Social Innovation and Social Enterprises: the Italian perspective

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By Paolo Venturi and Flaviano Zandonai

Social Innovation, generally acknowledged as the capacity to respond to emerging needs through new forms and/or models of collaboration, represents one of the fields in which the non-profit sector has demonstrated, mainly through its entrepreneurial wing, its distinctive and not residual characteristic.

On the social level, and more generally on the economic level, innovation is a process that while characterized by outcome uncertainty, cannot be understood as a casual or spontaneous result. Innovation is to be understood rather as a strategy, an orientation that **must be pursued on a collective level**, a dimension in which - once again - the role played by rules and institutions seems to be crucial and by consequence the impact that its behavior can have.

The study of innovation in economics begins with the famous contribution of Schumpeter, in which innovation is contextualized in an even more general theory of economic development, characterized by sudden and spontaneous changes that moves the system from a situation of initial equilibrium to a new status quo.

The "**creative-destructive**" process is what characterizes this passage from one phase to the next. It refers to the introduction of new economic rules that result from a new combination of elements that already exist. Entrepreneurs, individuals or organizations, lead these transformations, possessing a capacity to think out of the box and find new and better combinations of existing elements (**ars combinatoria**).

Many factors influence the innovation process yet what seems to make the greatest impact is the **collective mindset of society**. For some (Legrenzi, 2005) innovation - on a general level - can be seen as a sort of emerging and unexpected effect, but always an outcome of a collective mindset that must be promoted and pursued also on an institutional level. Innovation thus cannot be understood as the goal of single individuals - or a restricted group of single individuals - that work isolated from society. Innovation is rather the possible finishing line of a path "full of traps and blind allies, that requires perseverance and determination". From this point of view comes the first connotation of "social" in innovation. It is a social construction that doesn't take place inside company borders or exclusively along global networks of markets and knowledge. Innovation, in fact, engages local systems, close-knit territorial networks full of tacit, atypical knowledge and hence of particular relevance (Trigilia, 2007).

Another declination of the social dimension of innovation is provided by the report done by the **Young Foundation**, in which social innovation is defined as "innovative activities and services that are motivated by the goal of meeting a social need and that are predominantly diffused through organizations whose primary purposes are social". The report individualizes three key elements that characterize social innovation: works on a hybrid mix of existing elements, crosses organizational and sector boundaries, and fosters the creation of new relationships between the people and groups that contribute to the scaling up and diffusion of the innovation.

Innovation is first defined as being social based on the category of needs it meets and only in second place on the final objectives of the subject who conducts it. Social innovation thus refers to new ideas that meet unmet social needs that are mainstreamed through a cycle that begins with scarce acceptance (and in some cases ridiculed) to a growing need until it is accepted and then recognized on an institutional level.

Welfare systems, until recently entrusted as an almost given to meeting social needs until a few years ago when the State intervened, hence become crucial in defining them - at least in Europe. Today, however, an "irreversible crisis" of the "traditional welfare" model is underway, tied to quantitative factors (increased shortages of resources which hinder public action), but also and above all else, it is tied to a qualitative nature (emergence of new categories of needs tied to the **relational sphere**) (Venturi and Rago, 2010).

The need to contain expenditure appears to be indefeasible after years of massive public spending, disproportionate for the most part to the effective quality of services delivered. To this is added the expanding complexity of social needs which require a qualitative change in the allocation of resources. Meeting these needs implies a certain dose of social innovation in regards to content of services offered, to their delivery, and last but not least the way to "interpret" these needs and unite actors stemming from diverse interests to solve them.

In the welfare system, particularly the service sector, it could be said, paraphrasing Schumpeter, that **the need for innovation in both the product and the process is absolute**, a necessity that can be seen in the most current problems ranging from immigration to all other forms of social exclusion which fill the newspapers and fuel national and European political debate.

In reference to the nature of the subjects who drive innovation, the Young Foundation, while acknowledging the role of non-profit organizations, recognizes that it alone is not the sole driver. Every economic and social actor is able to innovate: academia, the public administration, for-profit companies, movements, but most of all innovation can be derived from partnerships - formal and informal - between subjects coming from difference worlds, and for this representatives of different experiences and knowledge. The recognized role of hybridization and the meeting of diverse realities and organizational cultures to foster innovation is a crucial element.

The incapacity to innovate is often tied to an incapacity to adopt different perspectives when analyzing problems. Such cases highlight the value found in the heterogeneity of the non-profit sector and on a larger scale the social and economic system, favoring areas that interact, or rather blur boundaries between different, existing identity and organizational matrixes.

At first glance it might seem that what sets innovation in the social sector apart from traditional market approaches is the seeming absence of competition which typically drives innovation. What then drives innovation in the social sector if achieving a competitive advantage and its extra profit is less prominent?

Even without profit motivation, the results of social innovation surround us: Wikipedia, microcredit projects/platforms, the rise of new social startups based on new technologies, crowd funding, fair trade, ethical purchasing groups, and in the Italian context, the activity most often mentioned of Type B social cooperatives which provide work integration of disadvantaged subjects. It is evident that profit motivation is thus only one of the possible explanations behind human behavior that is economically relevant when referring to processes of innovation.

What catalyzes innovation in the social sector, on the other hand, seems to be the **social pressure exerted by the presence of unmet social needs, whose satisfaction would translate into increased quality of life standards**. Social dissatisfaction thus becomes an important driver for social innovation: when the gap between social needs and the services offered becomes too wide, spaces are created for self-organized movements of individuals or groups of individuals more or less formalized (Mulgan, 2006). Dissatisfaction alone, however, is not enough as a driver as it isn't in itself a mechanism capable of activating in a systemic manner the resources necessary to produce social innovation on a large scale. For this reason another driver is found in the social impact of the initiatives and the policies promoted in the field. The benefits produced at various levels and by a number of different actors - not only the beneficiaries of a certain good or social service - create a multiplier effect that impact quality of life (social cohesion and social security) and thereby the economic system (OECD...)

The Evolutionary Pathways of Social Innovation in Italy

The field of social innovation clearly reflects the effects derived from applying the paradigm of social innovation, looking at both the changes in its conformation and its internal segmentation. If for decades the game was played inside the non-profit sector with the objective of making a distinction between productive organizations - social enterprises - from advocacy organizations, now the confrontation is made on a much larger scale. In fact, on the wave of social innovation rides new actors from both business and the public administration (on a lesser scale) that declare to act as social enterprises and social entrepreneurs. (Venturi and Zandonai, 2012).

The epicenter of this "great transformation" in terms of organizational models, management practices and above all the approaches and culture of social innovation coincides with the various forms of financing. In fact the leap in quality in terms of the impact - social, occupational, economic - of social enterprises is commonly seen in the measure in which economic resources are made available, coming from both public and private funds in the form of both grants and equity. Specialized financial tools hence represent a particularly relevant angle from which to read the present evolution and above all the future of social enterprises.

The framework of what this specialized finance offers is already rich in initiatives and actors: rotating funds regulated by norms in almost all of the regions in Italy, strategic donations by grant making subjects such as foundations of bank origin, the financing tools provided by Banca Etica - the bank founded and owned by the third sector in Italy - and experiments with merchant banks like Cosis, active since the mid-90s with dedicated financing tools (Strano and Zandonai, 2012). The ecosystem surrounding social financing tends however to get even more diverse. The main commercial banks in Italy, for example, have undertaken, in a different measure, a strategy of specialization in regards to social entrepreneurship. Banca Prossima in this aspect is of particular interest, being a credit institution of the Banca Intesa Group that as its slogan says operates "for social enterprises and the community". Local banks too, mainly cooperatives, have shown a growing interest in the sector, sharing its social goals and more generally its adhesion to a specific socio-economic context in a given territory. Furthermore, despite consistent delays, new emerging figures of venture capitalists are arriving on the scene (Oltre Venture Foundation) and company foundations transforming themselves from donators to financial backers of social enterprises (The Vodafone Foundation).

Up until now we have discussed and presented the supply side, let's now discover what is happening on the demand side. Current data show an internal picture, that in its essential characteristics, seems to be able to intercept only a part of the resources available. The majority of social enterprises in Italy have financed, and continue still today to finance, its own growth and development through the self-financing mechanisms of its members and the surplus resulting from its business activities (Venturi and Zandonai, 2012; Osservatorio Ubi, dati Banca d'Italia); in other words, the classic tools that give value to the collective nature of these enterprises which in the majority of cases have adopted the legal form of a cooperative.

This model however is destined in the short term to reach "the limits of its own growth". On the front of self-financing, many social enterprises have in fact taken on, in time, ways to capitalize, engaging their members, due also to public initiatives (The Jeremie Fund) and private initiatives (Cosis) which have provided the necessary incentive structures for this form of financing.
Due to the crisis, social enterprises have suffered from progressive decreases in surplus in end-year balance sheets, as much of its income comes from the public sector which has seen significant budget cuts in recent years (Barbetta, 2012). When put in context with the rising need of economic resources to make structural investments and to face problems of cash flow, due also to growing delays in payment from the Public Administration, many social enterprises find themselves in a growth phase that induces it, both for need and virtue, to modify radically their business model. Social enterprises are seeing themselves go from managers acting on behalf of third-parties (mostly public institutions) to owners of service centers, 'keys in hand', able to sell to diverse clients in methods equally diverse (Fazzi, 2012).

This often occurs through product innovation as well as service models (Maiello *et al.*, 2011).

The mix of these factors has already brought a part of the more traditional forms of social entrepreneurship in Italy to re-orient their strategies in order to intercept financial resources based on new models and more substantial stock. This process of reconversion is moreover boosted by the very financial subjects that act on behalf of the sector in a non-neutral way, or rather those who propose products and solutions that incorporate new forms and models of social enterprise. These subjects push for the enterprise's dimensional growth, internal efficiency, and its expansion in new sectors different from its traditional activities.

The question now remains as to how far social entrepreneurship - of non-profit origin and communitarian imprinting - will be able to and most of all have the understanding to follow the evolution of the financial supply? Or rather when it will help itself to the emergence of new forms of social enterprise promoted by actors involved in specialized finance or even occurring as a direct by-product of the transformation of these same actors? The response will come soon; in fact it will soon be the economic trend, together with community measures like the Social Business Initiative, strongly inspired by the social innovation paradigm (European Commission, 2011), to define once and for all the new field of social entrepreneurship in Italy.

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