* Peter Lang, Oxford.
12. Johannessen, J.A., Olsen, B. and Lumpkin, G.T. (2001), “Innovation as newness: what is new, how new, and new to whom?”, European Journal of Innovation Management, Vol. 4 No. 1, pp. 20-31.
13. Kasser, J. (2011), “Materialistic value orientation”, in Bouckaert, L. and Zsolnai, L. (Eds), *The Palgrave Handbook of Spirituality and Business.* Palgrave Macmillan, New York, NY.
14. Knut J. Ims Laszlo Zsolnai , (2014),"Ethics of social innovation", Society and Business Review, Vol. 9 Iss 2 pp. 186 – 194
15. Lam, A. (2004), “Organizational innovation”, BSBM Working Papers, Vol. 1 No. 2, Brunel Business School, Brunel University, Uxbridge, pp. 8-45.
16. Leadbeater, C. (1997), The Rise of the Social Entrepreneur, Demos, London.
17. Lowe A., (1995),"The basic social processes of entrepreneurial innovation", International Journal of Entrepreneurial Behavior & Research, Vol. 1 Iss 2 pp. 54 – 76
18. McElroy M.W., (2002),"Social innovation capital", Journal of Intellectual Capital, Vol. 3 Iss 1 pp. 30 – 39
19. Milbourne L. (2009). Remodelling the Third Sector: Advancing Collaboration or Competition in Community-Based Initiatives?. Journal of Social Policy, 38, pp 277-297
20. Musings, J. (2012), “Merck company: a business ethics case”, available at: http://joe-renaissanceman. blogspot.hu/2012/04/merck-company-business-ethics-case.html (accessed 12th

Center for Enterprise and Society,
University of Liberal Arts Bangladesh
House 56, Road 4/A, Dhanmondi, Dhaka – 1209
Telephone: 9661301, 9661255, Fax: 9670931,

Email: ces@ulab.edu.bd
Website: http://www.ulab.edu.bd/CES/home/
Blog: http://ces-ulab.blogspot.com/

April 2015).

21. Norberg-Hodge, H. (2000), *Ancient Futures. Learning from Ladakh,* Rider, London.
22. Phills, J.A, Deiglmeier, K. and Miller, D.T. (2008), “Rediscovering social innovation”, *StanfordSocial Innovation Review 2006,* Vol. 6 No. 4, pp. 34-43.
23. Prahalad, C.K. (2004), *Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits,* Prentice Hall, Upper Saddle River, NJ.
24. Rodríguez M.J. and Guzmán C. (2013),"Innovation in social economy firms", Management Decision, Vol. 51 Iss 5 pp. 986 – 998
25. Taatila V.P., Suomala J., Siltala R., Keskinen S. (2006),"Framework to study the social innovation networks", European Journal of Innovation Management, Vol. 9 Iss 3 pp. 312 – 326
26. Tanimoto, K. 2010, "The Process of Social Innovation: Multi-Stakeholders Perspective", Academic Conferences International Limited, Reading, 09, pp. 594.
27. Vogel, D. (2005), *The Market for Virtue. The Potential and Limits of Corporate SocialResponsibility,* Brookings Institution Press, Washington, DC.
28. Weiss, S. and Bollier, D. (2013), “Merck & Company, Inc: having the vision to succeed”, available at: www.andrews.edu/tidwell/bsad560/Case-Merck.html (accessed 10th April 2015).
29. Williams, C.C. and Nadin, S. (2012), “Entrepreneurship in the informal economy: commercial or social entrepreneurs?”, International Entrepreneurship and Management Journal, Vol. 8 No. 3, pp. 309-324.
30. Wong, P.K., Ho, Y.P. and Autio, E. (2005), “Entrepreneurship, innovation and economic growth: evidence from GEM data”, Small Business Economics, Vol. 24 No. 3, pp. 335-350.
31. Yunus, M. (2013), *Building Social Business. The New Kind of Capitalism that Serves HumanitiesMost Pressing Needs,* PublicAffairs, New York, NY.
32. Zortea-Johnston, E., Darroch, J. and Matear, S. (2012), “Business orientations and innovation in small and medium sized enterprises”, International Entrepreneurship and Management Journal, Vol. 8 No. 2, pp. 145-165.

Center for Enterprise and Society,
University of Liberal Arts Bangladesh
House 56, Road 4/A, Dhanmondi, Dhaka – 1209
Telephone: 9661301, 9661255, Fax: 9670931,

Email: ces@ulab.edu.bd
Website: http://www.ulab.edu.bd/CES/home/
Blog: http://ces-ulab.blogspot.com/