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# Social Innovation and Social Entrepreneurship

Fundamentals, Concepts, and Tools

Luis Portales

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## Social Innovation and Social Entrepreneurship

Luis Portales

# **Social Innovation and Social Entrepreneurship**

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ISBN 978-3-030-13455-6      ISBN 978-3-030-13456-3 (eBook)  
<https://doi.org/10.1007/978-3-030-13456-3>

Library of Congress Control Number: 2019932966

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For la Nena and JE, who motivates me to make this world a more dignified and just place for everyone.

## Preface

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Social innovation attends the main social problems faced by humanity in a more efficient way. This type of innovation takes advantage of current needs, exploiting the diversity of resources that a society has and building capacities oriented toward the empowerment of the excluded population and the systemic change of the social, economic, and institutional structures that create these problems.

The promise of social change by social innovation leads to the position of the concept within the agenda of international organizations, governments, companies, nonprofit organizations, and academia, who through various initiatives promote their development from a practical perspective as theoretical. As a consequence of this impulse is the proliferation of approximations in its theoretical understanding, as well as the generation of initiatives of all sectors of society to encourage the creation of a greater number of social innovations, especially in contexts characterized by exclusion, marginalization, and poverty.

An important characteristic of social innovation is its capacity to involve in the generation of solutions to actors from all sectors and according to the social, economic, environmental, institutional, and cultural context where it takes place. This flexibility not only generates different types of social innovations, but also allows for the creation of intersectoral initiatives aimed at systemic change, making it a relevant phenomenon in its analysis and understanding.

This diversity of conceptual and practical approaches makes social innovation an elusive phenomenon, which is sometimes difficult to capture and understand by students, social entrepreneurs, and decision makers within companies, institutions, and organizations. This elusiveness opens the door to conceptual simplifications that leads that everything is considered as social innovation, reducing credibility and capacity to generate value in society and impact on the reduction of the social problems it seeks to address.

In this context, this book emerges with the aim to provide a general overview of social innovation, its origins, foundations, and ways of implementation by the social and private sector. It also seeks to show some of its forms of financing and alignment with international development proposals, such as the Sustainable Development Goals, and to provide tools for measuring the impact it generates. The interest is with the spirit of increasing the understanding of the phenomenon of social innovation through the definition of key concepts, its exemplification through concrete cases, its reflection through questions that trigger the debate, and its application using tools and practical exercises.

The book has four sections. The first exposes the theoretical and contextual foundations that support the positioning of social innovation at a general level. This section seeks to explain what is the origin and rationale of social innovations, their characteristics, and the different types of value generated through their implementation. This section focuses on defining the key aspects that make up the concept of social innovation, which serve as a starting point to analyze the way in which it has been implemented within the framework of social entrepreneurship and traditional businesses.

The second section focuses on studying and analyzing social entrepreneurship as the main evidence or implementation of social innovation. This section explains what social entrepreneurship is, what are its foundations and differences with traditional entrepreneurship, and what are the types of organizations generated within the framework of this concept. This section explains what the different schools of social entrepreneurship are, their characteristics, and limitations. The section addresses the profile of the social entrepreneur, from an integral perspective, contemplating their characteristics, types of entrepreneur, and leadership styles depending on the stage of entrepreneurship. This section ends with the definition of a social business model and a proposal for its generation, validation, and analysis.

The third section explains how social innovation is implemented from traditional companies, especially those that, due to their size, have a greater capacity to generate value through the implementation of programs of different kinds. This section presents the transition that companies made from Corporate Social Responsibility to Corporate Social Innovation, and its relationship with the perspectives that each of them has. It also exposes the proposal of social business models with purpose, which have the capacity to generate a great impact through the leveraging of the resources that companies have. The role of intrapreneurs stands out in this section, since they are the ones that make possible the generation of social innovations within companies and organizations, being as relevant as the social entrepreneur.

The fourth section presents an analysis of the impact of social innovations, beginning with its definition, going through its design, and ending with its evaluation. The definition of impact is key to explain, also in this section, what impact investments are and what is the role they play in financing social innovations, as well as to explain the most successful mechanisms. The section ends by presenting how social innovation is aligned with the Sustainable Development Goals of the United Nations and a proposal to achieve its implementation from companies and organizations of all sectors.

Although the book follows a sequential structure aimed at facilitating the understanding of social innovation as a phenomenon, each of the chapters is self-explanatory, so that it can be read and analyzed separately.

In addition to the expose of the different types of implementation of social innovation in different sectors, mainly in social and traditional companies, the book also seeks to facilitate the understanding of the concepts included into each chapter. To achieve this, the chapters present cases that exemplify each of the concepts to facilitate learning, which are mainly Latin America with the interest of showing the progress that this concept has in one of the most inequitable and marginalized regions of the world, although there are cases from Europe and North America.

At the end of each chapter there are also a series of exercises or questions for reflection and debate, which seek to deepen the understanding of the concepts and strengthen the adoption of them from a critical, reflective, and practical perspective. Additional resources are included, which are readings, videos, and websites that contribute to improving the understanding of each chapter, its concepts, and how they contribute to the positioning of social innovation.

Finally, this book seeks to be a contribution to the general understanding of social innovation and social entrepreneurship processes that emerge from it both within companies, through social intrapreneurs, and outside of them, through entrepreneurs



social. The book gives a framework that facilitates the deepening of any of the readers on each of the concepts and themes addressed, positioning itself as a starting point for all those who wish to understand what social innovation is and how it takes place in different contexts.

**Luis Portales**

Monterrey, Mexico

## Acknowledgements

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To all Latin American social innovators who, no matter what sector of society they are in, work every day to build a more just, dignified, and equitable society. With whom I share their ideals and who, through sharing their experiences, give meaning to this book.

To the University of Monterrey for allowing me to carry out social innovation projects of several kinds, through which we seek to address the main challenges facing our city through the articulation of efforts of companies, entrepreneurs, municipal authorities, and nonprofit organizations. Also, for the opportunity to educate agents of change from a theoretical-practical perspective allowing to validate and contrast the concepts with the reality that we face on a day-to-day basis.

To all those people who have made it possible the social transformation lab to exist and contribute to the generation of knowledge and youth social innovation initiatives. To the students and social entrepreneurs of the lab, with their daily work and through the implementation of some of the tools used in this book, validate that social innovation and social entrepreneurship is a life option that allows us to transcend. To all the persons who in one form or another participate with the lab, either coordinating all activities and making things happen, providing knowledge and institutional support to maintain its operation and increase its impact, or just giving moral support to social entrepreneurs and all who participate in it.

To all the diverse social innovators from all over the world, especially from Mexico, with whom I have had the opportunity to share experiences and who have fed back the work done for strengthening and positioning the social innovation ecosystem in Latin America.

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## 1.1 Objectives of the Chapter

---

- Recognize the origins of social innovation and its antecedents.
- Define what social innovation is and what is its difference from other types of innovation.
- Identify the different sources of social innovation.
- Differentiate between social innovation and innovations or initiatives that have social elements or attention to social problems.

## 1.2 Introduction

---

Social innovation positions itself in the last decades within the agendas and programs of actors from different sectors of society (public, private, social, educational, among others). This positioning obeys to the capacity that this type of innovations must solve social, economic, environmental and institutional problems through a transformation of society. This ability to generate social changes in a sustainable manner adds to the need of society to address the issues facing humanity at the global level and that has its most clear consequences in developing countries. It also adds to the inability of States to respond to problems that traditionally were their responsibility.

The concept of social innovation emerges as part of the search to find new ways of coordinating and mobilizing global and local problems, reflected in the Sustainable Development Goals of the United Nations Organization. As a result of this rapid positioning and the effort on the part of many organizations, companies, and institutions to generate this type of innovation, there is no agreed definition of the concept, however, all approaches mentioned the interest of creating social change by addressing a specific need or specific problem.

Based on this context, this chapter presents an analysis of the concept of social innovation, the different aspects that integrate it and some of its main elements. This analysis serves as a starting point for the next chapter, which presents the different types of social innovation that exist and its implementation in different parts of Latin America.

The chapter is structured as follows. The first section presents the background of social innovation, beginning with an analysis of innovation and how the integration of social elements into its understanding. The second section defines what social innovation is and what are their main features and characteristics. The third section shows the differences that social innovation has about other types of innovation. The fourth section exposes some of the sources of social innovation, as well as the expected results as part of its implementation. The fifth section presents a series of conclusions as a reflection on social innovation.

### 1.3 Background of Social Innovation

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Innovation is present in human history as a manifestation of its creative capacity and as the result of humanity's efforts to develop responses to its needs and improve its quality of life (Cajaiba-Santana, 2014). This aspect allows that innovations have a direct relationship with the dynamics and structure of a society. At the end of the nineteenth century, Durkheim (1975) and Weber (2004) make the first approaches to the idea of social innovation, by stating that innovations bring a new social order, mainly because of its impact on social and technological changes.

From these first approaches, the concept of innovation evolved separately in different scientific traditions such as technological studies, social psychology, urban development, and management. However, attention during most of the twentieth century focused on the economic perspective. This economic tradition of the study of innovation focused on identifying how companies generate new products to better satisfy their customers and consumers (Martin & Osberg, 2007). Innovation seeks to meet market needs through the development of new technology, with the interest of increasing the profits and the productivity of an organization (Cajaiba-Santana, 2014).

From this vision, innovation can be defined as a new or improved product or process (or a combination of them) that differs significantly from the organization's previous products or processes, available to potential users (product) or put into use by the organization (process) (OECD/Eurostat, 2018). Innovations can be radical, a new way of satisfying a need, or incremental, small improvements made to the product, service, or process.

Although the emphasis of innovation focused on its economic element, the social aspect was present from a limited perspective. For example, Schumpeter (2017b), in the thirties, was one of the first to study the relevance of innovation in cultural, social, and political aspects, in addition to those generated at economic level. Innovation makes change through its adoption by other organizations, consolidating a new way of doing things and making a new balance in society called "creative destruction" (Schumpeter, 2017a).

The social part of innovation focused on understanding how it affects the structure of society. That is, changes in society were an externality, sometimes considered and sometimes not, of the innovation processes developed in the economic field. From this point of view, innovation was as a social phenomenon since its implementation and development affected society, and not for the change it sought to generate in the social conditions of the persons who live in it (European Commission, 1995).

The importance of the social dimension within innovation became a widely accepted idea. However, it was limited, since it only contemplated it marginally in its process of creation, implementation, and intention regarding the impact or change that can generate in society (Cajaiba-Santana, 2014). Given this situ-

ation and given the need to produce an intentional social change through the creation of innovative alternatives to the problems faced by society, the concept of social innovation emerges.

## 1.4 Social Innovation: A Concept in Construction

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Until the seventies, the idea of social innovation, even in the first approximations of Durkheim, Weber, and Marx, was the change of society because of the introduction of new technologies in production processes. Social innovations emerged to understand the changes that innovations have in the dynamics of society, without intention to make them. The social change happened, but it was not necessarily the consequence of an intentional social process that seeks to improve the conditions of a group or population.

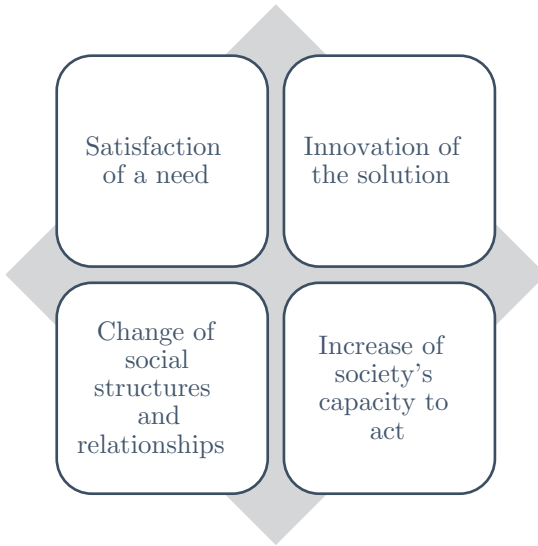
The first approach to the concept of social innovation was Taylor in 1970, defining it as a new way of doing things with the specific interest of attending to the needs of society, such as poverty or crime. In this approach, social innovation focused on the result of social innovation and not in the process followed to achieve it (Cloutier, 2003). In 1976, the concept of social innovation included social transformation as one of the expected results, by the creation of new social structures, new social relations, and new modes of decision making (Fontan, 1998).

In the eighties, the innovative element was established within the understanding of social innovations, understood as a discontinuity in comparison with the practices that are being carried out and the ways of thinking (Baker & Mehmood, 2015; Cloutier, 2003; Moulaert, Martinelli, Swyngedouw, & González, 2005). Innovation is not limited to doing new things, but rather to do it in another way, proposing alternatives to the problem and using other frameworks in its implementation (Chambon, David, & Devevey, 1982). It includes the element of participation or empowerment in its realization. Social innovation has the potential to transform society through practices oriented to allow individuals or groups to deal with a social need or a set of needs that could not be met by other means (Baker & Mehmood, 2015).

From the decade of the nineties, the concept began to gain greater acceptance and appeared in studies and reflections of different disciplines of the social sciences, such as public administration, history, social movements, administration, social psychology, economics, and social entrepreneurship (Cajaiba-Santana, 2014). The increase in the number of works boosts the number of definitions and approximations, strengthening their understanding and delimiting its scope.

Despite the different approaches to the concept of social innovation, it has four key elements: satisfaction of a need, innovation of the solution, change of social structures and relationships, and the increase of society's capacity to act (■ Fig. 1.1).

The satisfaction of needs is the primary objective of social innovation. Its interest is to satisfy an unmet need or met in an inefficient, unfair, or worthless way. This element defines the



■ Fig. 1.1 Elements in the definition of social innovation (Source Author)

*raison d'être* of innovation, establishes why it arises, and the product or value that it is going to deliver to society.

The innovation of the solution refers to the novelty in the form of satisfying the need. The method to satisfy the need must be different from the traditional way. This element of novelty can be given by the creation of something new, or by the inclusion of new features or components in the need satisfaction. This element defines the innovative aspect of the solution and how it is carried out.

The element of change in the structure and social relations refers to the idea that a social innovation generates a transformation in society through a change in the way it is structured. Social innovation aims to create new relationships among the members of society, allowing the inclusion of new actors in the social dynamic. This element focuses on the process that develops during the satisfaction of needs by social innovation and the participation of more actors.

The element of increasing society's capacity to act and access the resources necessary to meet needs refers to the understanding that a social innovation must promote the empowerment of different types of actors, especially those excluded from society. This empowerment contributes to the creation of a more resilient society with a higher capacity to satisfy the needs it presents. It promotes and requires the integration of several actors since it is impossible for a single actor to achieve the change in society in a sustained manner.

These elements are within the definition of social innovation developed by the Young Foundation within the framework of the TEPSIE project (Theoretical, Empirical, and Policy Foundations for Building Social Innovation in Europe), funded by the European Commission, which states that:

- » Social innovations are new solutions (products, services, models, markets, processes, etc.) that, simultaneously, satisfy a social need (more effectively than existing solutions), create new or better capabilities and relationships, and make better use of assets and resources. In other words, social innovations are good for society and improve society's capacity to act. (The Young Foundation, 2012, p. 18)

Two crucial aspects stand out from this definition: the process and the result (Weerakoon, McMurray, & Douglas, 2016). At the level of the result, not only considers the attention of a specific need through a particular innovation, but also recognizes the generation of a new social structure and an improvement in the relationships that arise in society (Cloutier, 2003; Maccallum, Moulaert, Hillier, & Haddock, 2009; Moulaert, 2016; Mulgan, Tucker, Ali, & Sanders, 2007). Social innovation has a short-term vision, related to the way in which it generates value through the satisfaction of a specific need, but also has a long-term vision, characterized by the increase of society's capacity to act and meet its needs in the future. The goal of social innovation is the systemic transformation of society and not only the attention of a specific problem (Cajaiba-Santana, 2014).

The second aspect is the focus on the process over the result, especially with the short term. Social innovations carry out processes of participation where beneficiaries and other stakeholders improve their relationships between them (Cloutier, 2003). Social innovations improve social resilience and increase the sociopolitical capacities of beneficiaries, giving them access to resources and develop assets through the participatory approach that allows them to meet long-term needs (Sinclair, Mazzei, Baglioni, & Roy, 2018).

As mentioned earlier, there are two types of innovation: incremental and radical. In the case of social innovations, they can also be incremental (based on what already exists) or radical (integrally transform approaches and situations) (Carvalho, 2017). These innovations can be constructed from two different perspectives. A territorial one that obeys a collective logic where the groups of beneficiaries are expected to participate in its implementation; and the other is constructed from an individualist perspective where an individual or social group assumes a heroic role in the attention of a particular social problem to which it is usually strange (Sinclair et al., 2018). In both visions, social change is the motivation for drive up a social innovation.

The change pursued by this type of innovation is reflected in changes in attitudes, behaviors, or perceptions, resulting in new social practices, new institutions, and new social systems that allow visualizing a real transformation of society (Cunha, Benneworth, & Oliveira, 2015).



## 1.5 Differences Between Social Innovation and Other Innovations

Due to the range of the concept, there is a risk that any innovation that generates change in society or that aims to create a benefit for society could be considered as social innovation. For this reason, it is essential to differentiate what is a social innovation and what is not and to establish points of comparison with other types of innovation (■ Table 1.1).

About economic innovations, social innovation differentiated by the value proposition (Phillips, Lee, Ghobadian, Regan, & James, 2015). While economic innovation seeks to generate a commercial or financial benefit, social innovation seeks social change. The logic of economic innovations is competition between actors, while social innovations promote cooperation. In this logic, social innovations aim to improve the relations of society by increasing social capital, while economic innovations seek only to maintain ties with their shareholders.

The radical innovations share the intention of society's change with social innovations; however, they differ from each other in two ways. The first is motivation, radical innovations can transform society, but not improve the living conditions of the population, and in sometimes they increase the gaps between different sectors of society (Yunus, 2010). The second is that radical inno-

■ **Table 1.1** Comparison of different types of innovation and social innovation

		<b>Social innovation</b>
Economic	Focused on the generation of income. Commercial motivation	Motivation in social value and transformation of society
Radical	There is no interest to improve the living conditions of excluded populations. They can generate damages or externalities for society	Aim to the improvement of society. Intentionality in social change
Disruptive	Low-cost products and vision of the beneficiaries as a market segment. Commercial motivation	Motivation focused on social value and view of the marginalized population as development actors.
Bottom-up	Change in society at the local level	Change in society at the system level
Social programs	Welfare perspective and preservation of the social structure	Vision based on the empowerment and change of the social structure

Source Author

vations seek to destroy competition, a situation that is not aligned with the type of change or transformation required by society.

Although disruptive innovations emerged in the economic field, in recent times, they have linked to social innovation (Kahle, 2017). These innovations generate low-cost products and services, giving them the opportunity to benefit a specific sector of the population (Barki, 2017). However, its nature focused on the attention of a particular market, that is, they see the target population as a potential client, and therefore its impact is contingent on the generation of income and not on social transformation (Portales, 2017).

Grassroots innovations are niche innovations or initiatives that are built from the bottom up. Like social innovations, these innovations focus on an unmet need of a large part of society while offering solutions that are not available or not available to a large part of the mass of consumers in developing countries (Peredo & McLean, 2013). Although they show many similarities with social innovations, the main difference is that not all necessary innovations seek to transform society, since most of their impacts occur in the local terrain and not in a larger area (Portales, 2015).

The social innovations are similar to other programs of attention to social problems, for the interest in addressing a particular social issue. However, they differ because social programs do not have an innovative solution aimed at transforming society and focus on partially solving a social problem, delimiting a particular group or giving a temporary solution, but seeks to generate new social structures.

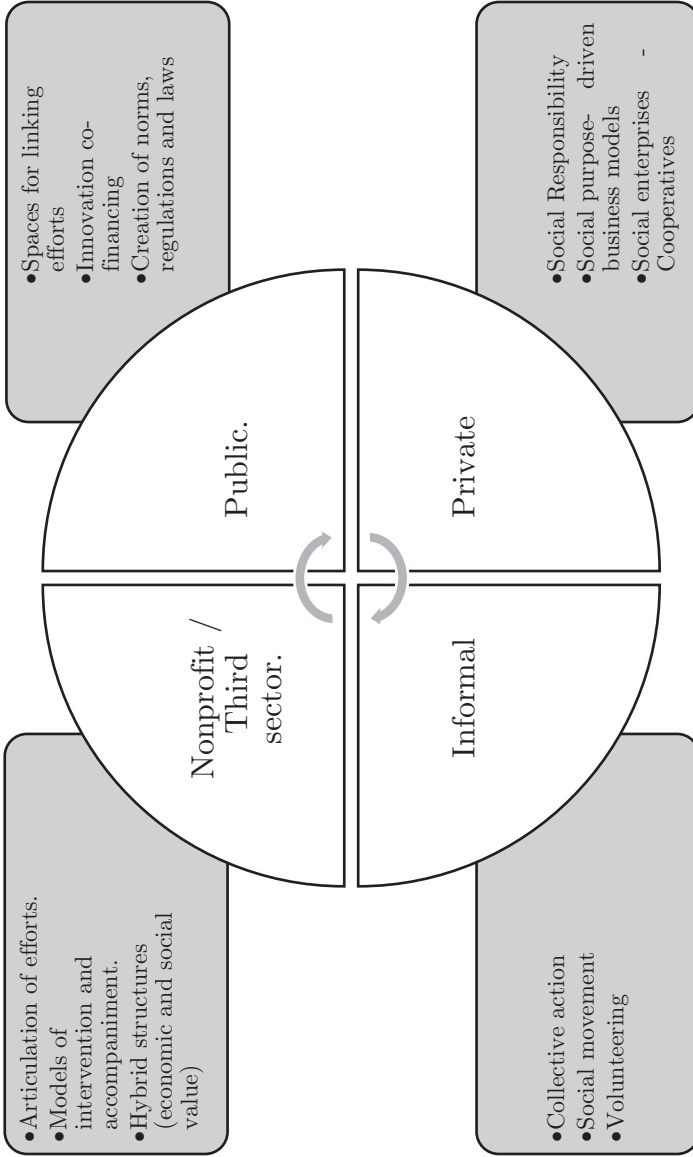
## 1.6 Sources of Social Innovation

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Social innovations can find their sources in multiple actors and sectors of society. The creators or promoters of this type of innovation are social innovators and can come from the private, public, and social sectors. These sources are classified according to the level of the actor that implements them or the sector who implements it.

These innovators can be individuals (social entrepreneurs or social intrapreneurs), social groups (collectives), private organizations (Non-Governmental Organizations, companies, or cooperatives), or public institutions (Government Organizations) that seek, by some type of entrepreneurship or initiative, respond to a social problem and address a social need that is unsatisfied in a systemic way.

Concerning the sector where social innovations come from, there are four possible sources: nonprofit, public, private, and informal (The Young Foundation, 2012) (■ Fig. 1.2). The social innovations developed from these sectors are not isolated and can be complemented by their resources and mandates, as well as articulated with each other with the interest of achieving the social change that each one seeks. The implementation of these innovations by each of the sectors strengthens the social and economic



■ Fig. 1.2 Forms of participation of the sectors in the creation of social innovations (Source Author)

dynamics of the territory and contributes to the creation of new structures, organizations, institutions, and systems.

The nonprofit sector or third sector is the source of many pioneering approaches to address social needs and is characterized by treating a wide variety of problems and addresses the demands that the State and the market have neglected. Its inclusion occurred through the generation of spaces for articulation with other sectors, but also in the production of intervention models aimed to create multiple forms of value, such as economic and institutional.

The public sector contemplates organizations and institutions of the State that, through programs, norms, laws, or other mechanisms seek to promote social change. Their participation has focused on the allocation of spaces for linking the efforts of different organizations and sectors, the co-financing of this type of innovation, the creation of norms, regulations, and laws that promote this innovation and legitimating movements and social actions supported by groups of organized civil society.

The private sector is companies that see social challenges as business opportunities. These organizations began to develop a model of attention to social problems from their areas of social responsibility, consolidating in business models with social purpose. In this sector, social enterprises emerged, which have built social business models that address a social problem and generate the income necessary to maintain and scale up their operation.

The informal sector is those activities carried out by individuals, families, and communities that are not captured by the private, public, and nonprofit sectors, but that work to meet social needs, including non-monetized activities undertaken by civic, religious, and social groups.

Social innovators can come from any sector and usually are individuals—social entrepreneurs or intrapreneurs—who seek to address a particular social problem, although there are cases where social groups or entire communities promote social transformation through collective actions (Cajaiba-Santana, 2014; Carvalho, 2017). The context usually determines this situation, such as cultural factors, material conditions, and the types of relationships that occur in the territory where they take place (Portales, 2015).

Social innovations, although they seek to generate a change in social dynamics and in the structures that sustain it, have different levels of impact. At the micro-level, that is, of the individuals or communities affected by a specific social or economic condition that makes it impossible for them to meet their needs. At the meso-level, the territory subordinated the scope of the social innovation, it obeys the sphere of the local and focus on satisfying specific needs or problems of the region. At a macro-level, other innovations seek to generate changes at the level of territories or nations. The scope of social innovation is usually determined by the context and by the problem or need they wish to address.

## 1.7 Conclusions

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Social innovation has several attributes that have increased its relevance regarding the processes of development and social transformation. Currently, there is a consensus on the importance of promoting the creation of social innovations worldwide, especially in developing countries (Phills, Deiglmeier, & Miller, 2008). This need lies in the capacity of social innovation to produce long-term social change and to transform social systems (Baker & Mehmood, 2015).

This understanding of social innovation has made its relevance in the social, economic, environmental, and institutional areas increase mainly by a contextual aspect. At an international level, society faces a series of problems that have become more acute in the last decades and that the current social, economic, and institutional schemes did not solve. This situation has reinforced the need to generate alternative and innovative systems that allow addressing these problems in a systemic rather than a partial way.

Another aspect that has contributed to making social innovation more relevant is the multi-actor and multisector perspective. Anyone can create a social innovation, regardless of the sector of society come from or how many people or actors they manage to integrate, any social actor can be a social innovator. Another aspect is the relevance of the articulation between several actors to achieve social transformation. This point is critical to understand the importance to carry out this type of innovation since they start from the assumption that the participation of several actors achieves social change.

The concept of social innovation has democratized the generation of solutions aimed at satisfying needs or responding to a specific social problem. In the logic of social innovation, all actors are called to contribute in the attention of social issues, as well as to create their schemes of social innovation, where not only they participate, but all the interest groups that may be interested in achieving a more just and balanced society.

This aspect of inclusion breaks with the paradigm that the attention of social problems is the responsibility of the State or the third sector and generates a systemic vision of society and the role that each one can play in it, allowing everyone to be actors and not spectators of social transformation. This is how social innovation is presented as a response to growing social, environmental, and demographic challenges, involving a variety of actors that without their participation will be impossible to solve.

It is not only about having many actors participate in social innovation, but also requires actors from all sectors of society since the problems it seeks to address are complex, multidisciplinary, and multi-level. This understanding is in addition to the vision promoted by different international organizations, especially the United Nations, by adding organizations from all sectors and all levels in the achievement of the Sustainable Development Goals. In this sense, the experiences related to social innovations

from a regional perspective as is the case of the Quebec region (Fontan, Klein, & Tremblay, 2005) have shown the potential that social innovations have.

The territory has relevance in social innovation since its implementation seeks to leverage itself in the resources with which society already counts and in the participation of all the actors that make it up. It requires a holistic vision in their understanding and a change in the view about the role that each actor plays in society, including the role of civil society, social economy, social entrepreneurs and companies in economic growth and social inclusion and social change.

The goal of social innovation must be systemic change linked to disruptive innovation. Systemic change involves the interaction of social movements, business models, laws and regulations, data and infrastructures, and entirely new ways of thinking and doing things. Social innovation describes the processes of social change and the transformation of society as a whole, taking into consideration the collective actions that take place in a given social system, the historical and cultural context in which it takes place.

### 1.8 Questions for Debate

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- Why, if there are many organizations from all sectors of society promoting the creation of social innovations, the main problems faced by humanity have not been solved?
- What do you think is the significant change that Non-Governmental Organizations should do to create processes of social innovation?
- How do the State and its institutions contribute to the generation of processes of social innovation in your country? What experiences do you know that could be considered as social innovation?
- How do you consider that a company could carry out social innovation processes? What role should I play in achieving social change? Why do you believe it important for companies to participate in social innovation?
- What do you think other sources could do to generate social innovation processes?

### 1.9 Complementary Websites or Videos

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Websites:

- The Open Book of Social Innovation
  - ► <https://youngfoundation.org/publications/the-open-book-of-social-innovation/>
- Center for Social Innovation—Stanford Business Graduate School
  - ► <https://www.gsb.stanford.edu/faculty-research/centers-initiatives/csi>
- Social Value Lab—Scotland
  - ► <http://www.socialvaluelab.org.uk/social-innovation-scotland/>

## Videos:

- Social innovation in the real world—from silos to systems | Indy Johar | TEDxOxbridge  
 — ► <https://www.youtube.com/watch?v=oHnwq2F6204>
- The power of social innovation | Jeff Snell | TEDxUWMilwaukee  
 — ► <https://www.youtube.com/watch?v=YH53mGNPI80&t=6s>

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# Characteristics, Types, and Processes for the Construction of Social Innovations

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## 2.1 Objectives of the Chapter

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- Define the central elements of social innovation.
- Recognize and exemplify each of the different types of social innovation.
- Identify the relationship between different sectors of society in the creation and strengthening of social innovations.
- Design a social innovation taking as a starting point the implementation process that follows.
- Analyze cases of social innovation and classify them according to their type and stages of the process in which they are.

## 2.2 Introduction

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Social innovation seeks the transformation of society through the implementation of innovative actions (solutions) that satisfy needs more efficiently, while create and generate capabilities and relations within society, allowing it to act and filled its future needs. For social innovation, the result is as important as the process followed to achieve social change, for this reason, it is essential to know and recognize it from its creation.

Social innovations can come from many sectors of society and any actor, opening the door to the participation of social entrepreneurs, both from the private sector and the third sector, intrapreneurs from the private and public sector, and groups of citizens who, through collective actions, generate processes of social change. This situation complicates the implementation of this type of innovation since they require a greater articulation between them and better communication and dialogue processes during their deployment.

The inclusion of actors from different sectors gives social innovation multiple forms and faces, resulting in several types of social innovations. It also favors that any social change action could be considered as social innovation, regardless of the process followed during its implementation and focusing only on the results that it can achieve.

Under this context, this chapter aims to recognize the core elements of social innovation, as well as some of its main characteristics during its execution process. It also takes into consideration what are the relations between sectors during a social innovation and the means of creating this type of innovations.

The chapter is structured as follows. The first section exposes the core elements and characteristics of social innovations. The second section presents the types of social innovation that could exist, based on the typology of Schumpeter and the Young Foundation, and some examples for each of them. The third section presents the relationship between sectors and the conditions to carry out dialogue processes among multisectoral actors. The fourth section shows the procedure followed in the construction of social innovations. The fifth section presents the conclusions and reflections of the chapter.

## 2.3 Core Elements and Characteristics of Social Innovations

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Social innovation refers to new solution (products, services, models, markets, processes, etc.) that, simultaneously, satisfies a social need (more effectively than existing solutions), creating new or better capacities and relationships, making a better use of assets and resources (The Young Foundation, 2012, p. 18). This definition includes five relevant elements: satisfaction of needs, a novelty in the solution, concrete product or action, efficient and participatory, and society's capacity to act. These elements can be seen depending on the questions: Why? How? What? (Sinek, 2009), and depending on the impact they expect to generate in the short and long term, giving sustainability perspective to the social change that creates social innovation (■ Fig. 2.1).

The first of them focuses on the *raison d'être* of social innovation, responds to the question “Why?” is at the core of the organization and define its mission. This element is the satisfaction of social needs as a reason for being, that is, before seeking an economic benefit it promotes the attention of a social problem that may or may not be addressed in a dignified manner (Cloutier, 2003; Moulaert, 2016; Mulgan, Tucker, Ali, & Sanders, 2007; Murray, Caulier-Grice, & Mulgan, 2010).

The second element is the innovative characteristic, which can be the creation of something entirely new, radical innovation, or the addition of features to an existing solution, incremental innovation (Carvalho, 2017). This element responds to how this solution is carried out, but at present time, that is, it is considered to be innovative for the current time and will no longer be so in the long term, because it will lose its element of novelty, and perhaps it will be seen in a normal way at the future (Martin & Osberg, 2007).

The third element is the complement of the second element, which is the type of product or result delivered by the social innovation in the present time, which can be product, service, process, model, market, among others (Mulgan et al., 2007). This third element responds to the question what and operates at present. This element includes the characteristic of moving from the idea to the action by the actor that drives the social innovation.

The fourth element refers to the efficiency of social innovation. It is not only a matter of satisfying a need; social innovation must do it using fewer resources and having a more significant impact than the way in which it is being carried out at present. This efficiency is realized taking as a base the resources (social, economic, cultural, institutional, environmental, etc.) of the society, being a key element the participation of multiple actors (Carvalho & Jonker, 2015; Fontan, Klein, & Tremblay, 2005; Maccallum, Moulaert, Hillier, & Haddock, 2009). Although this element is on the present time, its impact reflects at the medium and long term, which is when the participation of more actors increases the efficiency of the solution. This element responds to how it is done and has its horizon of temporality in the long term.

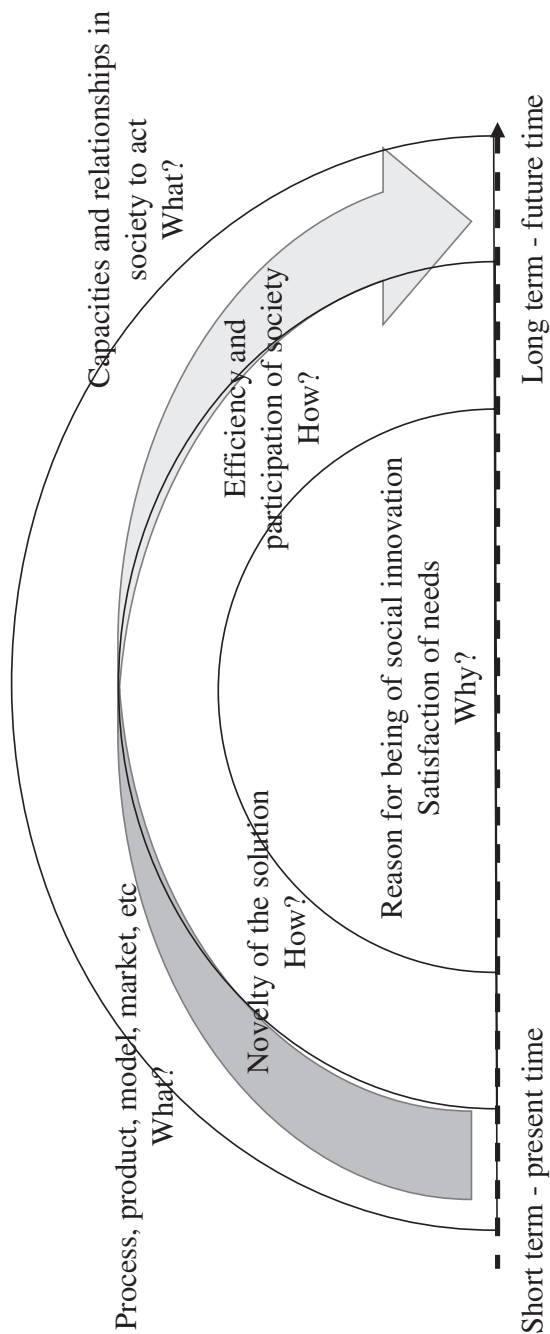


Fig. 2.1 Core elements of social innovation (Source Author)

The fifth is the final product of social innovations, which is the generation or strengthening the capabilities and relations within society from a systemic perspective so they can respond to future needs (Baker & Mehmood, 2015). This element focuses on the empowerment of excluded or vulnerable groups (Mulgan, 2006). This aspect includes the changes in attitudes, behaviors, or perceptions, new social practices, new institutions, and new social systems that allow to visualize a real transformation of society (Cunha, Benneworth, & Oliveira, 2015). This element responds to the product that will deliver social innovation in the long term.

The element of temporality gives a perspective of sustainability to social innovation (Baker & Mehmood, 2015; Vázquez-Maguirre & Portales, 2018). Initially, the proposed solution will be innovative and deliver as a specific product that satisfies the need or addresses the problem. However, over time it is expected that social innovation will be able to add more actors, promoting participation that increase efficiency in the generation of the product or service that it offers, improving society's capacity to meet its current and future needs.

There are eight aspects of social innovation that differentiate it from other types of innovations (The Young Foundation, 2012). Although these characteristics are desirable, in some social innovations all may not be fulfilled, a situation related to the time it takes to execute them.

- Intersectoral. Social innovation can encompass and occur in all sectors and move between sectors as they develop.
- Open and collaborative. Social innovation has to be inclusive and capable of adding a higher number of actors in their development and implementation. Technology favors compliance with this aspect since it allows the exchange of codes or solutions in other contexts.
- Bottom-up. The communities and beneficiaries are the ones who develop these initiatives, fostering empowerment processes and increasing the efficiency of the solution.
- Pro-sumption and co-production. There is no explicit limit between who produces and who consumes. Users become producers or suppliers. Change in the vision of who receives the benefit for one where it is co-responsible of producers and consumers for the solution and its maintenance in the long term.
- Mutualism. It starts with the idea that individual and collective well-being can be obtained only through mutual dependence.
- Create new roles and relationships. They are developed “with” and “by” users and are not delivered “to” and “to” them—social innovations differentiate by the type of relationships they create.
- Better use of assets and resources. Recognition, exploitation, and coordination of underlying social assets.
- Develop assets and capabilities. The participatory approach of social innovation should allow beneficiaries to satisfy long-term needs.

### Case 2.1. Ideas for Change in Colombia: Water and Its Relation to Poverty

Ideas for Change is a program of the Direction of Mentality and Culture for Science, Technology, and Innovation (CTel, for its initials in Spanish) of Colciencias. Its objective is to promote experimentally and focused spaces for the social appropriation of the CTel, from challenges and problems through collaborative work between experts in science,

technology and innovation and communities or grassroots organizations. Ideas for Change seeks the generation of innovative solutions based on scientific and technological knowledge, with the capacity to transform and improve the quality of life of citizens. From 2012 to 2014, the first version of Ideas for Change called "Water and its relation

to poverty" was developed, in partnership with the Inter-American Development Bank (IDB) and the National Agency for Overcoming Extreme Poverty (ANSPE). The call focused on finding solutions that had water as a theme and its relation to poverty in the communities of the departments of La Guajira, Risaralda and Putumayo, in three dimensions:

- Water as a risk factor
- Water as a factor that allows meeting basic needs
- Water as a factor of economic and social growth

The program seeks to link the demands of satisfying the needs of a given community, with the offer of innovative solutions to them. People or organizations from to communities in conditions of poverty or extreme poverty in the departments of La Guajira, Risaralda and Putumayo participate in the call, forming a Needs Bank. The scientific community, as well as public and private companies, complemented the Needs Banks, by the nomination and creation of the Solutions Bank. A group of specialists selects those

solutions that are more viable and with more significant impact potential to be financed in their execution.

At the end of the first call, ten innovative scientific-technological solutions of access to water for human consumption were developed through collaborative work between scientific actors and the base community, generating transformations in the social, environmental and economic conditions of the 585 participating families and 2549 beneficiaries.

Through Ideas for Change, it was possible to satisfy needs related to the management, access, and preservation of water in poor communities. The researchers validated their technological proposals by putting them into practice generating specific products and services. The use of these products satisfies these needs more efficiently, remaining in charge of their care and maintenance of these solutions by the inhabitants of the communities.

Questions for reflection:

- How do the Ideas for Change program in Colombia comply with the five elements of social innovation?
- What characteristics of social innovation do the Ideas for Change program fulfill? Why?
- What features does not comply with social innovation? About what this program should work to meet with these characteristics.

## 2.4 Types of Social Innovation

Social innovation, like traditional innovations, has different ways of carried out. They present flexibility about the mechanisms used to meet the needs that motivate their beginning and regarding the participation schemes promoted to achieve the social change they pursue in the long term. This flexibility results in different types of social innovations, classified according to the products or services offered in six types (The Young Foundation, 2012): New products and services, New processes, New markets, New platforms and organizational forms, and New business models.

The new products and services are those that are focused on satisfying the needs of a group in situations of vulnerabil-

## 2.4 · Types of Social Innovation

ity or exclusion in an affordable way and worthier of how they currently perform it. This type of innovation includes products developed from the perspective of the Base of the Pyramid (BoP), where the person who is in poverty acquires a product that not only satisfies a need but makes it a better way of how he does it right now.

### Case 2.2. Urbano and PATH Alliance for the Creation of Vitaminized Rice

An example of this situation is the Brazilian company Urbano, which, together with the international organization

PATH, created rice fortified with vitamins and minerals accessible and affordable, with the interest of addressing micronutrient

deficiencies, also known as “hidden hunger,” which it affects two billion people in developing and developed countries.

The new processes focus on the creation of methods to meet the needs faced by a particular social group. These processes can contemplate the inclusion of new actors in the production and marketing processes, such as labor inclusion schemes, or the generation of spaces where the collaboration of different actors is promoted, such as crowdfunding or crowdsourcing platforms.

### Case 2.3. Inclúyeme

Inclúyeme is a company located in Chile that helps people with disabilities to get quality jobs by connecting them with companies from various sectors.

In 2013, it created the portal Inclume.com, which is intended to help people with disabilities to get a job. They work with hundreds of companies that do

not do charity but open their doors to attract the best talent, evaluating people solely for their abilities.

The new markets focus on offering alternatives for commercial exchange to segments that were traditionally not related to each other, or because of their exclusion or vulnerability conditions they could not access them. Examples of this situation may be fair trade companies, which promote consumers with high purchasing power and consent, access to products created by populations or communities at a fair price, through direct dealings with the supplier. There is also the opportunity to offer include option to groups traditional excluded from economic system.

### Case 2.4. Fondeadora, from Collective Funding to the Creation of Digital Banks

Fondeadora, a Mexican company that started as a Co-Funding platform in 2011, and that after being sold in 2016 to Kickstarter,

became in 2018 a digital bank or challenger bank that seeks to provide banking services to 60% of Mexicans whom cannot

access the traditional financial market.

The new platforms refer to the creation of new legal or regulatory frameworks or platforms for dealing with social problems or for the generation of new standards at the national and regional levels.

**Case 2.5. System B, New Business Genetics**

System B, bets on an economy that can create integral value for the World and the Earth, promoting forms of economic organization measured from the welfare of

people, societies, and the Earth, simultaneously. Since its creation in April 2012, there are 10 National B Systems and a community of almost 350 B Corps in Latin

America, in addition to its impact on the generation of proposals for regulatory frameworks that encourage the strengthening of this type of company.

The new organizational forms focus on creating structures of collaboration and cooperation between different actors in society, with the interest of increasing the impact that each of them generates. These forms of organization are based on the idea of a shared economy, but with the interest of generating a change in society through the satisfaction of specific social needs.

**Case 2.6. Impact Hub**

Impact Hub is a space for collaboration and strengthening of social enterprises, which share resources of various kinds with the interest of increasing their impact. It is a catalyst to achieve a positive impact

on the environment and the generation of companies with a social focus. Impact Hub shares characteristics of an incubator and a coworking space, but also with think tanks, cafeterias, and business centers. Depending on

the needs of companies, Impact Hub can be used to work, to incubate projects or merely to create a network of people who share the same professional vision.

New business models seek to scale the impact generated by social enterprises with proven impact models or traditional companies with business models with purpose, such as social franchises.

**Case 2.7. CONNOVO, Builder of Impact Companies**

CONNOVO is a company cataloged as a developer of impact companies, which focuses on designing the most efficient process to scale the

impact of what works, creating social enterprises with a high impact and commercial potential. To date, it has created three companies with different

remittances and with impacts in the educational, agricultural, and job creation fields for programmers.

## 2.5 The Relationship Between Sectors for the Promotion of Social Innovation

Social innovations can be carried out from any sector of society, regardless of whether it is at the individual, organizational or collective level (Mulgan, 2006). In most cases, depending on the sector where social innovation is developed, it is the type of interaction with other sectors. This situation is because each sector has its own rules, customs, and motivations (Portales, 2015). From this perspective, it is important to identify the key processes and conditions to achieve that the articulation between these sectors generates social impact (Kahle, 2017; Nobrega Correia, de Oliveira, & Pasa Gomez, 2016).



The first point to consider the relationships between sectors is the fact that the division between these sectors is diffuse (Sinclair, Mazzei, Baglioni, & Roy, 2018). Some of these innovations use hybrid management structures, integrating the public, private, and third sector. For example, some companies receive grants from governments, either as social impact bonds or for their participation in a government program or an international agency such as the MIF (Gatica, Carrasco, & Mobarec, 2015). It also presents the case of social enterprises that receive the support of groups of volunteers to carry out their social mission, while generating products or services to a specific market segment, and vice versa. Nonprofit organizations from the third sector make products for a market to achieve their sustainability (Portales & Arandia Pérez, 2015).

Social innovation occurs in these superimposed spaces between sectors and the actors that represent them. The participation of social actors depends on their relationship with the satisfaction of unmet needs, the current governance mechanisms and their high level of articulation, learning, and empowerment, as well as the reality of the social context (Nobrega Correia et al., 2016). The capacity for innovation depends as much on innovation in the structures, objectives, and cross-border relationships of the actors from each of the four sectors.

The four sectors give rise to six interfaces (■ Fig. 2.2) (The Young Foundation, 2012). The interfaces between the State and the other three sectors are primarily related to the way in which finances cross each other, both in the form of taxes and fees and in the form of grants, acquisitions, and investments. The State also establishes the regulatory, fiscal, and legal conditions in which the other three sectors operate. In these interfaces, the State can be a facilitator of social innovations, as a promoter and funder of these initiatives along with international organizations. However, it can also be a detractor of these innovations, as occurs in countries with regimes that punish social action or the participation of the third sector and the private sector in decision making.

The interface between the private market and the third sector includes donations, sponsorship, community investment, payment for services or products, and Corporate Social Responsibility programs. This interface is perhaps the most diffuse of all, since social enterprises are in between of the two sectors, promoting the use and exploitation of the best practices of both sectors in the generation of social and economic value. Likewise, it is increasingly common for companies and organizations in the third sector to work together in the production of goods or services to meet the needs of marginalized groups in society.

The interface between the informal sector and the other sectors has particularities and sometimes antagonisms. The interface with the third sector and sometimes the private sector is usually supportive, mainly through donations and voluntary work. The interface between the informal and private sectors is where private companies operate, sell products and services, and involve individuals as workers, but it is also where user-directed innovation and producer-consumer activities take place (Green & Peloza, 2011).

	Third Sector	Private	Public	Informal
Third Sector		Marketing products and services. Learning and share lessons. Social products or services.	Supplement to the public offer. Problematic attention. Institutional legitimacy.	Addressing social problems.
Private	Donations RSC. Volunteering. Financing of initiatives.		Tax payment. CSR programs. Supplement of the public offer.	Products and services. CSR programs. Donations and support to groups.
Public	Normative and legislative frameworks. Tax incentives. Financing of initiatives. Bonding space.	Normative and legislative frameworks. Tax incentives. Financing of initiatives. Bonding space.		Normative and legislative frameworks. Tax incentives. Financing of initiatives. Bonding space.
Informal	Volunteering and donations	Purchase products and services. Endowment of resources. Social License to Operate.	Support for social programs. Movements of collective action and social pressure.	

▣ Fig. 2.2 Interfaces between the sectors of society within the framework of social innovations (Source Author)

In this interface, the informal sector gives or removes the Social License to Operate of companies (Bice, 2014). Between the public and informal sectors, there are associations develop between individuals and professionals in the processes of co-production (Maccallum et al., 2009); but also, relations of pressure, where groups of citizens, through social movements and collective actions, achieve changes in the institutional infrastructure (Portales & Ruiz González, 2013).

The social innovations that integrate actors from all sectors of society increase the possibility of satisfying the needs in a more efficient way and with an impact in the long term, but they also represent a greater complexity regarding their execution and development. The success factors for implementing social innovation are in the synergy of the actors and their motivation for innovation, its strength to face obstacles, and its availability to manage the resources to solve those obstacles.

Social innovation assumes the participation of actors that occupy different roles distributed in multiple sectors, with different cultures and identities, assuming a collective and public interest. The articulation between these actors is one of the main challenges that face social innovations to achieve social transformation in the long term, passing through the temptation of only delivery products or services that meet the needs in the short term but do not generate new structures and social systems.

#### Case 2.8. Interfaces Between Actors and Sectors in Social Innovation: The Case of Ideas for Change

Ideas for Change is an example where actors from all sectors participate in a specific problem. Each participates by sharing and generating a value for each of the sectors and the system.

It is important to highlight that all the actors involved are interested in satisfying a specific need, which in this case is defined by the government; however, the motivation of

each actor to participate varies depending on their missions and interests. It is the clarity of the common objective that allows the satisfaction of the need sustainably (see ■ Fig. 2.3).

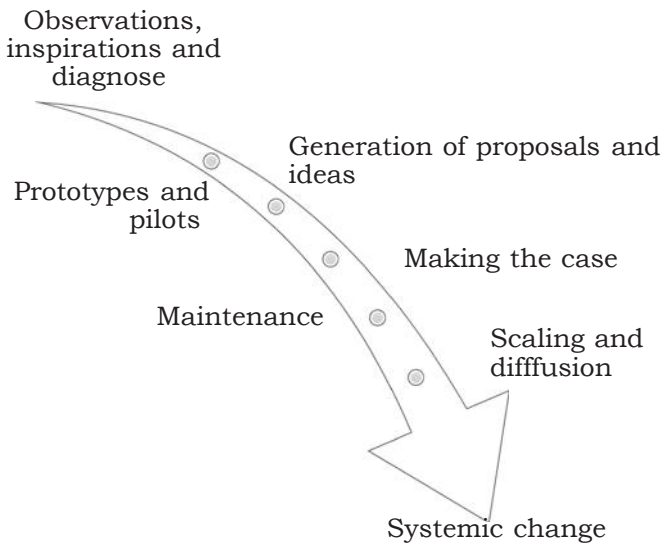
## 2.6 Process of Creating Social Innovations

The implementation of social innovations is a complex task that requires time and effort on the part of the actors who carry them out. Its implementation is the result of a process that goes from the detection and diagnosis of a specific problem, through its prototyping and piloting, until reaching a state of systemic change, based on learning and the constant evolution of the proposed innovation (Mulgan et al., 2007). This process occurs in seven different stages, which can overlap each other at the time of implementation, but its understanding helps to recognize the process that follows a social innovation from birth to consolidation (Murray et al., 2010) (■ Fig. 2.4).

The first stage is the observations, inspirations, and diagnoses. This stage included all the factors that highlight the need for innovation. It involves diagnosing the problem and asking the question that evidence the root causes of the problem, not just its symp-

	<i>Third Sector</i>	<i>Private</i>	<i>Educative</i>	<i>Public</i>	<i>Informal</i>
	<b>Grassroots organization</b>	<b>Companies</b>	<b>Researchers</b>	<b>Colciencias / IDB</b>	<b>Grassroots community</b>
<i>Third Sector</i>	Grassroots organization	Bank of Needs. License to operate	Bank of needs. Social diagnosis.	Social legitimacy.	Linkage with other actors.
<i>Private</i>	Companies	Proposal for a solution	Funding for technology	Proposed Solution. Funding	Proposed Solution
<i>Educative</i>	Researchers	Technological solution proposal		Technological solution Scientific knowledge	Proposed Solution. Learning for its maintenance.
<i>Public</i>	Colciencias / IDB	Funding	Funding and recognition		Proposed Solution. Process supervision
<i>Informal</i>	Grassroots community	Legitimacy about their work.	Opportunity to test your innovation.	Space and legitimacy	

Fig. 2.3 Interfaces between actors and sectors of Ideas for Change (Source Author)



■ **Fig. 2.4** Process of creating social innovation (Source Author with information from Development Impact and You 2019; Murray et al. 2010)

toms. Defining the correct question is one of the critical steps in finding the right solution, this means going beyond the symptoms to identify the causes of a particular problem.

The second stage consists of the generation of proposals and ideas, which can include formal methods, such as design methods or creativity to expand the menu of available options. Many of the methods help to obtain information and experiences from a wide range of sources.

The third stage consists of the construction of prototypes and pilots. At this stage, ideas are put into practice, this can be done merely by testing things, or employing formal pilots, prototypes and randomized controlled trials. The process of refining and testing ideas is vital because it validates the innovation through iteration, trial, and error, and addresses the conflicts generated by its implementation.

The fourth stage is making the case, which is to demonstrate that innovation can work and is better than what is already implemented. Gather strong evidence to support it.

The fifth stage is maintenance, which is when the idea becomes everyday practice. It involves sharpening ideas and identifying revenue streams to ensure the long-term financial sustainability of the company, the social enterprise, or the organization. In the public sector, this means identifying budgets, equipment and other resources, such as legislation.

The sixth stage is scaling and diffusion. In this stage, there is a variety of strategies to grow and spread innovation, from organizational growth, through licenses, franchises, and another flexible diffusion. This process is called “scale up” and, in some cases, the word is appropriate, since innovation is generalized within an organization or the organization expands. Innovations insert in the system in many ways, either through inspiration and emula-

tion or through the provision of support and knowledge from one to another in a more organic and adaptable way.

The last stage is systemic change, which usually involves the interaction of many elements: social movements, business models, laws and regulations, data and infrastructures, and new ways of thinking and doing. Social innovations commonly face the barriers of an old order, which in the first stages can be evaded, however, as they grow, they will depend on the creation of new conditions. Systemic innovation involves changes in the public sector, the private sector, the economy and the individuals over long periods.

## 2.7 Conclusions

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Social innovations are innovative solutions to complex problems. Their success lies mainly in the ability to meet specific needs in the short term and the generation of new social, economic, and institutional structures in the long term that allow society to satisfy their future needs. It has the objective of creating results in the short term, but they are also committed to generating sustainability schemes that allow the social change they propose over time.

In addition to the complexity of its implementation, it requires generating processes of participation and involvement of different sectors of society. The most successful social innovations, those that point to systemic change, require not only the participation of one or two sectors of society but of all of them. To achieve, it is necessary for all participants to share a common objective that encourages them to work in a sustained and articulated way. The lack of clarity in the objective or the existence of double agendas by some of the actors may fail social innovation.

The diverse needs facing the world open the door not only to actors from all sectors of society participating in the creation of social innovations, but also to do it in multiple ways and generate different results. Example of this is the multiple types of innovations presented and the cases exposed to each one of them. Some of which could be included in another type of social innovation, which speaks of the flexibility of the concept, and the actors' capacity to build products and services that seek to generate impacts systemically and not linear.

Social innovation has as its primary focus the social process followed in its construction and not the ultimate goal to which it aspires. The process of generated the innovation is more valuable than the satisfaction of the need itself. Through it, the society strengthens its capabilities, create or strengthens structures of social participation, and creates new economic, social, cultural, institutional, and environmental systems, thus guaranteeing the systemic change of society and the transformation of it.

## 2.8 Exercise

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Investigate the case of the NEO Alliance in Latin America (► <https://www.jovenesneo.org/neo/es-es>) and review the process of creation, implementation and strengthening of this initiative that seeks to generate one million jobs for young people in the region through the participation of the public, private sector and the third sector. After doing this evaluation, answer the following questions.

- In what way does NEO Alliance comply with each of the central elements of a social innovation? What are the aspects in its implementation that allow it to comply with the innovation aspect in the short term? How do you build capacities in society to act?
- In what kind of social innovation can the NEO Alliance be classified? Can it be categorized into more than one type of innovation?
- Use the matrix of ■ Figs. 2.2 and 2.3 to analyze the interfaces that appear between the different actors and sectors that are part of social innovation.
- Analyze the creation process of the NEO Alliance based on ■ Fig. 2.4 and the seven stages proposed in it.

## 2.9 Complementary Websites or Videos

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Websites:

- Ideas for Change
  - ► <https://www.ideasforchange.com/>
- Sistema B—América Latina
  - ► <https://sistemab.org/>
- Ideas para el Cambio—Colombia
  - ► <http://www.ideasparaelcambio.gov.co/>
- Bank of experiences of social innovation in Latin America
  - ► <https://dds.cepal.org/innovacionsocial/e/experiencias.htm>
- Social Lab
  - ► <https://www.socialab.com/>
- Instituto de Innovación Social—ESADE
  - ► <http://www.esade.edu/research-webs/esp/socialinnovation>

Videos:

- La Innovación Social en América Latina
  - ► <https://www.youtube.com/watch?v=yvp6swAACiU>
- ¿Cómo fomentar la Innovación Social? | Cristina Yoshida Fernandes | TEDxZapopan
  - ► [https://www.youtube.com/watch?v=85aPGB0\\_mVg](https://www.youtube.com/watch?v=85aPGB0_mVg)
- Small Projects: Seeds for Social Transformation in Latin América
  - ► <https://www.youtube.com/watch?v=32j7eZXcVD8>

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# Generation of Values by Social Innovations

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### 3.1 Objectives of the Chapter

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- Define what the creation of value is.
- Create and analyze the value proposition by social innovation, taking as a starting point three key questions on its formulation.
- Define and differentiate the economic, social, environmental, and institutional values.
- Recognize the relationship that exists between the values and how they complement each other at the moment of their creation.

### 3.2 Introduction

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The objective of any social innovation is to address a problem more efficiently and effectively than previously, promoting social change integrally and holistically. In other words, it seeks to generate new social, economic, institutional, and even cultural structures that transform the conditions or causes that gave rise to a specific problem. The urgency in its implementation is a consequence of the situation and context faced by organizations and society, leading to more and more actors seeking to carry out this type of innovation.

In all cases, social innovations have, as a primary result, social change in a new and intentional way. The achievement of this result is the creation of social value, characterized by reducing or eradicating the barriers of exclusion of a group of society. In most cases, given the complexity of the problem they serve and the context, it is necessary that they generate another type of value, be it economic, environmental, or institutional.

Given this context, it is essential to recognize what is meant by value creation, as well as to establish the main types of value that exist and what motivate its creation and implementation of social innovations by organizations, institutions, and companies that come from all sectors. This multiplicity of actors in value creation generates a new perspective about its generation since all actors can create any value regardless of its sector. The justification of what value should generate some social innovation focuses on the ability it has to contribute to the solution of the problem that wants to address and the effectiveness in doing so.

The objective of this chapter is to present the central elements of the creation of value by social innovation, as well as the different types of value that exist and their fundamental characteristics, especially at the level of social value, since it is the central motivation of any innovation of this kind.

The chapter has four sections. The first one exposes what the creation of value is. The second section explains what value propose is and what are the questions that must be answered in its formulation and definition. The third section exposes what social, economic, environmental, and institutional value is, selected for

being considered as key in the process of social innovations. The fourth section exposes the relationship that exists between these four types of values and the complementarity that exists between them. The last section presents a series of conclusions that emerge from the reflection process followed throughout the chapter.

### 3.3 Value Creation from Social Innovations

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Value creation is the attempt of an actor to increase the value that currently exists using resources and the implementation of some innovation process. In other words, an actor is involved in the process of deploying resources, and the perceived benefits of that process outweigh the perceived sacrifices (Chesbrough, Lettl, & Ritter, 2018). The generation of value depends on the subjective quantity perceived by an objective user (client, consumer, organization, or society) and that translates into their willingness to exchange some resources for the acquisition of that value (Austin, Gutierrez, Ogliastrri, & Reficco, 2006). From the social perspective, the creation of value occurs when the utility perceived of the members of society is higher than the cost of all the resources used in its creation (Agafonow, 2014).

The capture of value is vital in the analysis of value. It is not only about who generates value, but also who receives it and what is the willingness to pay it in a way that justifies the investment of resources made in its creation. The generation of value depends on two aspects (Lepak, Smith, & Taylor, 2007): First, the monetary amount that the user or beneficiary is willing to exchange must exceed the costs of the producer (money, time, effort, joy, and the like) of creating the value. Second, the monetary amount that a user will exchange is a function of the perceived difference in performance between the new value (from the new focal task, product, or service) and the closest alternative of the target user (current job, product, or service) to satisfy the same need. In general, without these excesses, neither the user nor the value creator would be willing to participate repeatedly in these long-term activities.

Regarding social innovation, the generation of value occurs when an actor responds to a problem innovatively and mobilizes a certain number of resources, changing the conditions that created it. Besides, beneficiaries and society not only perceive an improvement in their living conditions for the implementation of social innovation but also recognize that the way they do it is better or more efficient to the form of doing now.

Social innovations have the effect of increasing the aggregate utility of society. Unlike traditional or commercial innovations, the former is not so concerned about the potential for value capture in the short term, because what motivates them is the positive externalities generated by their activities, which increases the aggregate profit of society (Agafonow, 2014; Kahle, 2017). The creation of value by a social innovation seeks to understand how its imple-

mentation attends more efficiently and effectively a problem (creation of value) and achieves the transformation of society in the medium or long term (capture value).

An essential element in the generation of value is the process followed in its production, which is relevant in the case of social innovation because sometimes the process of creating value is more important than the result itself (Maccallum, Moulaert, Hillier, & Haddock, 2009). These processes generate a tangible value for society, contributing to the rearrangement of social structures and the creation and strengthening of social relations, which are essential for social change and social transformation (Portales, 2014).

Due to the complexity of the problems that social innovations seek to address, it is necessary that they find the creation of multiple values, and not only a single type of value (Elkington, 1998). The creation of various values refers to the idea that the sustainability of the organization implies several types of value such as environmental, social, economic (or financial), and institutional value (Carvalho & Jonker, 2015). The concept of shared value means that values can benefit other entities beyond their creator, and the creation of collective value refers to collaboration between partners to create value (Carvalho, 2017).

The creation of value in social innovations is usually subject to the conjunction of efforts by multiple actors, unlike what happens in economics innovations (Le Pennec & Raufflet, 2016). In other words, to achieve social change, the effort of a single actor is not enough, but it is necessary to promote spaces for the co-creation of value (Austin & Seitanidi, 2012; Vasin, Gamidullaeva, & Rostovskaya, 2017). The context of value creation is as important as the competences of its contributors since the co-creation of value is influenced not only by the interactions between actors but also by the context that frames the exchange of resources. This aspect not only makes the generation of value more complex but also contributes to its capture in a more efficient way because the creation of new schemes of collaboration and new social structures settled the bases of social transformation.

Social innovations challenge the creation of multiple forms of value for society since a single form of value would not have the capacity to generate the expected social change (Carvalho & Jonker, 2015). For this reason, the results of the generation of value should include the improvement of living conditions, justice, environmental conservation, equity, improvement of health, better education, among others (Phills, Deiglmeier, & Miller, 2008). The generation and capture of multiple forms of value is the way in which a social innovation achieves the objectives for which it was developed; however, its *raison d'être* focuses on the creation of social value, reflected in its value proposition.

### 3.4 Value Proposition: Construction, Development, and Validation

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The generation of value is the goal of any social innovation, and it is difficult to conceive an organization, of any sector, that does not assign priority to the creation of value for its clients, beneficiaries, or society. In general, this aspiration is implicit in the value proposition, which explains succinctly how the lives of clients, beneficiaries, consumers, or community will improve from the solutions generated by social innovation (Austin et al., 2006). The value proposition is a promise to respond, in some way, to an unmet need, and it can include social, organizational, and environmental benefits as a basis for the economic, social, ecological, and institutional values of the clients and other stakeholders (Carvalho & Jonker, 2015).

In the context of social innovations, this promise necessarily implies the intention of generating an intentional social change, through the attention of a social problem, achieving results or desirable effects not created spontaneously by the markets or by society. The value proposition is the center of any social innovation since it determines its strategic focus and has profound implications for its structures, processes, and resource allocation (Austin et al., 2006). Therefore, the definition of a clear value proposition should be the first objective by anyone aspiring to lead a social innovation.

A well-articulated value proposition should indicate what kind of value will be created, through the answer to two related questions: Whom the initiative serves and how it does it. The creation of value consists in materializing its mission since it is the reason for which it arose and focuses on identifying what is the desired change, and therefore the value proposition. For this case, the business and social innovations do not differ much, being the starting point to know the client, his pains, frustrations, gains, and jobs he performs (Osterwalder, Pigneur, Bernarda, & Smith, 2014). The knowledge of the needs of the beneficiary, obtained through a sustained dialogue over time, allows focusing the efforts of social innovation in the right direction (Austin et al., 2006).

In the case of social innovations, due to their interest in generating multiple values, the identification of the client and beneficiary is crucial, because, in most of the times, who receives the benefit of the social innovation do not pay for it (Santos, 2012). For example, in the case of social enterprises that have as beneficiaries people with disabilities, the social value proposition is its inclusion in the economy through decent work, while its economic proposal focuses on offering some products or services to a specific niche market. So, the high-income segment is who pay or finance the social value. The importance of recognizing and differentiating them is a key to the operation since it defines how the initiative can fulfill its promise of value and at the same time achieve its economic sustainability.

At this point, it is relevant to understand that social innovations generate multiple forms of value to achieve their mission. However, some of them are not focused on fulfilling their purpose and therefore are not related to their value proposition. Therefore, in the definition of the value proposition, the mission of the initiative is taken as a starting point, since it is its *raison d'être*. The value proposition should answer the questions: What is our mission? Who is our client/beneficiary? What is it that our client/beneficiary values or needs? (Austin et al., 2006; Grassl, 2012).

Once the initiative is clear to whom it is serving and why it is important for that group or actor, then it must be established how it will be done, that is, what kind of value will be created (economic, social, environmental, or institutional) and how they complement each other (■ Fig. 3.1). To carry out an in-depth analysis in terms of the value proposal by beneficiary or client and not by social innovation in general, it is necessary to carry out a more in-depth analysis by segment, the products or services offered, and the fit between them (■ Fig. 3.2).

### 3.5 Definition of Values Generated by Social Innovations

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Although social innovations can generate multiple types of values, this chapter only considered the four that are most important or more related to the rationale of these initiatives: economic, social, environmental, and institutional. Each one of them can complement the value proposition in each one of the initiatives; however, the most critical value is the social one since it is directly related to the attention of a social problem and its most aggravating consequences.

#### 3.5.1 Social Value

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The creation of social value is the *raison d'être* of any social innovation, which can be understood as “the search for social progress, by removing barriers that preclude inclusion, helping those vulnerable or lack of voice and mitigate the externalities of economic activity” (Austin et al., 2006, p. 298).

This definition consists of two parts. First, it seeks a benefit for society focusing on a particular group and having a positive impact on society as a whole. This characteristic means that social value is a form of social change and not only a way to meet a market need (Bocken, Short, Rana, & Evans, 2014). Second, part of the idea that social value can be generated in multiple ways, including the inclusion of groups or populations through the removal of barriers that generate some kind of exclusion (Alegre & Bergal-mirabent, 2016; Cajaiba-Santana, 2014; Pol & Ville, 2009),

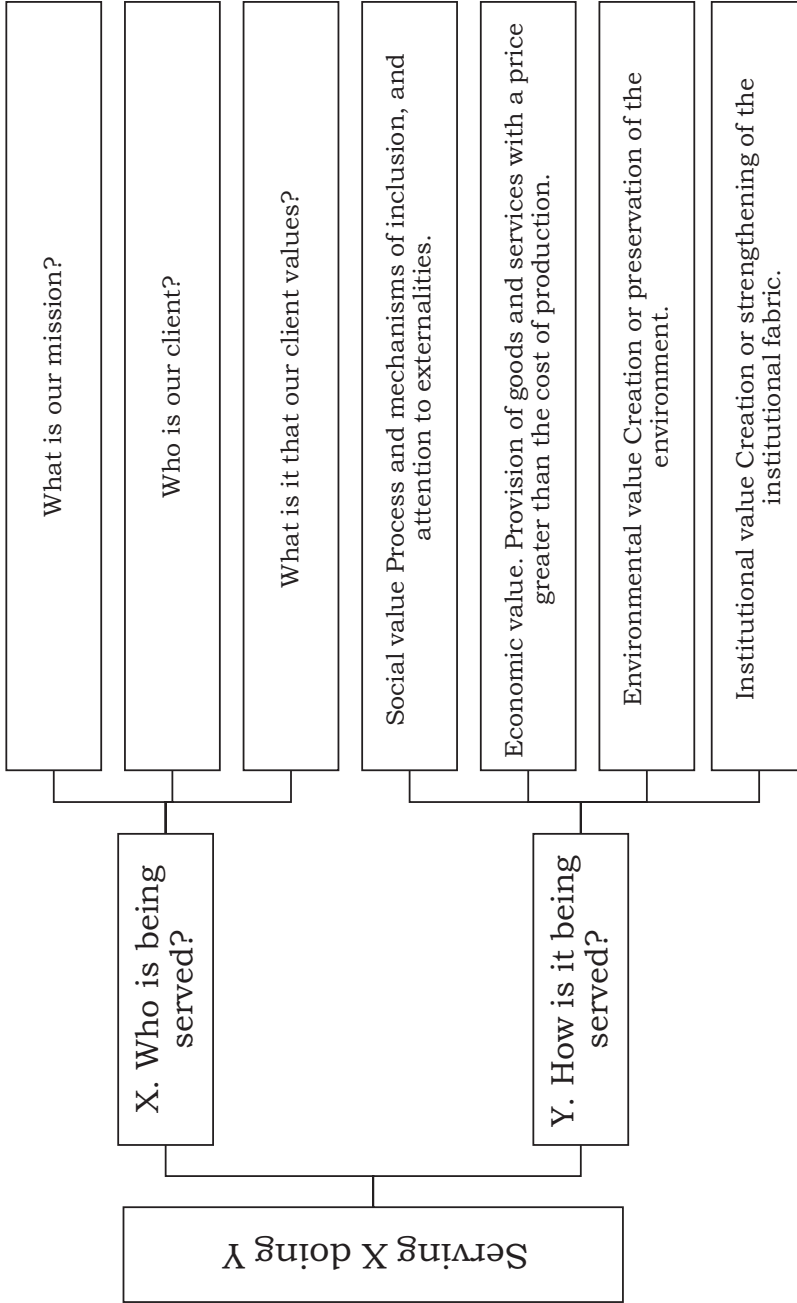


Fig. 3.1 Value proposition and creation of value (Source Author with information from Austin et al. (2006))



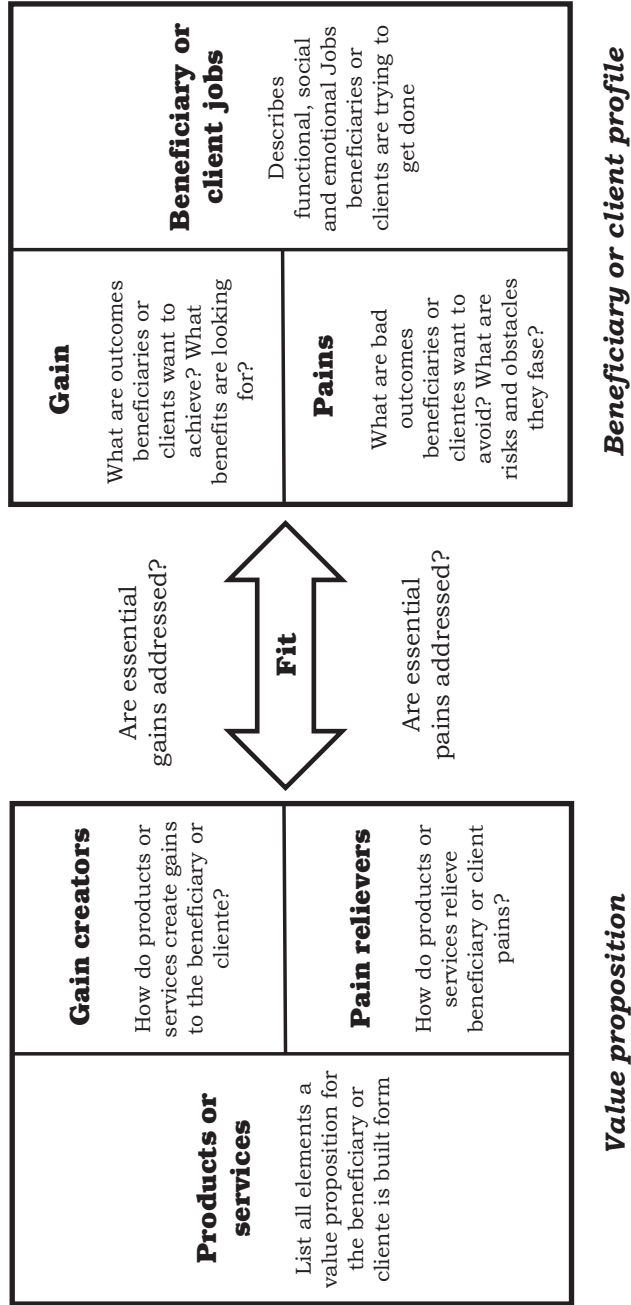


Fig. 3.2 Creation of the value proposition by market segment or beneficiary. Value map (Source Author with information from Osterwalder et al. (2014))

attention to populations that are vulnerable or lack voice (Peredo & McLean, 2013; Vázquez Maguirre, Portales, & Velásquez Bellido, 2018), or mitigating the externalities generated by the traditional economic system (Bocken et al., 2014).

The barriers that make inclusion impossible can be presented in many ways, characterizing it as an obstacle that prevents a population or group to satisfy their needs in a dignified and just manner. For example, general electric reduced the costs in health equipment with the interest of making them more affordable for populations in developing countries.

The vulnerable or voiceless populations are those in which their condition perpetuates exclusion and restricts access to growth opportunities, making it impossible for them to act autonomously, in defense of their interests, reproducing a vicious circle. Therefore, attacking social exclusion implies not only breaking down price barriers or redistributing material wealth, but also empowering the cast out. For example, BestBuddies Colombia, in collaboration with large companies in the country, integrates people with cognitive disabilities participate in the labor market and influenced the change in national labor legislation to contemplate and promote this type of inclusion.

The externalities created by the market arise when an organization produces a good or a service that serves the needs of its customers but generates adverse side effects. For example, the waste management carried out by Grupo D. Paschoal, the third largest distributor of tires in Brazil, with the aim of collecting tires and other used materials from the cars of its customers, to give them a socially responsible appropriate destination.

In either case, there is a population that cannot satisfy a need or that the way it does it is precarious in comparison with the rest of society or below what is defined by any national or international norm or law. In the majority of the three forms of generating social value, the cause focuses on patterns of exclusion, so one of the challenges of social innovations is the removal of the barriers that generate these patterns. The capture of social value is carried out autonomously by its beneficiaries and reflects the improvement of their living conditions, as well as in the reduction of the causes that generate these exclusion patterns.

### 3.5.2 Economic Value

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The economic value is perhaps the best known, mainly because it is used as a measure of organizational success for most of the twentieth century. This value implies maximizing the benefit that organizations capture while minimizing the cost of production (Austin & Wei-skillern, 2012; Le Pennec & Raufflet, 2016). The economic value increases to the extent that the satisfaction of the client's needs increases and the use of resources decreases. Based on this reference, economic value is those whose benefit can be freely captured and remunerated by its recipients, with a price that exceeds its production cost.

Three important points stand out from this definition. First, there is a free exchange, where the customer or client decides to pay a higher price than the cost of production. Second, customer perceives that is capturing benefit with the purchase of this product, which may be related to the equivalent value that it generates (social, environmental, or institutional). Third, there is a positive margin between the cost of production and the sale price, creating utility. In case this aspect is not fulfilled, that the cost of production is higher than the price, not only does it not create value, but it is destroyed.

This definition contemplates that, when the price exceeds the cost, the initiative generates economic value for the organization that is implementing it. Under this perspective, social innovation can make economic value, provided that the cost of producing a benefit or impact is less than the benefits received by society. One way to visualize this relationship is the Social Impact Bonds (► Chapter 12), which show how an organization generates a more significant impact and at a lower cost than the traditional way in which it was carried out, giving it economical and profitable value.

### 3.5.3 Environmental Value

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The environmental value, as well as the social value, is difficult to conceptualize, mainly because its impact may not be directly related to a specific group on which the change in their living conditions can be evaluated in a short period; instead, it is developed on a medium- and long-term perspective. Its capture is at a system level. Therefore, its generation must take a view of multiple actors and not only those who implement social innovation (Hart, Milstein, & Ruckelshaus, 2003). For example, it is of little use for a community to decide to carry out organic farming processes, if the neighboring communities do not carry it out and, on the contrary, use pesticides or transgenic seeds.

The complexity in capturing the environmental value considers the fact that an improvement in the physical conditions of a territory may be subject not only to generate a profit but sometimes to stop producing a good or service with the interest of preserving the environment (Smith, 2014). As a consequence of environmental deterioration, environmental value considers the implementation of actions to improve natural capital; that is, preservation or conservation is not enough, but must also be accompanied by measures that rehabilitate the ecosystems (Heyd, 2016).

The actions undertaken in the creation of this value must be more profitable than those that are being carried out now to address the problem. The cost of the efforts and resources invested—natural, economic, human, institutional, among others—should be lower than those currently made, and the benefit in the preservation or rehabilitation of the ecosystems should be higher. For example, Grupo Ixtlán generates companies through the generation of sustainable furniture that has international certifications, while producing a scheme of care and rehabilitation of

the forest that has led it to become a model of forest management in the region.

The environmental value is the result of the set of actions that, carried out from a systemic perspective, manage to increase or preserve, in a more efficient way, the environmental conditions, the natural capital, and the ecosystem of a given territory. The process in the construction of this type of value contemplates the participation of a higher number of actors that are in the territory, giving it a multidimensional and complex vision in its implementation and generation.

### 3.5.4 Institutional Value

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The last type of value analyzed is the institutional value, which is a critical element in the constitution, strengthening, and sustainability of social innovations. This value recognizes the importance of generating institutional conditions so that the generation of any value, especially social one, can be maintained over time, even when social innovation is no longer present (Moulaert, 2016). It looks for institutions that aim to guarantee fair and dignified conditions so that all the inhabitants can access opportunities to improve their living conditions and are not subject to the participation of one or the other organization.

The institutional value contemplates the creation and strengthening of the institutional fabric within the territories and society where they operate (Portales, 2015). This strengthening focuses on creating norms, laws, and public or private organizations capable of guaranteeing all the inhabitant's access to their rights, as well as generating democratic mechanisms that oblige them to comply (Boisier, 2001).

The institutional fabric includes not only public institutions but also private organizations, all working on creating processes of participation and linkage between different sectors of society, encouraging each of the actors to contribute to social change. With the participation of social, economic, and public actors as agents of social change, social innovation can play a crucial role in improving the interactions between human and sustainable environment.

### 3.5.5 Relations Between Values

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The definition of the value proposition of social innovations is its *raison d'être*, and the creation of value is the way in which they manage to fulfill it. Due to the complexity of its mission, it has led them to construct multiple forms of value, which complement each other strategically and operatively (■ Fig. 3.3). Social value is at the center of social innovation since its capture by the beneficiaries evidences its success; however, to guarantee its sustainability it is necessary to identify how it relates to other values.

The economic value has a double relation with the social and environmental value. On the one hand, the economic value guar-

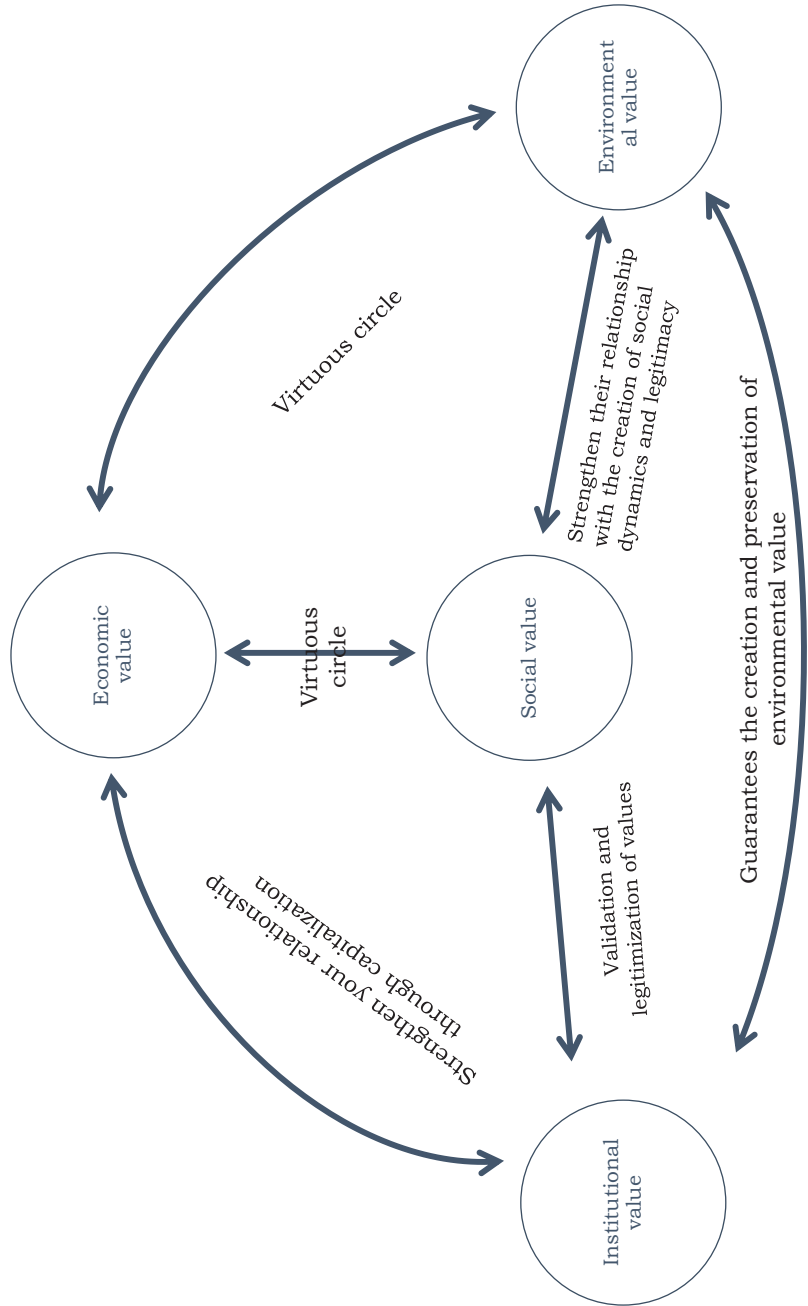


Fig. 3.3 Relationship between social, economic, environmental, and institutional value (Source Author)

antees the operation of the initiative, allowing it to carry out its actions and generate the social or environmental value. On the other hand, social and environmental values strengthen the proposal of economic value, since they contribute to the legitimacy and credibility of the good or service that social innovation is offering. This double relationship favors the construction of a virtuous circle, where the growth of one guarantees the fulfillment of the other and vice versa. Likewise, there is a risk situation, since the fall or lack of one of the values affects the other directly, creating a situation of tension in the generation of both values.

The institutional value strengthened social value since through it guarantees the change of the social and economic structures that sustain the problem to which it seeks to respond. This change reduces the effort to be made to generate social value since it provides the necessary tools so that it can be carried out more efficiently, either because the institutional fabric itself promotes it or because it does not create obstacles for its development.

The economic value is strengthened by the creation of institutional value since mechanisms to capitalize social value are guaranteed and created, as is the case of the different impact investment schemes (► Chapter 12). This strengthening is reciprocal, since to the extent that it generates returns and profits, it promotes that the institutions and organizations that make up the institutional fabric look for the creation of more economic value creation schemes based on the capture of social value.

The environmental value has a dynamic relationship with the social and institutional value. Changes at the environmental level require the generation of inclusion processes by several actors of society related to the generation of social value. However, it also requires institutions and organizations to ensure that the preservation or improvement of the environment is done under a long-term vision and not only during the implementation of a specific initiative. The creation of environmental value strengthens the social dynamics and the reconfiguration of the social fabric, especially in communities where social innovations focus on the use of the natural resources they have.

### Case 3.1. Definition of a Value Proposition: Novaterra Foundation

*What is the mission or purpose of the Novaterra Foundation?*

The Novaterra Foundation (2018) is a civil initiative of people and organizations that fight against poverty and social exclusion in our society, supporting the most disadvantaged people, through their training and employment, for their promotion and full integration into society.

*Who is its client or beneficiary?*

Novaterra works with people who have multiple adversities in life, and who need to get and keep a job in order to get back on their feet and live with dignity. Causes very diverse but that come together in the lack of employment and in a situation of being outside society because a job is much more than a job.

*What does the beneficiary need and value?*

The opportunity to have a job where they can feel worthy and active in society from an economic and social perspective. *Generation of values.*

Social value (alignment with the mission). Impact-generated in the client or beneficiary during

2017: 344 people served, 305 insertion itineraries, 188 people trained and 173 employees. Economic value (Generation of income that guarantees the operation of the foundation). Operation of 3 social enterprises

that generate income for €422,338.23 and expenses for €385,453.80 (Cost/benefit ratio = 1.09). Institutional value (Strengthening the institutional fabric concerning labor

inclusion). Linkage with 55 employers, +50 companies collaborating, +120 partners, five committees, +60 volunteers, agreement with public and private institutions, promotion spaces.

### 3.6 Conclusions

The creation of value is, in the context of social innovations, the ability of the initiative to be developed and implemented by some actors, to generate a benefit in society in a more efficient way and with more significant impact than as previously done, this being a fundamental element in its definition and understanding. If a social innovation does not generate value more efficiently than the actual way, there is a possibility that it is not generating value but destroying it. Example of this situation is the economic value. If the cost of production is higher than the sale price, then there is no added value and subutilizes resources that could be used in other efforts or social innovations.

These innovations focus their value proposition on the generation of social value, defined and aligned with its *raison d'être*, which reflects the mission of the initiative. The result of the generation of social value is the reduction or elimination of the barriers that hinder the inclusion of a specific group or population that, due to its situation of exclusion, can hardly satisfy their needs in a dignified way or at least of the same way in which most of the population does. Given the complexity of the problems they seek to address and change in the society they pursue, they tend to generate multiple types of values, among which the economic, institutional, and environmental value stands out.

The awareness of these multiple types of values is critical to identify the benefit they generate in society and the utility they generate in it, as well as the type of relationship they have with each other. Other types of values complemented social value. Their interaction guarantees the initiative's operation and created institutional mechanisms which increase the efficiency in its creation, or they increase the legitimacy of the process by improving the ecosystem where they operate.

In the creation of these multiple values is essential to take into account the creation of relationships and links with different actors in society. Through this relationships, the work carried out by the initiative can be strengthened, as well as increasing efficiency in the attention of the problem that it wishes to address and create change social, economic, and institutional structures that gave rise to this type of social innovation.

Social innovations are not required to generate many types of values, but only those that guarantee that in their creation and capture they are attended in an efficient, dignified, and humane manner, which generated the problem they wish to address and that constitute their *raison d'être*.

### 3.7 Exercise

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Use the diagram shown in ■ Fig. 3.1. to analyze the case of the Novaterra Foundation.

- Answers the questions that make up the value proposition of the foundation, as well as the different types of value that this generates to meet the labor inclusion of people in vulnerable situations.
- Explain in what way is each type of value generated? In what way each of the values is captured and by whom?
- Using the same case, identify how is the relationship of values that the foundation generates, who strengthens who or how they reinforce each other.
- Investigate about the three social enterprises that the Novaterra Foundation has created to increase its generation and capture of value and identify which of them is generating an environmental value.

Use ■ Fig. 3.2. to analyze how the Novaterra Foundation complies with the generation of social and economic value. Remember that the design of a value proposition must be for each segment, whether beneficiary or client, otherwise the value proposition will not be aligned correctly.

### 3.8 Additional Resources

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Websites:

- Creating Social Value
  - ► [https://ssir.org/articles/entry/creating\\_social\\_value](https://ssir.org/articles/entry/creating_social_value)
- How Organizations Create Social Value
  - ► <https://hbswk.hbs.edu/item/how-organizations-create-social-value>
- What is Social Value?
  - ► <http://www.socialvalueuk.org/what-is-social-value/>

Videos:

- The Seven Principles of Social Value
  - ► [https://www.youtube.com/watch?v=\\_VggeBiJcu4&pbjreload=10](https://www.youtube.com/watch?v=_VggeBiJcu4&pbjreload=10)
- Strategyzer's Value Proposition Canvas Explained
  - ► <https://www.youtube.com/watch?v=ReM1uqmVfP0>
- Strategyzer YouTube channel
  - ► <https://www.youtube.com/channel/UCPVreN9tVxFY2Rg-WeENShpg>

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# Basics, Characteristics, and Differences of Social Entrepreneurship

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## 4.1 Objectives of the Chapter

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- Recognize the origins of the concept of entrepreneurship, as well as its general features.
- Identify the differences between traditional entrepreneurship and business, with social entrepreneurship based on its *raison d'être*.
- Define the core elements of a social enterprise.
- Reflect the role that social entrepreneur plays in the attention of social problems.

## 4.2 Introduction

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Entrepreneurship is a concept from the seventeenth century. Although the concept of not being exclusively related to an economic sphere, its study and operationalization led it to consider it as an essential part of the capitalist system, especially in the framework of neoliberalism (Dilts, 2011; Johannisson, 2011). In the twenty-first century, entrepreneurship, as an economic and social phenomenon, gained strength as a result of the precariousness of the labor market and robotization, encouraging more and more people to create their own companies, a fact strengthened with public policies and reforms by international organizations and several States. In general terms, an entrepreneur is a catalyst and innovator of the economic and social process that, through the identification of an opportunity for change, manages to revolutionize or transform the society or industry (Dees, 1998; Martin & Osberg, 2007).

Over time, there have been different meanings to entrepreneurship, among which social entrepreneurship has stood out in recent decades. The concept emerged in the eighties and had become more relevant. One of the reasons is the connection of two concepts that seemed to be antagonistic: entrepreneurship and social (Friedman & Desivilya, 2010; Peredo & McLean, 2006; Yunus, 2008). Social entrepreneurship is a way to achieve the generation of economic wealth while addressing social issues in a sustainable way (Dees, 2007; Mair & Marti, 2006). This concept breaks with the dichotomous model where the generation of wealth or economic value of a company was in contrast to the generation of social value (Portales, 2017). This capacity has been promoted from the public, private, and social sphere, considering social entrepreneurship as an alternative solution to the main problems facing the world.

With the interest of clarifying what social entrepreneurship is, this chapter explores the nature of the concept of entrepreneurship, its characteristics, and the particularities of this type of entrepreneurship.

The chapter is divided as follows. The first section presents the definition and evolution of entrepreneurship as a concept, its nature, and origin. The second section explains what social entrepreneur-

ship and its central characteristics is. The third section defines social enterprise, its crucial elements, and the differences with traditional enterprises. The last section makes a difference between social entrepreneurship and other forms of social innovation, such as those promoted from Corporate Social Responsibility.

### 4.3 Origins and Characteristics of Entrepreneurship

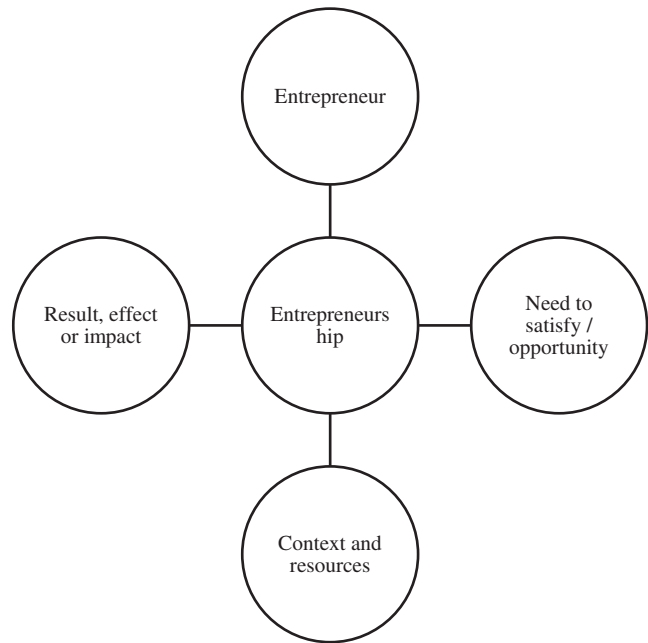
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Cantillon wrote the first theory on entrepreneurship in 1775, he used the term to describe someone who uses his business perspective in a situation of uncertainty. It points to the entrepreneur as a person who has the skills to create and start a business and take risks in an innovate way (Cantillon, 2010). Since this time, the term entrepreneur received many definitions without reaching a consensus about which is the best or most successful (Hamilton & Harper, 1994).

In the nineteenth century, Jean-Baptiste Say (1846) describes the entrepreneur as one who displaces economic resources from an area of less value, toward a zone of greater productivity and higher performance, introducing the concept of value creation. To be considered as value creation, it must respond to an unmet need or satisfy it in a more efficient or better way to meet. This value creation happens in the context of free trade, specialization, and competition, so the entrepreneur plays an essential role in the production and distribution of goods in competitive markets, forcing to generate some element of differentiation or innovation about the competition.

In the twentieth century, Schumpeter in 1936 argues that economic development arose when new combinations appear discontinuously, generated by entrepreneurs in different ways. So, the function of entrepreneurs is to reform or revolutionize the production pattern by exploiting an invention or an unproven technological possibility to produce a new product or create an old one in a new way, opening a new source of supply of materials or a new output of products, reorganizing an industry, or the economy (Schumpeter, 2017a). A successful venture encourages other entrepreneurs to propagate original innovation to the point of “creative destruction,” where the new company and all its related companies provide existing services and products, and obsolete business models (Schumpeter, 2017b). Under this understanding, any person can be an entrepreneur if it carries out new combinations that generate new value in the economy.

The entrepreneur is disruptive and generative (Martin & Osberg, 2007). It is an agent of change in an economy by generating innovations, always seeks change, responds to it, and exploits it as an opportunity, is in a state of alert that allows him to generate innovations and take advantage of the opportunities that arise in society (Drucker, 1993). The entrepreneur is someone who innovates with a high need for achievement, which exploits existing opportunities and resources to produce or create something new.



■ Fig. 4.1 Main aspects of the entrepreneurship (Source Author)

The process carried out by the entrepreneur to create something is known as entrepreneurship. It does not happen spontaneously. It is built through the search and analysis of opportunities in an environment in which are different conditions and unmet needs (Murphy, Liao, & Welsch, 2006). Entrepreneurship auspicious a radical or discontinuous change, regardless of whether it occurs inside or outside of existing organizations and, if it gives rise or not, to the creation of the business. That is, it is not subject to economic or market logic, nor certain socioeconomic conditions. It can be generated by any person who, taking advantage of the opportunities of the environment, generates a good or service that innovatively satisfies needs within society, generating added value.

Entrepreneurship can be understood as that process that is carried out by an agent of change (entrepreneur), with the interest of satisfying a need innovatively, taking advantage of present resources and opportunities in a society or context. From this understanding, entrepreneurship has four principal aspects (■ Fig. 4.1). First, the entrepreneur is someone who generates a change using resources and opportunities in the environment. Second, the entrepreneur identifies the opportunity to meet a specific need innovatively that affects society. Third, the knowledge of the context in which the need exists and the available resources to meet it. Fourth, the creation of a result, effect, or impact because of the entrepreneurship.

Based on this review, entrepreneurship is not necessarily related to an economic perspective or the satisfaction of a market need. Instead focuses on the search for change and the satisfaction of needs within society in an innovative way. This situation opens the

door to a diversity of entrepreneurship, such as social, which, due to its characteristics, has increased its position in recent decades.

#### 4.4 Social Entrepreneurship, a Proposal to Integrate Economic and Social Value

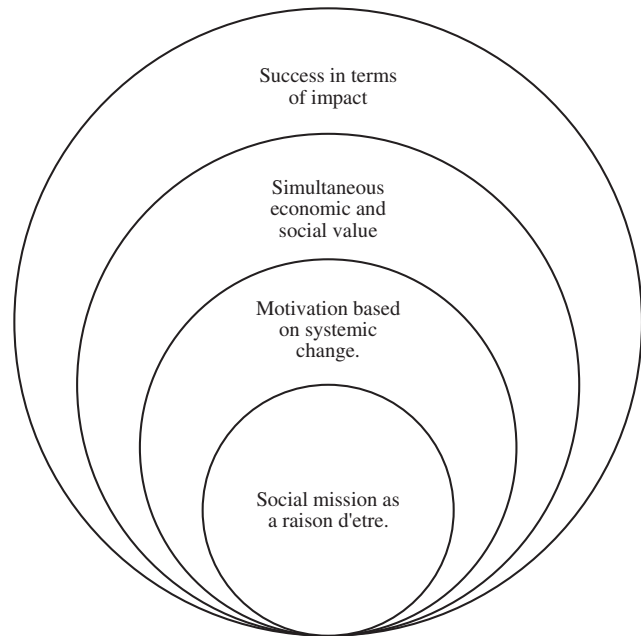
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Social entrepreneurship is a phenomenon that is not new, but that, as a concept, was consolidated in last decades in the public, social, and economic agendas of international organizations, governments, companies, universities, and third sector organizations (Parkinson & Howorth, 2008). One of the reasons of its rapid positioning is the link that makes between two elements that seemed antagonistic: entrepreneurship and social (Friedman & Desivilya, 2010; Peredo & McLean, 2006; Yunus, 2008). On the one hand, it visualizes the entrepreneur as an innovative being who saw in the market's desire a business opportunity that would allow the increase of his economic wealth (Brown & Thornton, 2013; Pfeilstetter, 2011). On the other hand, it covers the social sphere, where nonprofit organizations traditionally helped the State to deal with the different problems that society faced from a charitable and philanthropic vision (Portales & Arandia Pérez, 2015).

Social entrepreneurship takes up the elements of entrepreneurship, with the difference that its *raison d'être* is the attention to a social problem—understood as an opportunity for social change—expressed explicitly in its mission (Dees, 1998; Vázquez-Maguirre & Portales, 2014). The motivation of social entrepreneurship is the generation of social value, understood as the reduction of any barrier that impedes the inclusion of any social group (Austin, Gutierrez, Ogliastri, & Reficco, 2006), and not the accumulation of wealth. This aspect leads to tension in social entrepreneurship, as the entrepreneur must find a way to address a social problem sustainably and generate enough economic value to maintain its operation (Dees, 2007; Mair & Marti, 2006).

The indicators of success also change. The primary indicator is the change achieved in the conditions that gave rise to it, that is, the impact it generates on the problems it wishes to address (Portales & Arandia Pérez, 2015; Vázquez-Maguirre & Portales, 2014). If the social entrepreneurship achieves social impact, then its mission will be fulfilled, pushing it to seek the way to scale the model (Barki, Comini, Cunliffe, Hart, & Rai, 2015). In traditional ventures, interests tend to be due to the diversification of services or products of the company and the positioning of its reputation and not social change.

The elements that define the nature of social entrepreneurship are four (■ Fig. 4.2): (1) Social mission and the creation of social value as a central element. (2) Motivation focused on the change of the structural conditions that generate the problem that wishes to address—visualized by the entrepreneur as an opportunity for social change. (3) Model for the generation of social and economic value. (4) Success based on indicators of social impact and not



■ Fig. 4.2 Elements of social entrepreneurship (Source Author)

financial performance. These elements operate in a concentric way, where the social mission is at the center of the entrepreneurship and supports its *raison d'être* and evolves until reaching the generation of its success indicators.

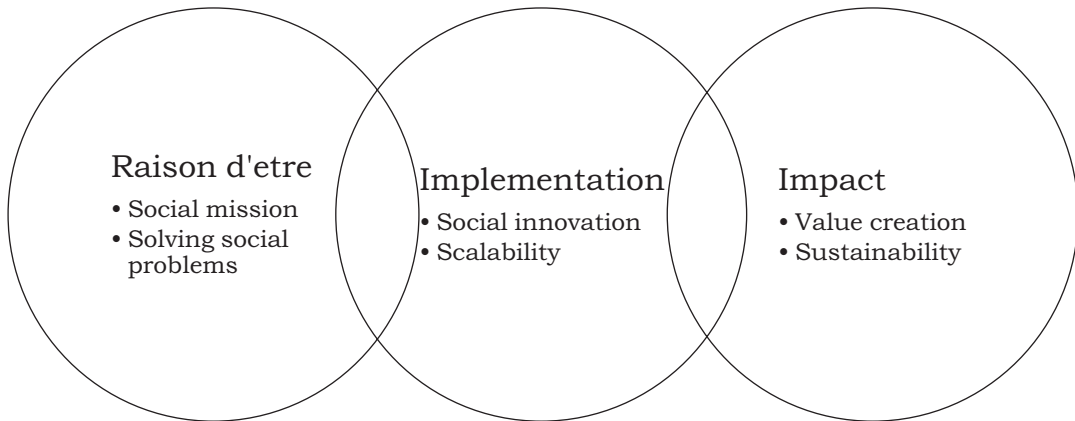
In this context, social entrepreneurship is a way to achieve the generation of economic wealth and addressing a social problem in a sustainable way (Dees, 2007; Mair & Marti, 2006). This type of entrepreneurship generates products or services with sufficient innovative capacity to respond to market needs while reducing the barriers that have led to the creation of vulnerable populations, thus creating social value (Austin et al., 2005).

Social entrepreneurship reaches its operationalization through organizations whose main characteristic is the generation of social and economic value, denominated as social enterprises or social businesses. As it will see in ► Chapter 8, these organizations can be for-profit or nonprofit, making them have social business models with characteristics. However, they all share similar elements.

#### 4.5 Social Enterprise a Way to Run Social Entrepreneurship

Social enterprises generally arise in contexts of marginalization and exclusion, where market barriers prevent these groups from getting employment opportunities and selling their products, where necessary social and institutional infrastructure is usually scarce, increasing poverty circles (Vázquez Maguirre, Portales, & Velásquez Bellido, 2018). For this reason, the most common objectives of these enterprises involve reducing poverty by creating employment,





■ Fig. 4.3 Elements of social enterprises (Source Author)

providing a product or service to a disadvantaged group, specialized training for unemployed people, producing high value-added goods, and creating markets for these products (Defourny & Nysens, 2008).

These companies combine the efficiency, innovation, and resources of profit-making entrepreneurs with the passion, values, mission, and concerns of nonprofit organizations (Smith, Gonin, & Besharov, 2013). The collective quality of such organizations facilitates democratic governance while pursuing the common good. This sense of community fosters alliances among different organizations with similar social, economic, institutional, and environmental missions. The ability of social enterprises to establish partnerships that address social issues is a feature that allows them to develop a collective action to meet the demands of a social group or community and at the same time exert pressure on the system to meet the interests of the community (Massetti, 2012). These collective actions are from the perspective of resource mobilization, where the increase in resources and participants' social mobility depends on the empowerment of its actors.

An analysis of the different definitions of the concept highlights six unique elements (Vázquez-Maguirre & Portales, 2014), classified into three levels: *raison d'être*, implementation, and impact (■ Fig. 4.3).

The *raison d'être* of social enterprises has two components: a social objective and a long-term solution oriented to social needs. The first refers to the entities' social mission as the primary goal of the venture, superseding the pursuit of profit maximization. The second element involves looking for a solution to the issue addressed. That is, the business model is geared toward a permanent change in the social problem, creating a new balance that guarantees enduring benefits. When faced with the dilemma between "problem-solving" thinking and the culture of charity or philanthropy, the social entrepreneur chooses the first.

At the implementation level, social enterprises have two elements: social innovation and scalability. Social innovation, defined

as a positive change in the process, product or organizational level, implies a novel use of resources that contribute to the achievement of the social goal. The scalability of social enterprises refers to the ability to replicate the business model successfully in other places, to continue generating more benefits. The scalability of social enterprises is usually limited due to the lack of resources, infrastructure, and adequate policies.

The third level refers to the expected impacts of social enterprises: value creation and sustainability. Value creation implies that the benefits of engaging in a new venture exceed its costs, positively influencing the stakeholders involved. Value creation contemplates three different dimensions: (1) Economic, understanding as the capacity to generate profit to the company by selling their products or services. (2) Social, seeing as the ability to reduce or remove the barriers that produce social exclusions. (3) Environmental, considers the preservation and regeneration of the resources in the developing of the product or services.

Sustainability is the ability that social enterprise must guarantee the satisfaction of actual needs without compromising the future one (World Commission on Environment and Development, 1987). It refers to the positive impacts that enterprise activity generates in the short and long term in economic, social, and environmental dimensions at local, national, and international level, i.e., its Triple Bottom Line (Vazquez-Maguirre, 2018). To consider some impact as sustainable, the business model or social intervention of social enterprises should reduce or remove all the conditions that provoke the social issue addressed. If the activity of the enterprise did not have any change in the socioeconomic conditions that created it from a sustainable way, social enterprise has no reason to exist.

Although social enterprises' primary purpose is social, this is not an obstacle to pursuing economic benefits. It is a necessary condition to ensure the viability of the entity and its ability to achieve its purpose. Thus, this type of venture generates economic value offering products or services that meet market needs and create social value reducing the barriers that produce any social exclusion. This double value creation (economic and social) can lead to confusion between a traditional and a social company, however, ■ Table 4.1 shows the main differences that exist between them.

#### 4.6 Differences Between Social Innovation Models from Traditional Business and Social Enterprises

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It is important to make a distinction between social entrepreneurship and the proposals developed by traditional companies from a social innovation perspective, oriented to address social and environmental issues, such as Corporate Social Responsibility, Inclusive Business, Shared Value or Base of the Pyramid, discussed at

**Table 4.1** Differences between traditional companies and social enterprises

	<b>Traditional company</b>	<b>Social enterprise</b>
Motivation	Market opportunity to generate economic value	They are addressing social issues through social value creation
Innovation processes goal	Greater presence in the market and reduce the profits of its competitors	Involvement of more actors in the attention of the problem, understanding the other as an ally
Surplus	Increase in the economic wealth of shareholders	Reinvestment in the addressing of the problem and fulfillment of the social mission
Expected change	Resolution of a market needs taking into consideration, current clients or consumers	Vision focused on promoting market inclusion and granting rights to exclude

Source Author

the third section of this book. Since the interest of this chapter is not to make a comparison between each one of the models and social entrepreneurship, the analysis contemplates the nature, implementation, and expected impact of each one.

The first difference is regarding the *raison d'être*. Social entrepreneurship arises from the need of an entrepreneur to attend to social and environmental problems through the offer of a good or service to the market, motivating the creation of the company. In the other models, the company is already constituted, and its primary interest is the generation of economic value before the attention of a social or environmental problem (Idemudia, 2008; Yunus, 2008). That is, the motivation of social entrepreneurship is the generation of social value through the production of economic value, while in traditional companies the generation of economic value is sought and one of the ways to increase it is the generation of social value.

About implementation, social entrepreneurship has the characteristic that the business model focuses attention to social problems, that is, it becomes the core of the organization. Social or purposeful models developed by traditional companies are not part of the business model and sometimes do not contemplate the center of the organization itself, positioning them as additional schemes and sometimes are seen as expenses that support marketing and reputation of the company for its social work (Portales & García de la Torre, 2012).

The last difference focuses on the impact. Given the nature of social entrepreneurship, the primary indicator is the change achieved in the social conditions that gave rise to the implementation of the social business model (Vázquez-Maguirre & Portales,

2014). When a social enterprise produced social impact, then its mission is fulfilled, and the challenge is how to scale the model. In traditional companies, the social models may not consider social impact as the primary indicator (Du, Bhattacharya, & Sen, 2010), since the interest tend to be the diversification of the company's core services or products and the increasing of reputation and not the change in the conditions of the society.

## 4.7 Conclusions

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Entrepreneurship is a concept that dates from the seventeenth century since its first approaches considered an agent of change (entrepreneur) that sought to satisfy an unmet need within society. His evolution, especially during the twentieth century, led him to be understood primarily from an economic perspective. In the last decades and as a consequence of the different problems faced by society, social entrepreneurship emerged as a form of entrepreneurship that can solve social problems while generating economic value.

Although social entrepreneurship shares the core elements of entrepreneurship, it is distinguished mainly by having as its primary reason the attention of a social problem, leading it to generate business models that create social and economic value. This difference in their motivation gives it different peculiarities, among which the understanding of success stands out, while a traditional company seeks the generation of economic wealth and its positioning in the market, a social enterprise seeks to generate a social impact and address the causes that gave rise the problem that wishes to address.

The start-up of a social enterprise requires a different perspective regarding its motivation, but also of the construction of its business model. From this perspective, social entrepreneur uses concepts such as social innovation and scalability to achieve an impact that sustainably changes the original conditions, from a systemic perspective, that eradicate the causes that create the social problem. The social enterprises not only seek to create social value but also increase the number of customers or consumers of its products or services, since it is a way to increase its social impact and generate a new type of economic structure and society. Its proposal focuses on improving the living conditions of the excluded population and not only to those who can afford it.

Even though traditional companies have developed different models based on the perspective of social innovation, it is important to identify the differences they have with social enterprises. Among the most important is the motivation to respond to a social problem as an objective and mission of the enterprise and not only see social value as a complement of the products or services that companies have and that seek the generation of wealth for its shareholders or owners.

## 4.8 Questions for the Debate

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- What are the main benefits generated by a social enterprise?
- Under what principles or concepts should be developed social enterprises.
- What type of entrepreneurship do you consider to be better, a traditional one or a social one?
- Who do you think should be driving the creation of this type of business in your region or country?
- What are the differences between a social enterprise and a nonprofit organization?

## 4.9 Additional Resources

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### Websites:

- Social Entrepreneurship: The Case for Definition
  - ► [https://ssir.org/articles/entry/social\\_entrepreneurship\\_the\\_case\\_for\\_definition](https://ssir.org/articles/entry/social_entrepreneurship_the_case_for_definition)
- What is social entrepreneurship?
  - ► <https://www.schwabfound.org/what-is-social-entrepreneurship>
- Social Entrepreneurship
  - ► <https://www.ashoka.org/en-US/focus/social-entrepreneurship>
- The 10 Greatest Social Entrepreneurs of All Time
  - ► <https://www.onlinecollege.org/2012/06/26/the-10-greatest-social-entrepreneurs-all-time/>

### Videos:

- Ashoka—Social entrepreneurship
  - ► <https://www.ashoka.org/en-US/collection/social-entrepreneurship>
- Reclaiming Social Entrepreneurship | Daniela Papi Thornton | TEDxBend
  - ► [https://www.youtube.com/watch?time\\_continue=1&v=Rdrf-MqBRfEQ](https://www.youtube.com/watch?time_continue=1&v=Rdrf-MqBRfEQ)
- The future is social entrepreneurship | Kerryn Krige | TEDxJohannesburgSalon
  - ► <https://www.youtube.com/watch?v=mx9MEuxoWn0>

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# Similarities and Differences Among Schools of Social Entrepreneurship

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## 5.1 Objectives of the Chapter

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- Define and explain the characteristics and central elements of social entrepreneurship schools.
- Identify the main differences between social enterprises according to each one of the social entrepreneurship schools.
- Recognize and classify social enterprises according to the school of origin.

## 5.2 Introduction

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Social entrepreneurship is a phenomenon that earned strength in recent years. Its rapid positioning leads organizations from different sectors to promote its implementation and development with the intention of address the main social and environmental problems facing the world. Given its nature, it shares characteristics with traditional entrepreneurship, among which its practicality stands out, that is, the only way to undertake is to carry out a concrete action that seeks to satisfy a need.

This functional characteristic results in the emergence of different perspectives in its implementation, related to the economic, social, and institutional context in which these ventures operate. Despite this diversity, there are two schools of thought that, although they follow the same principles and elements of social entrepreneurship, their fundamentals are different. The first school founded on the paradigm of the social economy, and the second on the paradigm of the inclusive capitalist economy (Defourny & Nyssens, 2008; Portales & Arandia Pérez, 2015).

With the interest to clarify each of these schools, this chapter aims to explain the nature of each of them, as well as their main characteristics, institutional contexts that have pushed and advantages and disadvantages of carried out by social entrepreneurs.

The chapter has the followed structure. The first one exposes the particularities and central elements of the School of Social Economy and the principal characteristics of its social enterprises. The second section reveals the school of thought called Inclusive Capitalist, its characteristics and the features of its social enterprises. The third section presents similarities and differences among them, as well as the advantages that each of them presents during its implementation. The last part exposes a conclusion that serves as a reflection of the chapter.

## 5.3 Social Economy School

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The first school of thought of social entrepreneurship is Social Economy. This proposal arises in Europe, during the decade of the seventies as an alternative to the capitalist model promoted after the Second World War by Occidentalism. This economy took the principles of market, redistribution, and reciprocity as its basis, the latter corresponding to a non-monetary exchange in the field of

sociability among the different members of society, identified with associationism or cooperative (Monzón, 2006). This type of economy has three poles: market, State, and reciprocity.

The Social Economy encompasses forms of economic activity that prioritize social and environmental objectives, involving producers, workers, consumers and citizens who cooperate and act in solidarity (Utting, 2015). Integrates different types of organized groups to produce goods and services, fair-trade networks and other forms of solidarity purchase, as well as consumer groups, associations of “informal economy” workers, social enterprises, social entrepreneurs, and nonprofit organizations.

In 1980, the Charter of the Social Economy exposed the first definition of Social Economy. In this charter, Social Economy is defined as: a set of entities that, not belonging to the public sector, with democratic functioning and management and equal rights and duties of the partners, practice a special regime of ownership and distribution of profits, using the surplus for the growth of the entity and the improvement of services to partners and society (Monzón & Chaves, 2016). Social Economy integrates private entities formally organized with autonomy and freedom of membership that produce non-market services for households and whose surpluses, if any, cannot be appropriated by the economic agents that create, control, or finance (Monzón, 2006).

The Permanent European Conference of Cooperatives, Mutual Societies, Associations and Foundations (CEP-CMAF) created the principles of this economic proposal in the Charter of Principles of the Social Economy:

- Primacy of the person and the corporate purpose over the capital.
- Voluntary and open membership.
- Democratic control by its members (except for foundations, which do not have partners).
- Conjunction of the members’ interests and the general interest.
- Defense and application of the principles of solidarity and responsibility.
- Autonomy of management and independence concerning public authorities.
- Destination of the majority of the surpluses to the attainment of objectives in favor of sustainable development, and the services of members and general interest.

Its main characteristic is the fact that actor’s development it, given to Social Economy a practical component and the organizations that emerge from it, resulting in implementation on the institutional, social, and economic context in which it develops.

In Europe, the institutional and historical context lead to the generation of organizations that, from Social Economy, managed to integrate organizations from social sector into the productive sector by satisfying the demand for social services that were traditionally in the hands of the State. The States and other supranational institutions promote this change with the creation of different legal figures that allow its growth, positioning, and co-ex-

istence with traditional forms of the productive sector (Defourny & Nyssens, 2008).

In Latin American, the proposal of Social Economy emerged as an alternative not only to the economic model but also to the institutional structure promoted by the State. This vision of solidarity economy is a force for social transformation carrying a project of an alternative society to neoliberal globalization. Unlike the European approaches, which consider Social Economy compatible with the market and the State, the Latin American perspective develops this concept as a global project alternative to capitalism and the institutions emanating from it.

In this way, the Social Economy seeks the welfare of the person over the logic of capital and economic benefit. It also has a democratic character, considered essential for a social economy company, since the utility of these companies is the social purpose supported in democratic and participatory values, where everyone gets its benefit from the profits or the surplus that it generates. It maintains an autonomous relationship with the State, even though it usually finances its operation through the supply of social services that it traditionally oversaw providing.

#### 5.4 Social Enterprises from the Social Economy

The social enterprises that emerge under the Social Economy perspective generate local economy processes based on the impulse of new ventures that complement their value chain (Peredo & McLean, 2006; Vazquez-Maguirre, 2018; Vázquez Maguirre, Portales, & Velásquez Bellido, 2018). Class identity—which may be cultural or social—serves as a cohesive factor, through which the vulnerable group becomes a critical factor in the resolution of their problems, favoring the entry of new actors into the constitution of social and economic structures within community, avoiding the construction of dominant or elite classes (Abad Montesinos & Abad Montesinos, 2014). These initiatives take over necessary activities but neglected by capitalism or by the State (Defourny, 2001).

The social enterprises under Social Economy perspective generate horizontal and inclusive organizational dynamics, where the beneficiaries are in charge of generating the income or profits necessary to overcome their poverty or vulnerability conditions (Herrero-Blasco, 2014). Success focuses on the beneficiaries' ability to meet their economic and social needs in long-term, as well as to generate sustainability strategies that increase the quality of life and reduce marginalization patterns (Vázquez-Maguirre & Portales, 2014). These companies not only generate a local, autonomous, and self-managed process of development but also create collective economic structures aimed at strengthening the local socioeconomic dynamics (Abad Montesinos & Abad Montesinos, 2014; Herrero-Blasco, 2014; Oulhaj, 2017).

The traditional scheme of this type of social enterprises is cooperatives or community-based companies where the collabora-

tors are members and owners of the organization. These schemes have been positioned mainly in Europe, where it has a legal framework constituted by the European Union, and at Latin America in indigenous or community-based enterprises (Portales, 2018).

Other organizational schemes developed from the Social Economy, where nonprofit organizations carry out activities to address social problems that, with the intention of improving their economic sustainability, began to generate their business models (Bacchiega & Borzaga, 2003; Wei-Skillern, Austin, Leonard, & Stevenson, 2007). These businesses usually are not aligned with the work carried out by nonprofit organizations since they only have the objective of generating the necessary economic income to continue fulfilling the social mission and do not seek the positioning of a specific product or service in the market.

This last organizational scheme creates double structures or hybrid structures within organizations: The first oriented to the attention of the social mission pursued by the organization, and the second aimed at generating profitable business models that meet the needs of the market. The generation of hybrid structures complicates the operation of the organization because, on the one hand, it must strengthen the business model with the intention of attending to market demands, and on the other, it must comply with the social mission of the organization.

#### Case 5.1. Corporación Mondragón: An Example of Cooperativism

The first key to understanding the Mondragón Corporation's history is the social and economic situation of Mondragón in 1939. The civil war in Mondragón had its fight front from September 1936 to April 1937, leaving a deep imprint on the people, based on the rationing of food and austerity. Mondragón was a population of about 7300 inhabitants, and there was a link to the rural world emancipated of the industrial implantation. The war leads to a remarkable cultural adaptation since 1936. In 1941, a 26-year-old Catholic priest, called Don José María Arizmendiarieta, arrived with a strong background based on the Social Doctrine of the Church and observed that in Mondragón society was two communities. One was the one that lived under the tutelage of the Union Cerrajera that felt more supported, and the other was the rest. Arizmendiarieta understood that every action

should achieve human and social promotion of the person, having as an initial condition the economic development, to be able to advance later in higher social, cultural, and human development. This economic development, to be genuinely transformative, must be communitarian. With the tightening of wage control, social policies, exploitation at work, and lack of dialogue among the directors of the Unión Cerrajera company, a group of young people trained by Arizmendiarieta decided to embark on a new path. Although the goal was to create a company, in which the approaches of their organization were more participatory and supportive, the form was not precise. In the summer of 1955, the opportunity appears for this group. Máximo Beltrán de Otalora wished to transfer his home appliance construction workshop. After negotiations,

the price for the workshop was established at 400,000 pesetas. The group started with five young entrepreneurs the company called Ulgor, a name formed by the initials of the names of the five founders. This company manufactures stoves and oil stoves, later Ulgor became in Fagor. Following the example of Fagor, many cooperatives emerged at Mondragón, however, they were disarticulated among them. In 1959, "Caja Laboral," a financial entity, was created to promote the capture of popular savings and channels those resources toward the development of cooperativism. The functions were not limited to traditional financial services, but through its Business Division gave support to the promotion of new businesses of existing cooperatives and new ones. Until then the cooperatives lacked inter-cooperation, except for the connection with "Caja Laboral." In 1969, the

first merger arose, “Eroski,” given by nine small local cooperatives, who understood that isolated were doomed to disappear. Eroski operates in the distribution sector, through supermarkets and self-service stores. The integration model among cooperatives continued, and in 1999, the cooperative consolidated its corporate values: cooperation, participation, social responsibility, and innovation. Today, the Mondragón Corporation is divided into four main areas: Finance, Industry, Distribution, and Knowledge (Training and Research Centers), and it is the first Basque business group and the seventh in Spain. The social organizations and basic management are made up of the Cooperative Congress, the

Permanent Commission, and the General Council. The operational management of the group is through its business units, which function as individual companies. However, they are not any company, but companies classified as social economy, where workers participate actively, specifying the improvement of productivity, competitiveness, and profitability of companies. The experience of Mondragón shows that the cooperative is the lever or tool for social change. Arizmendiarieta perceived the role of the economy within society, being the company its maximum exponent so that a transformation of the company is the first step for the transformation of society. The economic development of the

company, from this perspective, is a condition to achieve an integral development, which is why it is necessary to put all the technical, organizational, material, and human resources to ensure this development. The cooperative demonstrated its economic viability in a context dominated by capitalist companies, making use of all the capabilities and innovations within their reach, but without losing sight of the spirit that animates them. Corporación Mondragón consolidates the region as an economy based on competitive and dynamic knowledge, capable of sustainably growing economically with more and better jobs and greater social cohesion.

## 5.5 Inclusive Capitalist Economy: Response to the Consequences of Neoliberal Capitalism

The school of thought based on inclusive capitalist economy emerges as a response to the global consequences that capitalism had, implemented from a neoliberal perspective. The diagnosis that gave way this proposal was the identification that the sustained global economic growth during the last century, also increased economic inequality worldwide, negatively impacted the environment, increase and the exclusion and discrimination of specific population in a systematic and global level (Myant, 2017).

Inclusive capitalism seeks to go beyond the creation of wealth and focuses on the generation of schemes that allow the inclusion of a more significant number of people in the economic system following a market logic (Padfield, 2017). It focuses on ensuring that everyone has access to capital markets, in such a way that they can access their capital and use it to improve their living conditions and promote better economic growth at a social level (Barki, 2017).

The inclusive capitalist economy seeks a broader distribution of capital, that is, it reaches to more people and especially that to which it does not reach today. The benefit generated in the individuals and families of middle and lower class will be used to satisfy their needs and unfulfilled desires, promoting the demand of consumers and other products in a way that strengthens the economic cycle of society (Padfield, 2017).

In a market economy in which production is increasingly capital intensive, the ability to generate sufficient profits to buy every produce product or service is not generated only by employment and wellness. Therefore, it is necessary to take into consideration the importance of expanding the distribution of capital acquisition with capital gains simultaneously. Under this perspective, inclusive capitalism not only focuses on producing more goods at a lower cost to increase profits but also on getting more people to access these goods by accessing to more personal capital.

This proposal requires more efficient and sustainable capitalism, especially regarding its ability to include a higher number of people in economic growth, and the inclusion of elements of ethical integrity in the current financial system (Lagarde, 2014). From this logic, inclusive capitalism focuses on a moral change of the economic system that sustains it.

Unlike the Social Economy, inclusive capitalism promotes a change from a global perspective and not from the specificity of the territory where it is carried out. Its impetus came from international organizations who, from a normative perspective, develops initiatives, programs, laws, and projects that seek to generate change in the system (Quijano, 2017).

From this normative and international perspective, it focuses on attention to global problems, especially poverty and the consequences that arise from it, considered as the primary challenge facing humanity. An example of this institutionalization of the problems is the Sustainable Development Goals, which seek to be the development agenda that countries promote by 2030 (United Nations, 2015).

## 5.6 Social Enterprises from the Inclusive Capitalist Economy

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The inclusive capitalist economy understands that the social entrepreneur is an agent of change capable of solving a social problem through the implementation of an adequate business model in a market characterized by competition (Defourny & Nyssens, 2008; Drayton, 2006). This school takes up the idea that individuals created social enterprises to address social problems using the logic of the market and to generate social innovation processes that respond to both aspects (Santos, 2012). The construction of this approach considers the aspects that characterize the traditional entrepreneur, with the differentiation that its main motivation is not the generation of economic profits, but rather the attention to a certain social problem (Grimes, McMullen, Vogus, & Miller, 2013).

Through these ventures is how social entrepreneurs promote structural change, called systemic change, which modifies the conditions or causes that generated the problems to which it seeks to respond (Elkington & Hartigan, 2008; Yunus, 2010). In the words of Bill Drayton, founder of Ashoka: “Social entrepreneurs are not satisfied with giving a fish or teaching how to fish. They will not

rest until they have revolutionized the fishing industry” (Drayton, 2004, p. 12). The social entrepreneur is seen as a hero capable to solve the problems through its endeavor (Nicholls, 2013).

The social entrepreneur is an individual capable of identifying and exploiting opportunities to take advantage of the resources needed to achieve his social mission and to find innovative solutions to the social problems of his community (Bacq & Janssen, 2011). Social entrepreneurs seek the generation of social and economic value simultaneously, fixing their success in achieving both. This situation leads to the creation of a space for impact investors, which seek to increase their wealth through economic investment in social ventures, which offer rates of return like those that exist in traditional markets (Höchstädter & Scheck, 2015).

The generation of social value can take many forms, and, unlike the school of the social economy, it may not relate to job creation (Defourny & Nyssens, 2008). The two ways to build social value are: (1) Offering services or products that benefit a community in a vulnerable situation, such as the provision of low-cost health or telephony services to a segment that due to its poverty conditions could not access; and (2) Generation of inclusion processes in the business model itself, such as hiring only employees with some disability.

The excluded or vulnerable groups are beneficiaries of the business model, and their participation in the resolution of the problem is limited by the spaces of action that social entrepreneurs leave open for them, either by their participation as a collaborator or client or as a beneficiary of the profits they generate.

The social enterprises developed from this school take into consideration tools and concepts that traditional entrepreneurs use in the development of their organization—such as Social Business CANVAS model, slim business design, social value proposal, among others—with the difference that their primary motivation is the attention to specific social problem (Grimes et al., 2013). In the creation and promotion of these enterprises, actors from different sectors participate, who through awards, competitions, and methodologies seek the identification and development of new social entrepreneurs (Dey & Lehner, 2017).

#### Case 5.2. “Clínicas del Azúcar.” From the Social Entrepreneur to the Scalability of the Impact

Javier Lozano is a Mexican engineer who, despite receiving lucrative job offers after his stay at the Sloan Business School of the Massachusetts Institute of Technology, decided to return to Mexico to minimize the impact of diabetes, the main cause of death in the country. The experience of studying at MIT and Harvard allowed him to think about the talents and

abilities he had to transform his country and the world. Although Lozano never worked on projects related to health, his time at MIT after graduating as a physical engineer at the Technological Institute of Monterrey (in Mexico), allowed him to attend classes at the Harvard School of Public Health. There he participated in very innovative projects in health

and diabetes from Boston, Tanzania, and South Africa. This experience, accompanied by long conversations with Julio Frenk, dean of the Harvard School and former Secretary of Health in Mexico, fostered the idea of creating a network of centers specializing in diabetes for people with few resources. With this objective in December 2010, he founded the Clínicas



del Azúcar (Sugar Clinics), a management model of comprehensive and low-cost care clinics specialized in monitoring and eradicating the complications of diabetes. These clinics sought and attract patients to avoid undiagnosed cases and facilitate access to adequate treatment at a low price. The solution proposed by Clínicas del Azúcar allows addressing these problems, which could save and improve the quality of life of thousands of people.

The model developed by Lozano reduces the cost of treating diabetes by 60%, from 1000 to 200 dollars, approximately. To achieve it, Clínicas del Azúcar uses software technologies, data analysis, and development of algorithms that try to anticipate if patients are in control of the disease or not. Algorithms help in making decisions before they reach the doctor, so we empower them and the nurse to act on time in case there is any complication. The company offers packages that include all the consultations, diagnostics, and support with laboratory equipment that a diabetic need during a year.

Clínicas de Azúcar joined the portfolio of The Social Entrepreneurs Fund (TSEF) in June 2015 and of Promotora Social México (PSM) in 2016. In 2017, the Inter-American Development Bank (IDB) granted financing to Clínicas del Azúcar for 475,000 dollars. The investment has the intention of making a replica of the model in the long-term throughout the country. The financing is granted to specific goals; One of them is to raise the number of members between three percent and four percent. It was the first time that the IDB supports a private social enterprise.

In 2018, Clínicas del Azúcar raised 4 million dollars with the International Finance Corporation (IFC), a sister organization of the World Bank, to open ten new units for the control of diabetes and prevention of complications in the next two years. The investment funds of FST and PSM with an undisclosed amount also participated in the operation.

Since 2012, the company has served 30,000 people with diabetes in 13 branches. Today it is a network of units that,

through annual memberships, offers a comprehensive service that includes specialized medical care, education about the disease, nutrition, psychology, laboratory, and store specializing in products for people with diabetes. Their model helps to lower the sugar levels of their patients, and they have a model that allows them to be aware of any complication in order to attend them promptly. By 2018, they have prevented more than 15,000 complications, and with the expansion, they intend to reach 20,000.

The company has a presence in Nuevo León and Coahuila, and with the impact investment received, it expects to generate 300 new jobs. Clínicas del Azúcar is on a growth path, and the IFC Risk Capital Group expects to continue collaborating in the expansion of this model. Through the scaling, the social enterprise created by Javier Lozano in 2010 will increase the impact generated and provide a solution to the 500 million people who have diabetes worldwide, and the 14 million Mexicans living with diabetes, of which 80% live with a complication.

## 5.7 Differences Between Social Entrepreneurship Schools

In the development of social enterprises on the Social Economy, school creates a change in the economic, political, and social system in several ways. At the economic level, these ventures build local economies through the generation of local companies that increase revenues and the domestic market. Politically, they use participatory management and governance systems linked to the interests of the community, in such a way that the decisions of the company seek to benefit the community. From a social perspective, the company is grass rooted in society not only as an economic actor but also as an engine of local development, mainly for its ability to generate jobs and meet the needs of the community.

Concerning governance, the principles of the social economy tend to be oriented toward the restitution of the rights of the inhabitants and not on competition, reflected in the generation of jobs, which is usually the social mission of these companies. The



ventures of social economy visualize the vulnerable group as the principal actor in the resolution of the problem. This school generates capacities in vulnerable groups so that they are the ones that trigger autonomous and self-managed local development processes. On the other hand, those models oriented to the Social Economy seek the construction of processes in which vulnerable groups are the architects of social change.

An example of this type of social enterprise is Corporación Mondragón, which has a management system based on the principles of participation and cooperativism, where the decisions consider the interests of the community and the company together, guaranteeing the local development. The cooperatives of Mondragón place their products in markets that are willing to pay a fair price for them, taking advantage of globalization and the free market promise, but without losing their collective and community nature.

The enterprises that emerge under the school of inclusive capitalism present a continuity to the traditional economic, political, and social capitalist system. While the *raison d'être* of entrepreneurship is the attention to an injustice, the solution mechanism usually operates under criteria or standards of competence, based on the logic of the free market. The entrepreneur usually generates a product or service that covers the failures of the State in the attention of specific needs, so that exchanges usually occur regarding the private interest and not the community.

Social enterprises developed under the inclusive capitalist school see vulnerable groups as beneficiaries of the business models they build. The companies limited the participation of the recipients in the resolution of the problem by opening spaces of action, either as consumers or collaborators, following the logic of the current system and modifying aspects that hinder the positioning of their products or services.

This type of enterprise seeks to change the structural conditions, mainly regarding reducing the barriers that make it impossible for certain sectors to access high value-added markets, such as fair trade. That is, they start from the idea that the free market must exist and visualize it as a mechanism to generate a more significant impact by reaching new segments or vulnerable populations. Likewise, and to increase the impact, they seek the support of impact investors, which are usually part of the elites of the society where they operate and which, through their investment, attempt to generate a positive social impact and economic retribution.

The inclusive capitalist school considers the social entrepreneur as a hero from a middle or high social class who, sensitive to a social problem that does not usually suffer, uses their knowledge and skills to generate social value. The environment, in which they typically arise, places the founder as the example to follow and usually is connected directly to the cause. Examples of this situation are the rankings of some magazines such as Forbes, where some of the individuals considered to be the most powerful are social entrepreneurs.

An example of this type of enterprise is Clínicas del Azúcar, a company founded in Nuevo León, Mexico by Javier Lozano—recognized by the MIT Technology Review Innovators under 35—as a result of his postgraduate studies at MIT. This company seeks to reduce complications associated with the lack of care in the treatment of diabetes in Mexico. The model limits the participation of the affected population to a consumer role, offering them a high-quality product at a low cost. The success of the model allows the generation of sufficient profits to return the investment made by impact investors to the company, as well as to increase its impact through its scaling.

## 5.8 Conclusions

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Despite the differences of each school, both of them have as the *raison d'être* the generation of social value, understood as the removal of any barrier that generates some vulnerability or exclusion (► Chapter 3). Likewise, there is a clear interest in creating income as a way to maintain the sustainability of the organization and increase the impact of the social mission. These characteristics are a point of convergence of both schools, so social entrepreneurship, regardless of its meanings, has as its *raison d'être* the generation of social value by taking as a means to achieve it the production of economic value.

The flexibility that social entrepreneurship presents for using the conditions and logic of capitalism innovatively and inclusively is one of the reasons why it has positioned itself as a viable solution to the problems faced by humanity, among the which highlights the poverty and socioeconomic exclusion. This positioning lead to the implementation of enterprise encouraged to promote the empowerment of vulnerable groups with interest in generating products or services that can be positioned in different markets and increase their income.

In all social entrepreneurship schools, the construction of relationships and networks of horizontal and vertical collaborations are crucial to achieving their social and economic mission. It should even seek a mixture between both types of collaborations since the former serves to detonate the collective social capital of the region and contributes to the articulation with national and international markets that favor the positioning of the product.

Social entrepreneurship takes as a basis for the inclusion of groups in a situation of vulnerability to achieve their social and economic objectives in two main ways. First, through their involvement in the generation of products or services in different markets, or by the generation of products and services aimed to satisfy their needs. Second, by receiving the benefit of buying products or services oriented to increase their living conditions.

It is through the integration and attention of the problems that arise in the territory that social entrepreneurship has as its *raison*

*d'être* the achievement of collective well-being. In some occasions, the work carried out by these social enterprises facilitates the integration of the problem in the agenda of institutions, organizations, and governments, which gives more vision to the enterprise that triggered it.

The creation of social enterprises should not be sought under a specific approach or school since each one presents characteristics that complement the limitations of the other and vice versa. It is important to mention that the logic of action of social entrepreneurship, regardless of the schools of thought, operates taking into consideration the set of resources and capitals found in the territory where it operates. This logic contributes the construction of social inclusion processes that strengthen the sense of identity and empowerment in the communities and people where it operates, making this type of enterprises a national and international reference, consolidating as development models to be scaled in other regions that present similar problems.

### 5.9 Exercise

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Check the following cases of social enterprises and classify them according to the type of school of thought.

- Natura
- Patagonia
- Yomol A' Tel
- Algramo
- Chicza
- Aulas Amigas
- Edeka Zentrale AG
- Bolsa Rosa
- Zenkyoren

Questions for analysis

- What do you consider to be the type of social enterprise that can generate the greatest impact? Why?
- What do you consider to be the problems that social economy social enterprises can best solve? What do you consider to be the problems that a company with an inclusive capitalist economy can best solve?
- Why do you think that in Europe the Social Economy model has flourished in a better way from the State and in Latin America is seen as an alternative form to the institutional system?

### 5.10 Additional Resources

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Lectures and websites:

- Coalition for Inclusive Capitalism
  - ► <https://www.inc-cap.com/>

## References

- Social Enterprise UK | Social Economy Alliance
  - ► <https://www.socialenterprise.org.uk/social-economy-alliance>
- Confederación Empresarial Española de Economía Social
  - ► <https://www.cepes.es/>

## Videos:

- Social Enterprise in the Social Economy
  - ► <https://www.youtube.com/watch?v=fD6d8vnCp9I>
- Social economy vs social Enterprise
  - ► <https://www.youtube.com/watch?v=4leJnW0Z684>
- How to create a successful social enterprise | Marquis Cabrera | TEDxTeachersCollege
  - ► <https://www.youtube.com/watch?v=M3f1R2IZFk>
- Social Enterprise
  - ► [https://www.youtube.com/watch?v=9\\_g5RqwW51I](https://www.youtube.com/watch?v=9_g5RqwW51I)
- Non-profits vs. for-profit social enterprises—Rob Koen
  - ► <https://www.youtube.com/watch?v=QW2I7GanUCQ>

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# Characteristics of the Social Entrepreneur

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## 6.1 Objectives of the Chapter

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- Define and differentiate between a traditional entrepreneur and a social entrepreneur.
- List and understand the challenges faced by a social entrepreneur.
- Explain each of the different types of social entrepreneurs that exist.
- Recognize each of the stages of a social enterprise, depending on the styles of leadership required and the type of social entrepreneur.
- Analyze a social enterprise based on the profile of the social entrepreneur and the style of leadership required.

## 6.2 Introduction

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Social entrepreneurship is the process by which social enterprises seek to address a social problem innovatively and sustainably changing the social and economic structures that gave rise to it. However, to achieve, it is necessary to have an agent of change, aware of this problem, and with the interest of carrying out an action that transforms the context or the conditions that make them arise or prevail.

This agent of change is known as a social entrepreneur, which shares qualities and similarities with the traditional entrepreneur. However, the nature of entrepreneurship and motivations makes them have particularities that are important to take into consideration for analysis and understanding. Sometimes these particularities are related to the type of social enterprise they wish to develop, but in most cases, they are common to all of them.

In the same way, as in traditional ventures, the social entrepreneur has a series of characteristics, skills, and competencies to take their business to success. Some of these characteristics are innate, while others must be developed over time and during the process of implementation of the company.

Based on this context, this chapter aims to present the profile of social entrepreneurs, as well as the skills and competencies they develop to have a social enterprise considered to be successful. It also exposes the different types of social entrepreneurs that exist and the roles that each of them plays according to the life cycle of the social enterprise.

The chapter has five sections. The first exposes a description of the general characteristics of a social entrepreneur. The second section presents an analysis of the challenges faced by the social entrepreneur when carrying out his social enterprise. The third shows the different types of social entrepreneurs, as well as the roles they play in each of them. The fourth section presents the kind of leadership that a social entrepreneur must develop in each of the stages of their social entrepreneurship until they become consolidated within the ecosystem. The fifth section presents reflections, by way of conclusion of the chapter.



### 6.3 Social Entrepreneur, Particularities, and Differences That Make Them an Agent of Change

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Social entrepreneurs are like other entrepreneurs, with the difference that their motivation is social impact and not money (Tracey & Phillips, 2007). They are agents committed to making a difference for the world, driven by social objectives, which have the characteristic of improving the living conditions of other people. To achieve their purpose, they decide to carry out a social enterprise that, like any other business, should not incur losses, but obtaining dividends from these companies is not the motivation that drives them (Yunus, 2006).

Social entrepreneurs face the same challenges as traditional entrepreneurs: the recognition of opportunities, the allocation of resources, and the creation of a new company, with the added complexity of the achievement of social results.

Although there is no agreed definition of social entrepreneur, all agree on the importance of the social value proposition, that is, the objective of the entrepreneur is to solve a social problem (Nicholls, 2013). Therefore, a social entrepreneur is that individual who tries to address or alleviate a social problem with an innovative business approach. Successful social entrepreneurs reflect the characteristics of successful commercial entrepreneurs, but require an extra dose of visionary ideas, leadership skills and a commitment to help others (Mair, Battilana, & Cardenas, 2012). They are people who realize that there is an opportunity to satisfy some unmet need, gathering the necessary resources to make a difference. Positioning it as catalysts for social transformation (Waddock & Post, 1991).

Within the personal characteristics that distinguish the social entrepreneur is his mentality (Light, 2005), which takes into consideration two aspects. The first is the social sensitivity and motivation they have to carry out their entrepreneurship. This mentality reflects that social entrepreneurs are ambitious, have a mission, are strategic, have resources, and are results oriented (Sastre-Castillo, Peris-Ortiz, & Danvila-Del Valle, 2015). The second aspect is the risk aberration that usually carry out its venture, but also its ability to learn their first implementations, that is, they show the willingness to self-correct and modify the plans, adjust the details, and overcome barriers (Marshall, 2011). They admit mistakes.

Motivation is another characteristic that defines social entrepreneur (Grassl, 2012; Yunus, 2006). In most of them, there is a point of inflection or the awareness of a lack of compliance with some right or injustice, being the necessary stimulus to decide to take action to solve the diagnosed social problem. The ability to recognize opportunities when analyzing any problem complemented this motivation. Through the understanding of the social problem visualizes the potential to transform the social conditions that generate it. Social entrepreneurs recognize the complexity of

social issues and develop a systematic vision for the issue, identifying the effects and causes that create it, the relevance of their attention, and the need to make collaboration from interdependent actors.

The social entrepreneur is an individual with significant personal credibility, which it uses to take advantage of critical resources (Waddock & Post, 1991). His history generates a distinctive profile of beliefs and values, a fact that contributes to the formation of his personality but also to give meaning to the work he does. This history and credibility generate a commitment of the followers with the project, framing it regarding social values, instead of economic benefits, which results in the sense of collective purpose between the social entrepreneur and those who join the project. Social entrepreneurs have an ethical impulse, where money is only a tool to boost their programs and make projects progress.

Another characteristic is their ability to act and cross disciplinary boundaries, bringing together people from diverse backgrounds who can work together to create a solution. In this sense, they are willing to free themselves from the established structures and to create new ones according to the needs to generate a new social equilibrium. Their ability to act and develop relationships for social transformation, lead them to share the credit with other actors. Sometimes, social entrepreneurs are willing to work quietly in the background.

The social entrepreneur sustains the achievement of a social mission above or in parity with financial success (Alter, 2006; Marshall, 2011; Waddock & Post, 1991; Yunus, 2006). So, one of its characteristics is the fact that the growth of the company is a positive result, providing an enhancement of the social problem. Social entrepreneurs produce measurable returns, these results transform existing realities, open new paths for the marginalized and disadvantaged and unlock the potential of society to enable social change.

The search for a double type of value is a characteristic of the social entrepreneur, considering the social and economic objectives in simultaneous (Austin, Gutierrez, Ogliastrri, & Reficco, 2006). Social entrepreneurs often occupy market niches by offering products and services that satisfy basic needs and that are not provided by the public or private sector, such as those related to social assistance and traditionally subordinated to the State. Although they also compete in traditional markets where they compete with the products and services of traditional companies, increasing the tension between the generation of social and economic value (Vázquez-Maguirre & Portales, 2018).

It is important to mention that, although social entrepreneurs almost always define themselves as individuals because is easier to find and visualize, there are social entrepreneurship that arises from social groups, citizen groups, networks, organizations, or even communities. This type of experience is presented mainly in the School of Social Economy, in which the community promoted above the individual, even when there is individual leadership that

drives the initiatives. So, a social entrepreneur is an individual, group, network, organization, community, or alliance of organizations that seek a sustainable change on a large scale through innovative ideas to solve significant social problems, to the instead they use market mechanisms.

## 6.4 Challenges Faced by Social Entrepreneurs

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The dual mission faced by social entrepreneurs at the moment of launching their ventures results in the facing of particular challenges, which would hardly be faced by a traditional entrepreneur. These challenges are of an individual type as well as an organizational type, and in some cases, a social one. Their attention favors the success of the social enterprise, however, due to the nature of the entrepreneur, sometimes not usually taken into consideration at the time of undertaking.

On a personal level, the social entrepreneur has an intrinsic motivation related to the problem it wishes to address, which is usually linked to some life history, considered as the tipping point that led him to be an agent of change. By focusing on the problem as the starting point of the change process, they tend to forget to generate market mechanisms aimed at satisfying the needs of customers or consumers in a competitive way (Dey & Teasdale, 2013). This situation places them in what of innovation, leaving aside how to carry it out, being its principal interest to address social problems through new ideas and not necessarily the generation of economic value. The challenge is to strengthen the use of high-performance management practices, such as continuous improvement, quality management, financial controls, and a general focus on accountability, increasing the possibility of early success.

Accountability is often a complicated issue for social enterprises. By assuming a social mission, social entrepreneurs create relationships with vulnerable groups or sectors, which must be taken into account and establish bridges of dialogue with them during the creation of the company and developing its strategy (Tracey & Phillips, 2007). Social entrepreneurs require a set of competencies that allow them to create and manage these relationships, as they are a crucial element in providing the legitimacy they need. Finding this balance in relationship management is complicated, because social entrepreneurs need to create profitable businesses based on competitive products and services, and the process of consulting with stakeholders could impede competitiveness and slow decision making.

Another challenge faced by social enterprises is the tension between social and commercial objectives (Vázquez-Maguirre & Portales, 2018). The types of tension experienced depend on the nature of the company and the costs of the social mission. The most obvious thing is that difficult decisions must be made regarding the priorities of the organization and investment strategies; however, sometimes the decision is focused on investing in

the attention of the social problems, putting at risk the operational sustainability of the company or vice versa. The challenge for the entrepreneur is to reach the right balance between investing in the income generating part of the company or invest in the part responsible for achieving social results.

Social entrepreneurs also present the challenge of breaking the dichotomy or silo presented by social and economic job (Tracey & Phillips, 2007). Entrepreneurs, who have experience in the social sector, have difficulties to identify the commercial part of the business; while those entrepreneurs with experience in traditional companies may have difficulty identifying the company's social approach. Although this situation appears with greater force in the social entrepreneur, it also exists in employees and volunteers of the social enterprise.

Finally, the primary challenge faced by a social entrepreneur when the company's operation begins is to operate beyond the equilibrium point. When the entrepreneur has achieved this situation, he has graduated from the business world, with the possibility of expanding its impact (Yunus, 2006). He has overcome financial dependence, moving the world of philanthropy to the business world.

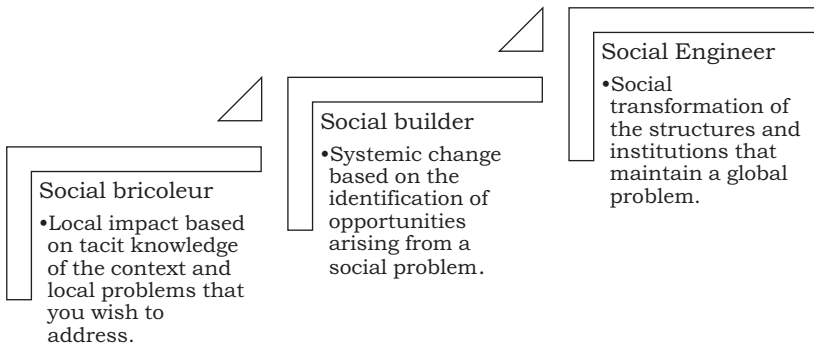
## 6.5 Types of Social Entrepreneurs

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So far, the review has not mentioned explicitly the fact that not all social entrepreneurs are equal, that is, the context in which they develop, their life history and the problems they wish to address, define the type of entrepreneur they want or must to be. In this context, the proposal developed by Zahra, Gedajlovic, Neubaum, and Shulman (2009) considers three different types of social entrepreneur: social bricoleur, social builder, and social engineer. These types of social entrepreneurs can be classified from low to high, depending on the type of impact or social transformation they can achieve (■ Fig. 6.1.).

The bricoleur social entrepreneur has a local or tacit knowledge, using its resources and repertoires to carry out the tasks on day-to-day basis. It involves the combination of existing resources to solve problems and take advantage of new opportunities (Di Domenico, Haugh, & Tracey, 2010). This entrepreneur has an intimate knowledge of the local environmental conditions and the resources available locally. It attends to locally discovered opportunities with locally available resources.

This type of social entrepreneur identifies social needs that can be indiscernible or unrecognizable by other actors. The solutions they design are sometimes small in scale and limited in scope. However, these solutions help to mitigate local social problems. Social bricoleurs contribute to the generation of a social equilibrium where peace and social order exist. As a consequence of its localized and often implicit knowledge, social bricoleurs are in a unique position to discover local social needs where they can take advantage of their motivation, experience, and personal resources



■ **Fig. 6.1** Types of social entrepreneurs according to the type of impact they can achieve (Source Author)

to create and improve social wealth (Zahra et al., 2009). Although they are not as advertised as other entrepreneurs, social bricoleurs perform essential social functions throughout the world.

Their work is so subtle that they resist recognition or even exposure by governments and the media. They are less concerned about the scaling up of their initiatives, so that organizations that seek this element within a social enterprise may not appreciate the contributions of the social bricoleur.

#### Case 6.1. Bárbara Diego and Her Effort to Dignify the Elderly Through Gericare

Bárbara Diego's interest in dignifying older adults started from her home; she lived with her family. For more than 20 years, his family lived with a dependent older adult without knowing that the cause of his diminished mental capacity was Alzheimer's. They traveled to the USA for treatment, then her husband died and so did her daughter, both uncharged to take care of her. Then she knew that she wanted to do something. She offered therapy for six years to seniors and their families. During those years, Barbara met Ana Sustiel, her business partner, who also worked as a psychologist for the elderly and families for a long time. They shared a passion for learning, which led them to study together with a Master in Psychotherapy. Later, they began to teach courses for families with patients diagnosed with dementia and, through their experience, they identified

the insufficiency of the current models of attention to adults in the fourth age, giving rise to Gericare. Gericare is a gerontology service center with an innovative model for Mexico. It is different from the model of traditional care homes and asylums, where the elderly stayed for the rest of their lives. The model has three units. The first is a care center for the elderly, with modern equipment, located in the Central Business District of San Pedro Garza García. This place was meant for the elderly to feel enthusiastic about visiting and spending time with others, learning to feel comfortable with themselves again. To achieve it, the Day Club Program was established, which operates on three axes: (1) cognitive stimulation, (2) physical development, and (3) playful-social integration. The second unit is home care through personal assistants certified in treatment and care

for the elderly. The third unit is the Gericare Services Network, a free service that provides information and knowledge to family members of senior citizens about their care and the importance of being close to them. Nearly ten years after its founding, Gericare provides services to seniors, in a Mexican context where the problems represented by this sector have not been addressed and taken into account. The model has proved its validity regarding the market, at the level of improving the living conditions of their patients and their integration with society. However, its impact is limited by the lack of awareness at the national level of the implications that the care of the elderly will have in the medium term, especially in a country where the youth demographic bonus begin to disappear.

The second type of social entrepreneur is the builder, characterized by its ability to identify opportunities within the market or society to build and introduce systemic changes, both at the level of ends and means. By introducing innovations, entrepreneurs successfully and profitably take advantage of opportunities to address the unmet needs of customers (Waddock & Post, 1991). Builders social entrepreneurs identify needs that are not being adequately met by companies or by the State to offer a good or service that radically changes the way to satisfy this need (Zahra et al., 2009).

These entrepreneurs build and operate social enterprises that meet the needs of segments and populations that traditional companies have forgotten, either due to a lack of incentives or the way in which they do not address the causes that generate the problem, serving as a palliative to this situation (Chell, Nicolopoulou, & Karataş-Özkan, 2010). These social entrepreneurs are alert to the opportunities offered by a specific problem and decide to carry out an innovative action to address it.

These entrepreneurs develop organizations that match the scale and scope of the social needs they seek to address, usually transcend the local level and reach an international level (Barki, Comini, Cunliffe, Hart, & Rai, 2015). Unlike bricoleurs who improvise solutions to local social problems on a small scale, social builders seek to remedy broader social problems by planning and developing scalable solutions formalized or systematized to meet growing needs. Their models could be transferred to other contexts, increasing their impact. The advantages of these entrepreneurs do not come from local knowledge; they result from their unique ability to detect and take advantage of those opportunities that generate social wealth by creating and reconfiguring the processes enacted to deliver goods and services.

While social builders may face limited competition in the delivery of their solutions, competition for resources is often intense, as they require significant funding to create the vast and complex organizations needed to achieve the desired impact. Governments, NGOs, and charitable foundations are the traditional sources of financing for these entrepreneurs. Acquiring resources through collaborative companies often helps social builders to build, maintain, and grow their organizations. However, the diversity of financing can also restrict or even alter their missions.

Social builders often have to develop and refine a capacity to raise funds, possibly diverting their attention from their primary mission. The need to be part of the staff of the organization can also influence the fate of this mission as professional employees, and volunteers begin to exercise control over its operations, strategies, and activities (Zahra et al., 2009). The need to acquire substantial resources also presents social builders with a paradox in the management and maintenance of its organizations.

### Case 6.2. Algramo from the Neighborhood to the World, an Intelligent Solution by José Manuel Moller

While José Manuel Moller studied Commercial Engineering at the Universidad Católica of Chile, he went to live in a town in the commune of La Granja with three friends. As they studied and worked, they had low incomes, which forced them to buy what they needed for day to day in small formats. José Manuel realized that buying in the store in his neighborhood; he pays much more than if he bought in bigger formats. Looking for a solution to this situation, José Manuel founds Algramo. The original idea was to create a machine that would bulk off the amount the customer wanted to buy, in order to pay a wholesale price for a small amount. These machines would be installed in warehouses since it is in these places where the problem occurs most frequently. In April 2013, Algramo began with the stage of development of the final dispensing machines. After a while, Algramo installed the first powder detergent dispensing machines. From the neighborhood, Algramo gains strength, giving rise to the

constitution of a voluntary Board of Directors and chosen as the best Latin American project of Start-Up Chile, 7th Generation and winner of the Open Start-Up of UDD Ventures. For 2014, Algramo certified as Company B and implemented a sales system that does not involve the dispensing machine and thus does not depend on the manufacturing time of these. A system of manual sale is created using returnable containers, equal to that of beverages, maintaining the logic of sale in bulk. Families buy, consume the product, and return with the same packaging for their next purchase. In 2015, the B certification recognized it as the best company for the world and the best company for the community. Fast Company magazine selected Algramo as one of the 50 most innovative companies worldwide. In 2016, the transition from Entrepreneurship to Social Enterprise was consolidated, with the birth of Operations, Sustainability, Human Resources, Communications,

Marketing, and Legal; the birth of the corporate culture was consolidated to improve the processes through which we were arriving at the warehouses. This year they are ranked No. 11 in the world for the Best Companies for the World (Best For The World). In June 2017, the organization of the Universal Exhibition of Dubai (Expo 2020) announced that Algramo would participate in the event of the year 2020, and also received a grant for the development of new technology prototypes to provide cheap food and Internet connection to the most vulnerable communities. The Expo Live program of the Expo 2020 in Dubai has an allocation of 100 million dollars to support projects that offer creative solutions to the challenges that influence the lives of people or contribute to the conservation of the planet. Currently, Algramo has a presence in 1600 stores, serving 220,000 consumers in low-income neighborhoods and avoiding 180,200 kilograms of garbage.

The last type of social entrepreneur is the engineer. This entrepreneur introduces dramatic changes in the social sphere, which resemble what great entrepreneurs in the world of commercial companies (e.g., Steve Jobs, UBER, among others). They are the engines of innovation and change, destroying obsolete systems, structures, and processes replacing it by newer and more appropriate ones (Martin & Osberg, 2007). By fracturing existing and often dominant institutions and replacing them with more socially efficient ones, social engineers can have a profound influence on society. These entrepreneurs can have high strength for social change.

Given the “systemic” nature of the problems, social engineers often attack national, transnational, or global social problems. The revolutionary and ideological nature of the reforms they introduce is often a threat to the interests of established institutions and is sometimes considered subversive and illegitimate (Yunus, 2007). The scope and scale of their impacts, as well as the deficits of legitimacy that they could face, require that social engineers take advantage of popular support to fulfill their missions. As a result,



their ability to accumulate enough political capital to gather other necessary resources and achieve legitimacy supports their ability to act.

### Case 6.3. Muhammad Yunus. From Microfinance and Microcredit to Peace and Social Development of the Poor

Muhammad Yunus is a social entrepreneur and social leader who in 2006 received the Nobel Peace Prize for developing the Grameen Bank and being the developer of the concepts of microcredit and microfinance. These credits granted to entrepreneurs who are too poor to qualify for a loan in a traditional bank. In 1976, during his visits to the poorest neighborhoods in the city of Jobra near Chittagong University, Yunus discovered that small loans could make a considerable difference for poor people. Village women who made bamboo furniture had to accept a loan to buy bamboo and pay almost all their profits to the lender. Traditional banks did not want to offer small loans at a reasonable interest rate to the poor because of the risk that

it meant. Yunus lent 27 dollars of her money to 42 village women who made a profit of 0.50 Takas (US \$ 0.02) on each loan. In December 1976, Yunus secured a loan from the Janata Bank to lend to Joba's poor. The institution continues to operate, securing loans from other banks for its projects. By 1982, it had 28,000 members. On October 1, 1983, the pilot project went into operation as a full bank for the poor of Bangladesh with the name of Grameen Bank ("People's Bank"). Yunus and his colleagues faced everything from violent right-wing radicals to conservative clergy that women who asked for Grameen Bank money would be denied a Muslim burial. By July 2007, the Grameen Bank had granted 6.38 billion

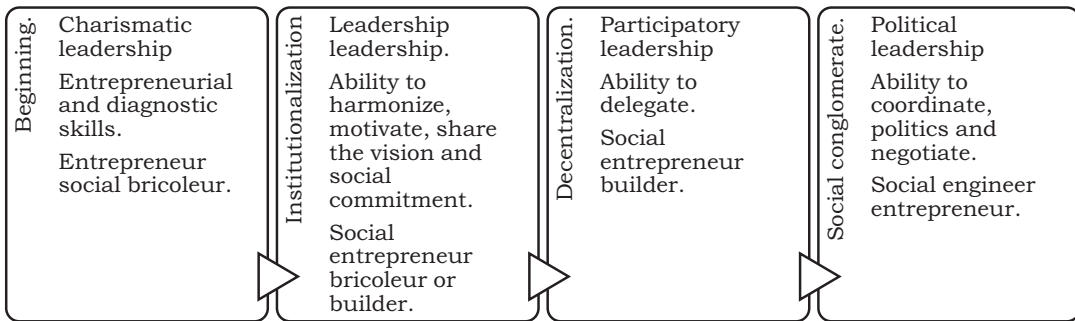
dollars to 7.4 million people. To ensure the payment of the debt, the bank uses a system of "solidarity groups." These small informal groups apply together to the loans, and their members guarantee payments among themselves and support each other's efforts to achieve economic advancement. The success of the Grameen microfinance model has inspired similar efforts in approximately 100 developing countries and even in developed countries such as the USA. Many microcredit projects retained the idea of lending to women. More than 94% of Grameen loans are for women who suffer disproportionately of poverty and tend more than men to allocate their earnings to their families.

## 6.6 Leadership in Social Enterprises: The Need for Change as the Enterprise Grows Up

Social entrepreneurs must not only fulfill a leadership that allows them to position themselves in the market or grow economically, but also must develop skills that allow them to effectively manage the conflicting demands that arise from the commitments to improve social welfare and achieve viability commercial. The social entrepreneur must have the ability to understand a total situation, seeing the whole and not just a part of the system, considering all the relationships that exist between the different factors of the situation. Social enterprises provide an environment in which the total situation combines the passion for a social mission with a pragmatic approach to the business purpose.

Leadership in social enterprises is the capacity to make transformations and obtain outstanding results. The leaders of these ventures can make profound changes in their organizations or carry out successful social reforms in the midst of adverse circumstances, and how they manage to develop motivation and effectiveness among their followers. The ability of leaders established the work frameworks, values, and commitment within organizations. The task of the leader is to promote the organizational





■ Fig. 6.2 Stages followed in the process of development and consolidation of social enterprises (Source Author)

transformations that allow the growth and consolidation of the enterprises over time.

Now, as in traditional companies, the social entrepreneur must make use of specific skills at certain times, defined according to the stage of his or her venture. A social enterprise that seeks social transformation can be visualized concerning four stages (Austin et al., 2006): beginning, institutionalization, decentralization, and social conglomerate (■ Fig. 6.2). Due to the nature of each of them, the entrepreneur must play a role and a different style of leadership, and therefore, also the type of social entrepreneur may or may not favor the development of these stages.

In the start stage, the social entrepreneur starts with an analysis of the context and the identification of a problem to take action. The interaction with other social actors and the environment in which they operate play an important role since the position that an individual occupies within society can facilitate entrepreneurship. The entrepreneur takes advantage of their relationships or contact networks to start the venture. Must have the ability to undertake, but also diagnostic, because through them is how to start to give life to its initiative. A charismatic leadership style contributes to obtaining the necessary resources to start social entrepreneurship. Usually, at this stage, the enterprises focus on the local area, so that a social entrepreneur bricoleur is the one who can favor its development.

In the institutionalization stage, the aim is to stop relying on the leader and achieve the efficiency and effectiveness of the organization through the development of the necessary administrative structure, without losing sight of the social purpose of the initiative. The challenge is to secure the economic resources so that the enterprise achieves its financial sustainability and the adhesion of collaborators, forming a work team capable of managing the initiative. The leader presents the ability to harmonize, motivate and share the vision and social commitment that is required to achieve the expected impact. Management leadership uses systems and structures to give a precise orientation to its work team, and which, in a personal way, guides and exercises control over decision making at all levels of the organization. Continuous improvement and organizational learning should be constituted

as institutional goals, and as a tool to achieve the objectives. The institutionalization of entrepreneurship is critical to ensure the continuity of the initiative. In this case, a social entrepreneur bricoleur or builder can favor the consolidation of this stage.

The decentralization stage creates teams capable of implementing social initiatives and efficiently manage the units created within the enterprise. Leadership consists of two dimensions: at a central level, strategic and related to the mission of the organization, and at a particular level, executive and related to the implementation and administration of specific ventures. The founding leader frequently remains at the central level, deciding to open or close units and, sometimes, the allocation of financial resources to develop different activities. Its most important ability is to delegate. Decentralization then allows organizations to carry out various social enterprises simultaneously. It is necessary to move from an individual leadership to participatory leadership, distributed decision making to different levels of the organization, so it is handy to carefully select those who will lead the different units of the enterprise. In this case, the social entrepreneur must be a builder, since it has to develop structures that favor the scaling of the enterprise.

The social conglomerate consists of a set of organizations or units that independently develop social ventures and that, although they have their organizational structure, work under a shared strategy. The success of the operation and the social performance of these conglomerates depends on the centralization of certain critical aspects that give efficiency and effectiveness to the organization. Leadership in a social conglomerate is political and manifests itself from a centralized unit that dictates common strategic guidelines for the enterprises and coordinates critical functions so that it operates efficiently. In order to achieve the reorganization of tasks, the leaders use their political and negotiation capacity to assemble the different activities of the conglomerate under a common strategy and to reconcile the tensions that may arise between the different undertakings. The type of social entrepreneur ideal for this stage is the engineer.

## 6.7 Conclusions

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The social entrepreneur is a critical element in the development and positioning of any social enterprise. It is an agent of change that, sensitive to a particular problem, decides to take action and creates an organization or initiative with the interest of responding to the problems it faces. This agent has different characteristics that differentiate him from a traditional entrepreneur, highlighting the fact that his happiness or self-realization focuses on the generation of social value and not on the generation of wealth.

The implementation of this organization requires responding to various challenges, which must be addressed by the social entrepreneur systemically and appropriately. Perhaps the most significant challenge faced in the simultaneous generation of value (economic and social) and making decisions that allow the bal-

anced growth of social entrepreneurship: achieve social impact without compromising financial sustainability, and vice versa.

At the moment of addressing a specific problem, the social entrepreneur is expected to have minimum characteristics to achieve it. However, its scalability is limited by the type of entrepreneur who carries it out and by the problems that it is desired to address. Those problems that arise exclusively at the local level will require a bricoleur social entrepreneur, as is the case of Gericare. A problem addressed through the transformation of the system will need a social engineer entrepreneur, as is the case of Yunus that has transformed the financial industry through its proposal of microcredits and promotion of social entrepreneurs.

The growth of the social enterprise also requires an evolution in the appropriate leadership style according to its stage. In the beginning, the entrepreneur is charismatic, allowing him to add more people to his initiative. However, when it comes to scaling up its business and consolidating it, it requires a participatory style, where it delegates activities and favors the decentralization of its processes and achieves autonomy among its units. Because social transformation requires more actors involved, some social enterprises reach a stage of social conglomeration, where the political style of the social entrepreneur is critical to achieve its consolidation and operation, as has happened with the case of Coporación Mondragón (► Chapter 5).

It is important to remember that the social entrepreneur is an agent of change in the process of formation, so it is not necessary that from the beginning he has all the mentioned characteristics or skills or that he exercises some leadership or another. It is a problem, context, and entrepreneurship that defines the role, skills, and characteristics that the social entrepreneur should apply or develop, always taking into account that the ultimate goal is the transformation of society and attention to the causes presented by the problem that want to face.

## 6.8 Exercise

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Taking into consideration the local or regional context of the place where you live, identify a problem that should be addressed. Identify who is currently solving this problem—at the local, national, or international level—and how they are doing it. Do an investigation about the founder or social entrepreneur and the social enterprise that directs and answers the following questions.

- What is the background of the social entrepreneur and what situation or aspect led him to undertake?
- Based on the background above, what kind of social entrepreneur is it?
- At what stage is social entrepreneurship?
- Using ■ Fig. 6.2, make a matrix where you can identify how the social entrepreneur developed the leadership style, skills, and type of entrepreneur in each of the stages.
- What challenges does the social entrepreneur currently face and what skills would he have to develop to overcome them?

## 6.9 Additional Resources

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Websites and lectures:

- If Billionaires Are A Cause Of Climate Change, Social Entrepreneurs Are A Solution
  - ► <https://www.forbes.com/sites/devinthorpe/2018/12/22/if-billionaires-are-a-cause-of-climate-change-social-entrepreneurs-are-a-solution/#56c84765123e>
- Famous Social Entrepreneurs Doing Good and Making Money
  - ► <https://changecreator.com/8-famous-social-entrepreneurs-need-know/>
- Latin America Social Entrepreneurs Honoured at World Economic Forum Meeting in Mexico
  - ► <https://www.weforum.org/press/2015/05/latin-america-social-entrepreneurs-honoured-at-world-economic-forum-meeting-in-mexico/>
- World-changers: meet the Social Entrepreneurs of the Year 2018
  - ► <https://www.weforum.org/agenda/2018/09/world-changers-meet-the-social-entrepreneurs-of-the-year-2018/>

Videos:

- Social Entrepreneurs: Pioneering Social Change
  - ► [https://www.youtube.com/watch?v=jk5LL\\_WcosQ](https://www.youtube.com/watch?v=jk5LL_WcosQ)

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# Business Models of Social Enterprises

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## 7.1 Objectives of the Chapter

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- Define what the core elements of any business model are.
- Establish the differences between the elements of a traditional business model and a social one.
- Define traditional business model and social business.
- Develop a social business model based on the proposed Social Business CANVAS enterprise.

## 7.2 Introduction

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The *raison d'être* of any social enterprise is the attention of some social problem through the implementation of an initiative that seeks to address it. It differs from other types of social innovations in the fact that the attention of the social problem is through a business model, resulting in the generation of a double value or a dual mission by the organization. This nature makes the definition and implementation of their operating models more complex since it must include the way in which they will generate an impact on society and the strategy of sustainability or simultaneous wealth generation, which makes it necessary to talk about models of social businesses.

As in the definition of social enterprises, social business models are diverse and contemplate several aspects, among which are the problems to be addressed, the context in which they wish to be carried out, and the profile of the social entrepreneur. These aspects define not only the wealth generation scheme, but also the relationship that exists between the generation of social and economic value, and the scheme that the entrepreneur and the company will use to achieve the desired impact.

Regardless of the type of social enterprise, all of them comply with at least two characteristics. The first is that they offer a good or service that must satisfy a market need, which traditionally competes with other similar products that may or may not come from social enterprises. Second, regardless of the good or service, the model must contemplate the generation of enough wealth to maintain the operation of the organization and deliver the social value proposition to the beneficiary, community, or group.

This chapter presents different types of social business models, as well as their main characteristics and the aspects considered in its conceptualization. It will also show a typology of the different social business models that exist, as well to map or design the social business model from a graphic perspective.

The chapter is structured in five sections. The first section briefly explains what a business model is and what its main characteristics are. The second section exposes what a social business model is and what are the elements that differentiate it from a traditional business. The third section presents the different social business models that exist and the way in which they deliver economic and social value. The fourth section exposes a graphic form

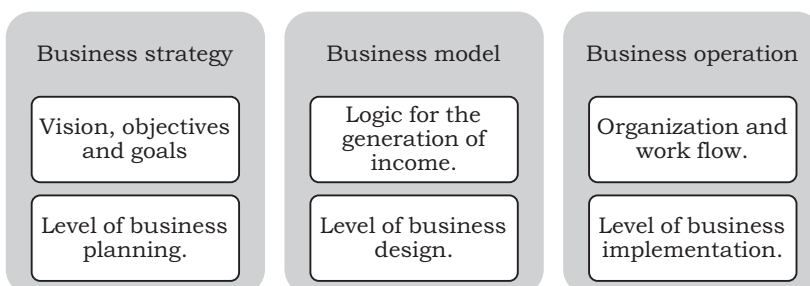
to visualize a social business model. The fifth section presents a series of conclusions about social business models, their particularities, and challenges in their implementation.

### 7.3 Definition and Understanding of the Business Model Concept

The concept of business model does not have an agreed definition. Its study identifies the central elements that must be known and identified during its construction, analysis, and development. These elements are related to the generation of wealth, the strategy, and the operation that a company has at the moment of being operating in the market.

The simplest way to define business model is on the part of wealth generation understood as the statement about how a company makes money and maintains its flow of profits over time (Morris, Schindehutte, & Allen, 2005). This statement should include the business logic of the company, that is, not only how it makes money, but also what it offers, to whom it offers and how it can be achieved (Osterwalder, 2004). In summary, the business model is as a conceptual and holistic tool that allows us to understand the way in which the elements that make up the company interact through their different strategies, in such a way that they allow the company to create, provide, and capture value, exploiting market opportunities (Aldana Fariñas, Ibarra Santa Ana, & Loewenstein Reyes, 2011; Osterwalder & Pigneur, 2010).

The business model organizes and complements the components of the strategy and execution of the business (■ Fig. 7.1). At a strategic level, the business model includes the orientation and the path that will guide the company in its implementation (Seelos & Mair, 2007). It includes making decisions from a general perspective to achieve the vision proposed by the entrepreneur or leader that leads to the generation of profits by offering or selling of a good or service (Zott, Amit, & Massa, 2011). At the level of execution or operation, the business model represents an architectural configuration, focusing on the internal processes and the design of the infrastructure that allows companies to create value and carry out their operation (Morris et al., 2005).



■ Fig. 7.1 Business components (Source Author with information of Osterwalder 2004)



The business model deals with how the company defines its competitive strategy through the design of the product or service offered to market, what is the costs to produce, how it differs from other companies by the value proposition, and how the company integrates it in its value chain (Bocken, Short, Rana, & Evans, 2014).

A business model must contain at least three elements: value proposition, creation and delivery of value, and value capture (■ Fig. 7.2). The value proposition is the reason why customers opt to a company, defining what problem or need it satisfies (Osterwalder, Pigneur, Bernarda, & Smith, 2014). The creation of value is at the heart of any business model and is how the company develops and delivers the value proposition (Bocken et al., 2014). The capture of value considers how to obtain income from the provision of goods, services, or information to users and customers (Teece, 2010).

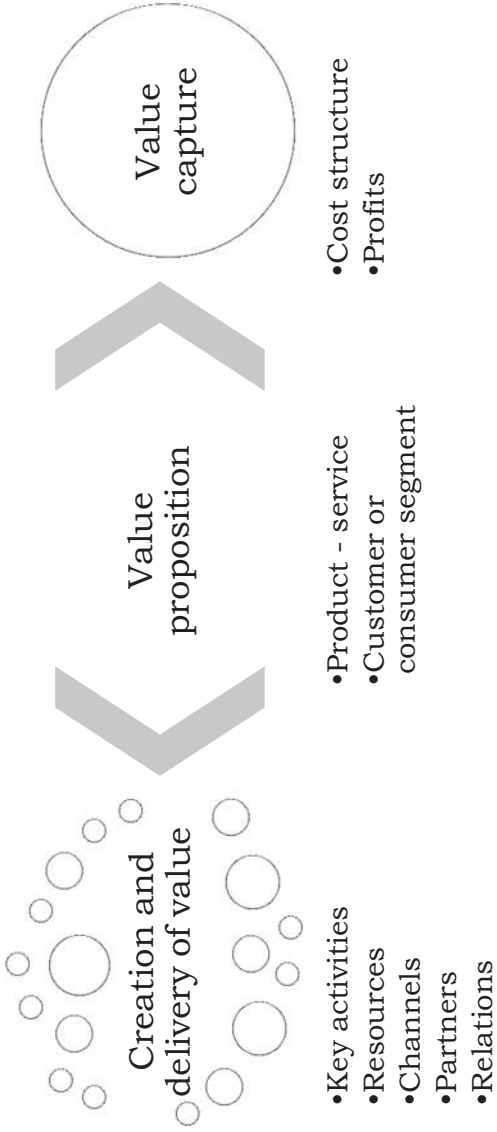
The business model allows not only to identify opportunities but also to explore and exploit its dimensions creatively, as well as to adapt to changes in the environment and therefore be sustainable over time. Likewise, the business model supports the entrepreneur, boosting his innovative thinking whose objective is the creation of value (Osterwalder & Pigneur, 2010). From this perspective, the business model is a living entity that is continuously moving and evolving according to the needs of customers who benefit from the value proposition of the company and the entrepreneur's ability to detect new opportunities to meet them.

#### 7.4 Social Business Models as a Central Element of Social Enterprises

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Social enterprises benefit not only the members of the organization or its clients, but also a larger community; therefore, their business model includes additional elements with the interest of addressing a social problem and generating a social value (Hyup, 2016). The driver of these companies is its social mission and not only the generation of wealth, expanding the definition to the social business model (Grassl, 2012). This type of model is more complex than the traditional one because it forces to expand the definition of the value proposition and also the mechanisms or structures that the entrepreneur follows to deliver and receive the value generated by it.

The social business model is a conceptual and holistic tool that visualizes the way in which the social enterprise generates a social value in an excluded population or that has been violated in some of its rights and generates a flow of profits guaranteeing its operation and increasing the impact it generates on society. The social business model allows identifying who receives the social and economic value, as well as the way in which it creates and captures them through the articulation of the elements that comprise it.



■ Fig. 7.2 Core elements of the business model (Source Author)

In the definition of the components of the social business, it is necessary to add the rationale of the company to the traditional model, which is related to the problem it wants to address and the contextual and relational elements of the social enterprise (■ Fig. 7.3).

With the inclusion of the rationale component, it is necessary to redefine the three elements that make up the social business model: value proposition, creation and delivery of value, and value capture (■ Fig. 7.4). The value proposition must consider not only the type of good or service that the client or consumer will receive but also the social value or benefit that the vulnerable or excluded population will receive.

The creation and delivery include the form in which the product or service will be generated and delivered to the client, but also the activities or interventions that the company will carry out to serve the beneficiary population and fulfill its promise of social value. In the definition of the creation and delivery of value, the social and economic value should be considered simultaneously and not separately. At the moment in which some of the values cease the rationale of the social business model is not achieved, that is the generation of economic wealth and the attention of a social problem.

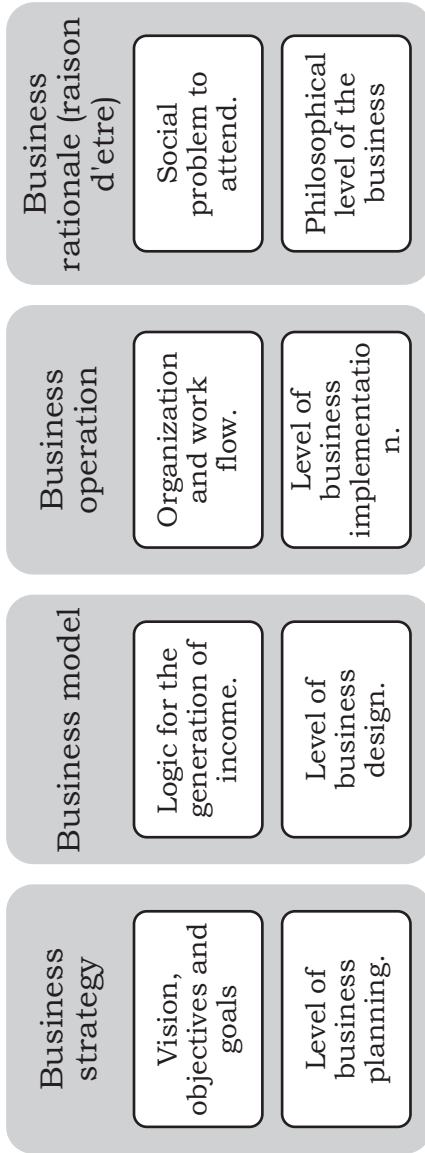
In the same way, the capture of value must include the social impact that it expects to generate in society, since it is who captures this benefit, as well as the way in which its profits will be reinvested for the attention of the social problem that supports the social mission.

The components of a social business model summarized the domain of the issue in which social entrepreneurs seek to make a difference; the target groups that they intend to involve in the process, the clients, or consumers that will generate the income for its operation; and the activities they will carry out to achieve it (Elkington & Hartigan, 2008; Grassl, 2012; Mair, Battilana, & Cardenas, 2012).

## 7.5 Developing a Social Business Model for the Social Enterprise

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A social business model is a conceptual approach that allows visualizing holistically the different elements that make up the generation, delivery, and capture of the social and economic value of a given social enterprise. Currently, there are different approaches to visualize business models, among which the one developed by Osterwalder and Pigneur (2010) stands out for its simplicity and integrative capacity. This proposal, called the Social Business CANVAS model, focuses on placing on canvas all the elements that make up a business model: value proposition, customer segment, channels, relationships, key activities, key resources, partners, revenues, and costs.



■ Fig. 7.3 Components of social business (Source Author)

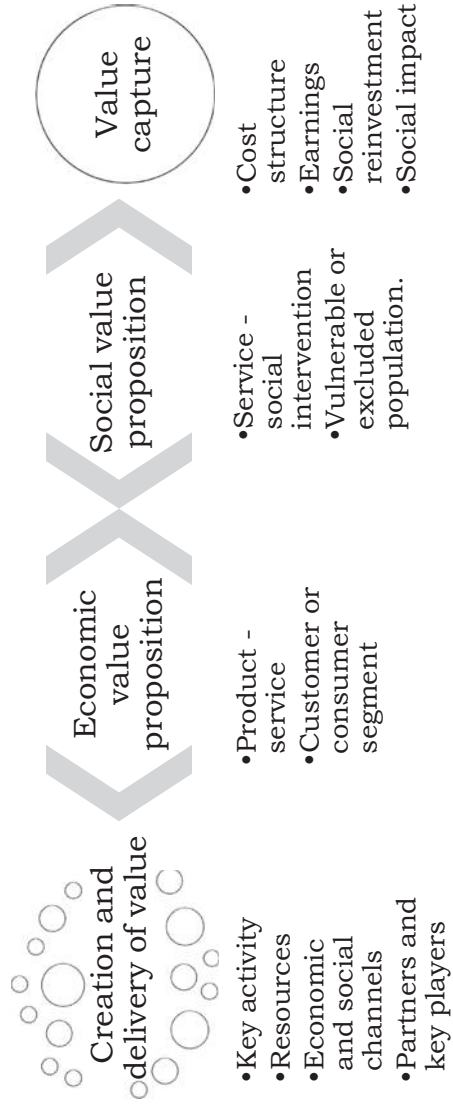


Fig. 7.4 Core elements of the social business model (Source Author)

Based on Social Business CANVAS model, this chapter presents a proposal for a Social Business CANVAS model (■ Fig. 7.5). The development of the proposal model begins with the definition of the problem to be addressed, which defines the rationale of the social enterprise. Here, it is established which are the barriers that make the inclusion of the affected group and the causes that generate it (see ► Chapter 3), as well as the impact that the company expects to generate in the medium and long term.

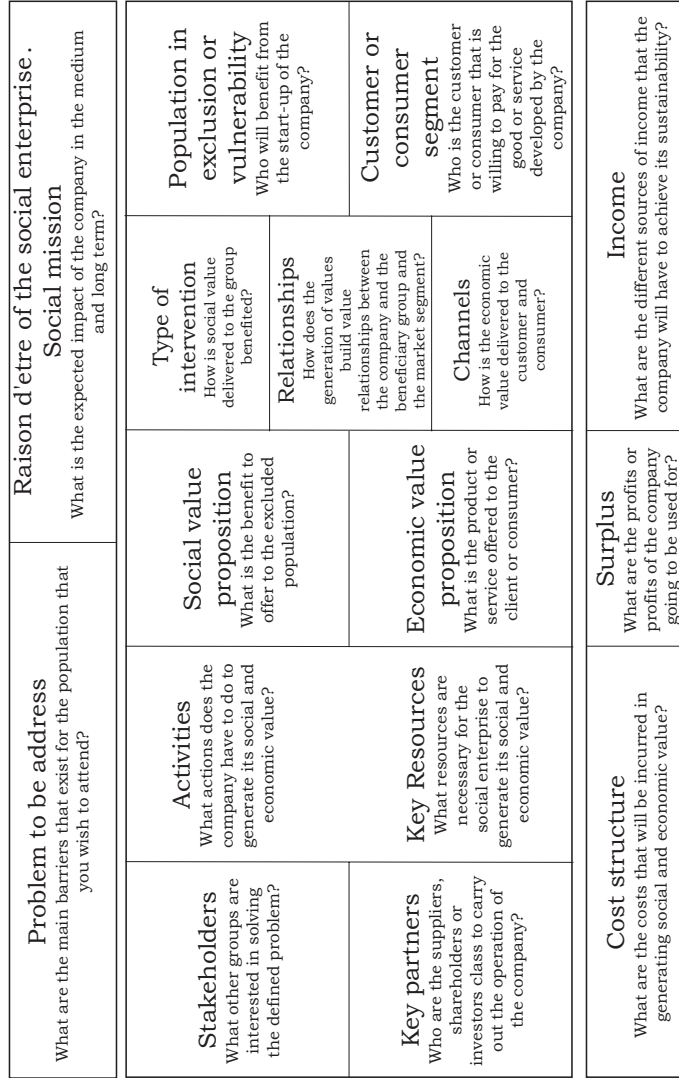
From this definition, each one of the elements that make up the social business model emerges. The starting point is the definition of the social value proposition that the social enterprise will generate, that is, in what way the company will solve the problem that wants to attend and what will be the benefit generated in the vulnerable or exclude population. The economic value proposition complemented the social value proposition, by defining the product or service that it wants to offer to a specific client or consumer. It is important to understand that the economic value proposition is based on the analysis and knowledge of the customer or consumer segment and not the other way around (see ► Chapter 3).

The next aspect is the type of intervention and channels, both related to the way in which the value is delivered to the beneficiaries as well as to the client or consumer. The construction and development of relationships in both segments complemented the types of intervention and the channels. The generation of social value strengthens the purchase intention of the market segment, while the generation of economic value strengthens the operation and relations with the group of beneficiaries, as it guarantees its operation and validates the type of intervention that is being carried out.

In some cases, the vulnerable population can also be the consumer of the products generated by the social enterprise. However, it is important to differentiate them, since the delivery in each value is different. For example, Asembis, in Costa Rica, offers high-quality health services at fair prices. In this case, the beneficiary and the consumer are the same. The social value is delivered through the offer of services at affordable prices (intervention), reducing household expenses for health reasons. Meanwhile, the clinics and a mobile platform (channel) that allows it to reach this market segment deliver the economic value.

The activities and resources necessary for the generation of social and economic value are in the same space with the interest of remembering that a characteristic of the social enterprise is the generation of double value. Unlike what happens in the traditional Social Business CANVAS model, which considered only key partners for carrying out activities and obtaining key resources, the Social Business CANVAS model also includes a section of stakeholders. The stakeholders contemplate those actors or groups of society that are also interested in solving the same problems that the social enterprise seeks to solve. This analysis allows identifying possible alliances and detractors of the business.

As in the traditional Social Business CANVAS model, the right side of the canvas focuses on the delivery and capture of value by



Social value

Economic value

Generation of value by the company

Delivery and capture of value

Fig. 7.5 Social Business CANVAS model (Source Author)

the company. Delivery contemplates the benefit to the people who suffer some exclusion by the satisfaction of its needs namely social value. It also contemplates the way in which the company captures economic value, mainly by revenues to maintain its operation. The left side considers the creation of the two types of values, which defines the cost structure of the social enterprise. At this same level, the surplus defines how the profits generated by the company are going to be used to promote or attend to the social problem that underlie its *raison d'être*.

The Social Business CANVAS model can be visualize in quadrants. The upper left quadrant focuses on how to create social value, while the upper right quadrant explains the delivery and capture of social value by a particular social group. The lower left quadrant, on the other hand, explains the generation of economic value, while the lower right quadrant shows the way the delivery of this value by a specific customer or consumer segment.

#### Case 7.1. Kallari. Sustainable Agricultural Production for International Markets

Kallari is an Ecuadorian social enterprise that began operations in 1997 and currently integrates 850 producers, mostly Kichwa families from 21 communities in Tena Canton, Napo Province of the Ecuadorian Amazon Region. These families produce process and market farm products sustainably: improving the living conditions of the members and conserving natural and cultural biodiversity. Kallari is a Kichwa word that means to start. It is also used to refer to a situation related to

historical events. Kallari includes three principles: Past, related to the defense of the territory and cultural identity. The sacrifice of the parents; present, to understand and defend nature, to the pacha mama, to make it produce in harmony and thus seek a sustainable economy over time; and future linked to particular markets for the benefit of new generations and leave a dignified legacy for families. By 2018, Kallari had more than 15 varieties of chocolate, distributed in four different

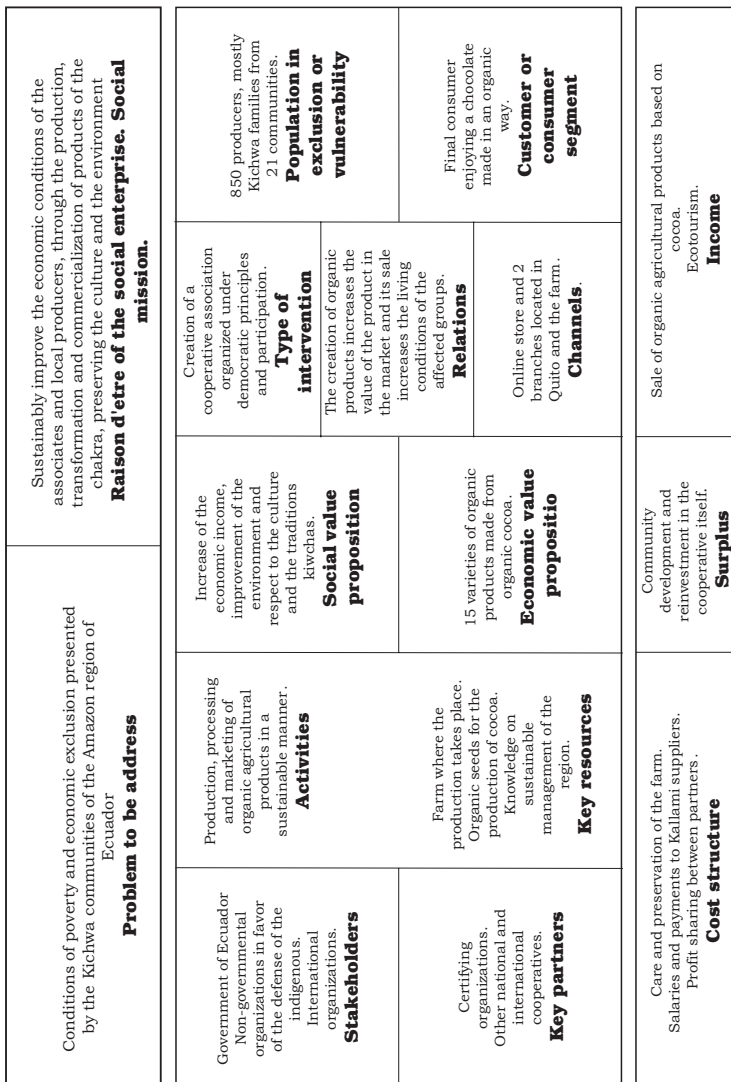
categories: chocolates, semi-processed, fine national cocoa, and handicrafts. It had more than 35,000 customers, and more than 200 sales per day, made it online and in any of its two branches, located in Quito and on the farm itself, where they also carry out ecotourism activities, diversifying their sources of income. ■ Figure 7.6 shows Kallari's social business model.

## 7.6 Types of Business Models of Social Enterprises

The generation of social and economic value generates a tension between the generation of income and the social impact they wish to achieve. Reason for which it is convenient to classify the enterprises according to the degree of integration that the social mission has, which they seek to address with the form of generating income for the sustainability of the organization (Alter, 2006).

The first level is the social enterprise where the income generation model is not related to the social mission, as is the case of the companies that sell a product and the profits goes to a specific social cause. The second level is made up of companies where the business model is related to the social mission, but it is only related with it. These companies carry out a product or service that contributes to the attention of the problem they wish to address





Social Value

Economic value

Generation of value by the company

Delivery and capture of value

Fig. 7.6 Social business model of social enterprise Kallari (Source Author with information from Kallari 2018)

indirectly, and their profits finance the main solution. The third level is where the generation of income focused on the social mission, characterized by the fact that the product or service offered by the company directly affects the attention to the social problems that it wants to address (■ Fig. 7.7).

Companies that are in the third level or with a revenue model centered on the mission have more probability of creating a more significant impact than those that operate under a model not related to the mission. From this logic, social enterprises that operate under a scheme of no relationship with their social mission are much more like socially responsible companies than social enterprises.

Social enterprises that have a business model focused on the mission, increase their income at the same time that they increase their impact. This integration raises the possibility of achieving a systemic change and achieves a transformation of the environment, because the proposed solution, reflected in the product or service, becomes the rule for the market that wants to serve. A centered mission social business model reduces the tension between the generation of income and the achievement of the social mission, facilitating the entrepreneur and its collaborators to focus on the development of innovation in the product or service guaranteeing its permanence in the market and attention to social problems in a harmonious way.

The social business model can also be classified by the articulation between the target or beneficiary and the client or consumer within the business model. Based on the proposal of Alter (2006), there are six models, each with a different form of articulation: support to the entrepreneur, intermediary or linkage to the market, employment, beneficiary population as a client (low income or collection per service), cooperative, and support or service subsidy.

The entrepreneur support model focuses on providing support to entrepreneurs in vulnerable situations to achieve their sustainability. These social enterprises provide advice and support (usually financial) to the target population (individual entrepreneurs). Example of this situation is Compartamos Banco (Gentera) in Mexico, which, through microcredits and financial services to groups of women in a situation of poverty or vulnerability, helps them improve, strengthen, and develop their businesses.

Through the model of intermediary or linkage with the market, the aim is to bring the vulnerable segment closer to markets with higher added value, either as an intermediary or by establishing collaboration links between them. The company Fruandes, in Colombia, supports small producers in the region to market their organic products in markets where they are willing to pay a fair price for them, such as Canada, Italy, France, the Netherlands, Sweden, Switzerland, Japan, and the USA.

The employment model offers decent employment to a segment of the population in situations of vulnerability, poverty, or exclusion with the interest of promoting their inclusion in society from an economic and social perspective. La Fageda is a Spanish

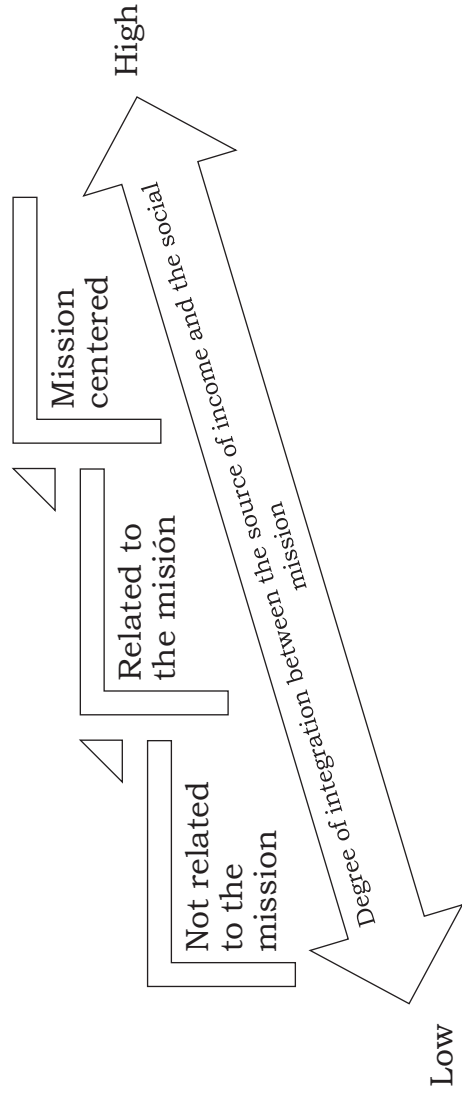


Fig. 7.7 Degree of integration of social enterprises between sources of income and their social mission (Source Author)

social enterprise that sells dairy products, produced by employs people with a mental illness.

The model of beneficiary as a client (low income or service charge) offers high-quality services or products at an affordable price to low-income populations. These products or services usually have a direct impact on improving their living conditions, encouraging their inclusion, and reducing the barriers that may arise due to price or income. PowerMundo is a Peruvian social enterprise that improves access to solar energy and other clean technologies to rural populations, building a rural distribution network, offering financing options, and educating consumers about clean technology products.

The cooperative model focuses on the organization of people under a democratic structure where the administration and management carried out in the way agreed by the partners. These cooperatives arise from the need to address common problems, mainly unemployment, and share resources to strengthen the organization. L'Olivera cooperative, located in Catalonia, produces up to 17 different types of wine and five oil specialties and employs more than 70 people, and its success has led to the creation of a foundation and a project replica in the city from Barcelona.

The model of support or service subsidy is where the social enterprise develops products or services that are acquired by a specific client or consumer, to subsidize the generation of social value. When the model operates under a subsidy logic, the activities of generating social and economic value overlap and share; however, when operating from a support perspective, the activities of generating social and economic value are independent, resulting in the creation of two organizational structures. The Mexican company Dos Banderas is dedicated to the sale of clothing to a segment of high economic income, allocating its profits to the provision of water purification systems to rural Mexican communities.

## 7.7 Conclusions

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Social enterprises aim to develop social and economic value simultaneously. This condition generates tension within them since they must generate strategies, tactics, and operational models that allow the generation of this double value, affecting the understanding and definition of their business model. From this logic, the business model of a social enterprise must consider not only the proposal, creation, delivery, and capture of social and economic value but also the *raison d'être* of the social enterprise, which is problems that want to attend.

In this way, the social business model presents a complexity concerning its operationalization and its visualization. The proposal presented in this chapter makes it possible to identify in a holistic way how proposals of social and economic value are generated and complemented within a social enterprise. The importance of separating value proposals is highlighted, especially regarding the way in which and to who is delivered, even when the

same segment or actor receives both. This differentiation helps to generate indicators and guidelines that allow visualizing and measuring both types of values and, above all, the compliance of the social enterprise mission.

The integration of values is a critical element of the definition of the social business model and the way in which the tension between both values. Those business models that achieve income sources focused on the social mission of the company are the ones that best manage this tension. While those who have a model where the source of income is not related to the mission generate greater tension at the operational level, putting at risk the impact that the social enterprise can generate and its financial sustainability in the medium term. In many cases, this type of model generates second organizational structures, where one subsidizes the other, increasing the risk of not fulfilling the delivery of social value.

There is a variety of ways in which the social enterprise can be related to the target or beneficiary population and the market (client or consumer) that it wishes to serve, some of them seem to be more efficient than others in terms of the capacity they have to generate the social and economic value in simultaneous. However, none of them is above any other, being its most important feature the attention of the cause that gave rise to social entrepreneurship, which is the improvement of society by offering a good or service that attacks the causes that the vulnerability or exclusion or specific population.

## 7.8 Exercise

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Investigate the case of the social enterprise Ecofiltro, located in Guatemala, which aims to benefit one million residents using access to clean water by 2020 (► <https://ecofiltro.com/>). With the information gathered, it designs the social business model based on Social Business CANVAS, clearly identifies the company's *raison d'être*, the segment it seeks to benefit and its target market. Once the Social Business CANVAS has been carried out, it identifies which social business model is following the way in which the social enterprise relates to its target population and its target market. Finally, it establishes the level of integration that its sources of income have with its social mission.

Based on the Ecofiltro analysis, use the following questions to reflect on the value of the social business model in the analysis of a social enterprise.

- What conclusions can be reached after performing the Ecofiltro analysis?
- How does the integration of your value propositions benefit the target population and generate value for your consumers?
- How does the proposal of social and economic value complement Ecofiltro's relationships with its target population and its customers or consumers?
- In case you generate some surplus, how should you reinvest it to solve the problem you wish to address?

- In case you have an idea of social enterprise, use Social Business CANVAS to develop and analyze the proposed social business model.

## 7.9 Additional Resources

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### Websites

- Strategyzer
  - ► <https://strategyzer.com/>
- The business model canvas reinvented for social business
  - ► <http://www.socialbusinessmodelcanvas.com/>
- Social business CANVAS
  - ► <https://bmtoolbox.net/tools/social-business-model-canvas/>

### Videos

- Harvard i-lab | Developing a Social Enterprise Business Plan with Allen Grossman
  - ► <https://www.youtube.com/watch?v=YUP1pH9pjzQ>
- How to Start a Social Enterprise—Greg Overholt at TEDx-Youth@Toronto
  - ► <https://www.youtube.com/watch?v=7178mTndI6A>
- Social Business Model and Planning for Social Innovation
  - ► <https://es.coursera.org/lecture/social-business-model/the-social-business-model-canvas-ted-ladd-SScyl>
- Social enterprise and Social business model
  - ► <https://www.youtube.com/watch?v=Zwvk5f8Hllk>

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# From Corporate Social Responsibility to Corporate Social Innovation

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## 8.1 Objectives of the Chapter

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- Explain the different perspectives of Corporate Social Responsibility (CSR) and the differences that exist between them.
- Recognize the motivations that lead a company to implement CSR practices or programs.
- Analyze the different CSR practices of companies according to the level of social innovation in which they find themselves.
- Define the concept of Corporate Social Innovation (CSI) Corporate Social Innovation and differentiate it from corporate philanthropy and CSR models.
- Differentiate between CSR and CSI practices.

## 8.2 Introduction

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CSR evolved in its understanding from an academic and practical perspective, leading to a not consensual definition. Despite this lack of consensus, in general terms, CSR can be understood as the way in which the company establishes a link with the society, beyond its commercial interests. Through it, it is possible to generate a dialogue between society and the company, in a way that seeks to address the benefits of each one of them. This relationship can be of a different nature according to the understanding that the company makes about what is the responsibility or impact seeks in society.

Because of this understanding, the company decides to undertake or carry out consciously its social responsibility through the implementation of programs, projects, and initiatives of several kinds, according to the interests and strategies that it has in a specific social, cultural, commercial, and institutional context. The way in which each company understands and implements its CSR is a consequence of the perspective it has on the concept, its interests about its implementation, the motivations to carry it out, the alignment it has with its commercial strategies and the way of managing it, or the control it has with its stakeholders. In this understanding, CSR is not strange to the business model, strategy, or management of the company, but is an essential part of achieving its goals and its sustainability over time.

The implementation of CSR programs has two components. The first is the company's manifest interest in creating a tangible benefit in society, that is, in some way seeks to address some social need. The second is the interest to strengthen the relationship with the different stakeholders, either instrumentally and punctually, or strategically oriented to generate capacities in them to attend to their own needs. These two components open the opportunity for CSR to become a source of social innovation for companies and its stakeholders. However, its perspective and implementation must consider the central elements of this type of innovation and the interest of transforming society systemically.

In this context, this chapter aims to present the different perspectives that exist on the way in which companies understand

their relationship with society through social responsibility, as well as identify which of them generates processes of CSI.

The chapter integrates four different sections. The first section presents the four different perspectives that exist in the understanding of social responsibility as a link or space for dialogue between the company and society. The second section explains what the primary motivations of companies are to adopt social responsibility actions. The third section presents how CSR can become a source of social innovation. The last section introduces a series of conclusions considering the concepts reviewed throughout the chapter.

### 8.3 Perspectives of CSR, the Link Between Companies and Society

CSR is the mechanism through which the company generates a bond with society. It is through it that companies seek to meet the needs and concerns of society, and how society positions its demands toward companies (Gond, 2011). The success or failure of this link depends mainly on the vision that companies have about CSR and therefore how implemented CSR's activities and programs.

Based on this argument, there are four different perspectives of CSR according to the function it has in society and the vision they have: constructivist, sociopolitical, culturalist, and functionalist. These views take into account the sociological foundations of the theories developed on organizations (Burrell & Morgan, 1979), which is made up of four quadrants that are the result of the interaction of two axes. On the vertical axis is the orientation to change or regulation on society, while on the horizontal axis is the orientation to the subjectivity or objectivity of each of the visions (■ Table 8.1).

The adoption of one of these perspectives by companies brings as a consequence a different relationship with the society where they operate, as well as the implementation of programs of different nature and characteristics.

■ **Table 8.1** Perspectives of CSR according to the social function it plays

Perspective of CSR (vision)	Understanding of CSR	Orientation
Constructivist vision	CSR as a socio-cognitive construction	Change—subjectivity
Sociopolitical vision	CSR as a relationship of power	Change—objectivity
Culturalist vision	CSR as a cultural product	Regulation—subjectivity
Functionalist vision	CSR as a social function	Regulation—objectivity

Source Author

### 8.3.1 Functionalist Perspective: CSR as Social Regulation

The functionalist perspective is when a company adopts or understands CSR as a way to regulate the relation with a society based on its perspective (Gond, 2012). The actions that the company undertakes must demonstrate a positive effect on its economic or financial performance (Du, Bhattacharya, & Sen, 2007; Garriga & Melé, 2004). In this perspective, CSR privileges the point of view of the company. However, the primary challenge is to generate programs, products, services, or business models aligned with the interests of the company and the needs of society.

In this perspective, CSR seeks to be a competitive advantage for the company and in some cases its strategy (Porter & Kramer, 2006). Its main challenge is to find a market or industry need and address it in a harmonious way, where the social benefit is a consequence of the company's positioning or the increase of its economic income.

The relationships under this vision are win-win, where the CSR's actions increase the profits of the company and create a positive impact or social value into society (Portales, 2017). Example of this vision is the Shared Value Initiative, created by Michael Porter, where CSR assumed that the existence of a need by a segment of the population is a market opportunity for the company. In this same sense, is the proposal of Base of the Pyramid, in which companies seek to deliver a social benefit through the sale of products or services at an affordable cost for the population living in poverty.

#### Case 8.1. Creation of Nestlé Shared Value

Nestlé has developed a development plan for local suppliers, called Plan Nescafé, aimed at strengthening its supply chain. Two years after its implementation in Mexico, the

suppliers that have participated have doubled the number of trees in the plots and have acquired new capacities concerning fertilization, pruning, and basic management of

pesticides. These programs allowed Nestlé to have stronger suppliers with greater loyalty to them, thus strengthening its operation and reducing operating costs.

### 8.3.2 Culturalist Perspective: CSR as a Cultural Product

This perspective understands that company and society have culture. Therefore, they have values, morals, codes of conduct, and their practices. In an ideal relationship, the company and society share the same cultural elements; however, in some cases they are different, resulting in an adaptation by the company about its actions. The company is a private actor that decides to respect and share the cultural system of society, forcing it to modify its actions and adapting its programs according to the context in which it operates (Choi, Chang, Li, & Jang, 2016).

CSR is a cultural product that reflects the cultural relationship that exists between the company and the society where it operates (Gond, 2011). This perspective brings as a consequence a constant variation in CSR depending on the location where the company operates, giving it an element of subjectivity in its understanding and operation (Portales, 2017). It has a local field of action, so the programs that emerge within the framework of CSR are adapted continuously according to the society or community cultural framework (Waldman et al., 2006).

It has an orientation toward regulation or permanence of the social system where the company operates. From this logic, the CSR is a way through which companies adapt to the society where they operate with interest to improve or maintain a link with it and have a constant recognition. It serves as a way to maintain the social systems that society has and to respect its characteristics. The previous perspective and this one have an orientation toward regulation and seek to generate change neither in the society nor in the company.

#### Case 8.2. Adequacy of the Chaplaincy Program by Qualfon

Qualfon, a global leader in business process outsourcing (BPO) and service provider of Call Center, has been characterized by having a chaplaincy program in its facilities. In Mexico, the country from which the company is has spaces for the exercise of spirituality and a program of accompaniment of its collaborators through chaplains. The chaplains do not make

religious propaganda in their service, although most of them and the collaborators belong to the Catholic religion. At the time of taking their operations to Guyana, Qualfon had to adjust this service considering the interreligious aspect that this society presents. This adaptation conducted to the creation of a chapel within facilities which offers services of interreligious chaplains for its employees.

Three different types of religious leaders blessed the chapel, and the company recognized more than nine religions as part of the ceremony. The interconfessional chapel is part of the chaplaincy of Qualfon workplace program, and the Guyana chaplain program operates in coordination with the chapel dedication ceremony.

### 8.3.3 Sociopolitical Perspective: CSR as a Relationship of Power

The sociopolitical perspective focuses on the power relations that exist between the company and society. The relationship is as a struggle where one tries to influence the behavior of the other, either through the positioning of a topic on the social agenda or through the performance of an activity in favor of a particular interest group on the part of the company (Scherer, 2018). The function of CSR is to manage, mediate, and act according to the conflicts that exist between one and the other (company–society).

From a business point of view, CSR is a mechanism to position it in the political, social, or institutional agenda some topic related to private interest. From the perspective of society, CSR is the channel of communication and pressure for a company to take into account any particular cause or perform actions aimed at responding to the externalities that its operation generates in a specific

context. Under this perspective, CSR has an objective orientation, since it manages to position or make reality the agendas of each of the actors involved in the relationship (Garriga & Melé, 2004).

To the extent that companies attend to the causes or public and social agendas of different social groups, it increases their possibility of obtaining a Social License to Operate (LSO), reducing their risks and facilitating their operation in a specific context (Bice, 2014). It is also in harmony with the positioning of social marketing campaigns on some social issues, such as fair trade, social inclusion, or some political tendency.

#### Case 8.3. “Yes to the Stadium, but in Another Place” vs. Coca-Cola FEMSA

The collective “Yes to the Stadium, but in another place” was a citizen movement with an ecological vocation oriented to ensure that the new soccer stadium of the Club Rayados de Monterrey was not built on a plot of land into the Urban

Park La Pastora. Although the construction of the stadium was the responsibility of the football club, the Coca-Cola FEMSA company, the principal investor and advisor of the football club, received all the protests of the group and there were even

marches and demonstrations against it. The collective argued that FEMSA was not socially responsible when proposing and promoting the construction of this stadium in one of the areas of the last urban park in the city.

#### 8.3.4 Constructive Perspective: CSR as a Socio-cognitive Construction

The constructivist perspective, part from the understanding that the relationship between business and society is the result of a space for dialogue between them, with the goal of obtaining the greatest value for both parties, based on justice and fairness principles (Portales & García de la Torre, 2012). This relationship is built continuously and reconstructed according to the context and interaction between companies and their stakeholders, as well as the reciprocal exchange that exists between the system of values, identities, social adjustments, and shared interests (Mirvis, Herrera, Googins, & Albareda, 2016).

CSR is a social construction and inter-knowledge between the company and society, so it is continually changing, providing an element of intersubjectivity to its operation, conceptualization, and implementation (Husted & Salazar, 2005). Through CSR, the company achieves its legitimacy, but also its institutionalization as a social actor with the capacity to take on and deal with the problems facing society (Le Pennec & Raufflet, 2016). At the same time, society helps to meet the needs and concerns that the company has and contributes to its solution. It may be the case that the interaction is so strong that it is not clear where the organizational and social concerns begin.

CSR built reciprocity relationships with different sectors of society, and programs and initiatives seek the common good and not only of the benefit for the company or society (Bertezenne, Vallat, & Martin, 2014). As in the previous perspective, the CSR seek a change in some of the actors, differing from the previous one in the fact that everyone is a participant in this change according to their interests.

The implementation of CSR is the result of a social process where social change is promoted and facilitated, not only by one of the actors involved, resulting in a constant relationship with different interest groups. The implementation of CSR is a way of addressing social problems that in the long term generates a society that contributes to the growth of the company and its positioning in the market.

#### Case 8.4. Red SumaRSE Nuevo León

Red SumaRSE Nuevo León is an initiative of 28 companies that arise as a result of the destruction left by Hurricane Alex during its passage through the Metropolitan Area of Monterrey (AMM). Alex destroyed urban infrastructure, houses, and vehicles and left 15,800 families affected and material losses of 16,896 million pesos, only in Nuevo León. However, it also showed

the vulnerability in which some neighborhoods had suffered from processes of marginalization and social exclusion. With the interest of facing this situation, Red SumaRSE Nuevo León has financed and accompanied two initiatives of social intervention in six different neighborhoods of the AMM, which have as their purpose the restitution of the social fabric

and the promotion of citizen participation. The initiatives operated by a nonprofit organization specialized in intervention processes, and at no time, is it mentioned that the private initiative finances it. For members of Red SumaRSE Nuevo León is a social investment that will pay dividends in the long term and not directly in the financial performance of companies.

## 8.4 Motivations in the Implementation of CSR

In addition to the approach or vision of CSR adopted by companies, there is always the question of why destined efforts and resources to actions that, from a simplistic and classical perspective, are not directly related to the generation of profits or the positioning of the company in a specific market (Kurucz, Colbert, & Wheeler, 2009). The answer to this question is relatively simple: Every day, society exerts pressure on companies to carry out actions aimed at addressing social and environmental issues of concern to their stakeholders. However, this argument does not lead to an understanding of why a company decides to adopt Social Responsibility, but it contributes to the understanding that any action the company carries out for the benefit of society is CSR.

With the intention of understanding what is the motivation of companies to carry out CSR actions, it is relevant to understand two aspects. First, each company understands and implements CSR differently, so the motivations to carry it out are also (Carroll & Shabana, 2010). Second, CSR is not limited to a single area of action within the company, so the actions will not do so either. In this sense, CSR actions arise in a context and with particular interests, modifying according to the desired results or impacts on the part of the company.

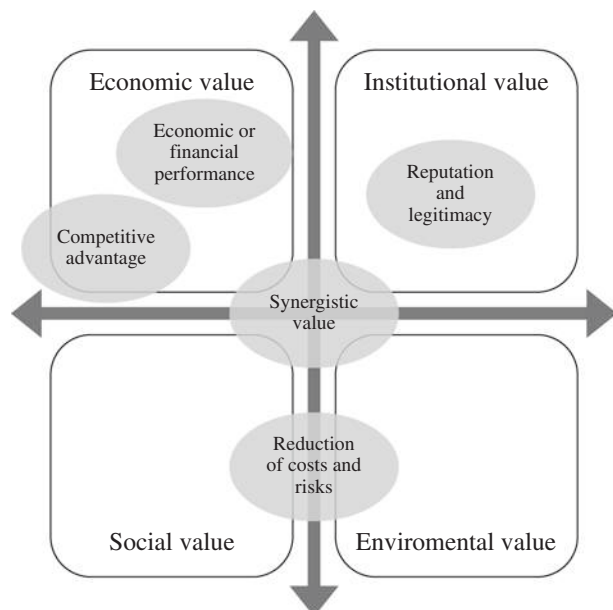
About the first aspect, there are three rationalities to carry out CSR actions: (1) It is in harmony with the values and social characteristics of the company, that is, the organizational history and the vision of the founders to the need of generating a good for society. (2) It presents an economic, social, or institutional benefit for the

company itself in carrying out these actions; that is, the implementation of CSR represents a competitive advantage or favors the reduction of costs and risks. (3) There is a mixture of the two previous rationalities, is looking to continue with the philosophical foundations and values of the company, and also sees a benefit for the company.

On the second aspect, there are different interests or expected impacts on the part of the companies: economic or financial performance, reduction of costs and risks, competitive advantage, reputation and legitimacy, and creation of synergistic value (Carroll & Shabana, 2010) (■ Fig. 8.1).

About economic or financial performance, CSR is related to management indicators that directly impact the business model, that is, the ability to generate income or increase profits as a company, either from a monetary or non-monetary perspective. The interest of the companies is to evidence the positive relationship that exists between the obtaining of badges or recognitions with economic and financial indicators, such as the financial variables ROI, the earnings per share, and the price ratio in book value. It also seeks to establish a relationship between reputation and brand positioning, increasing their profits.

The reduction of costs and risks of the company through the CSR presents when the company seeks to implement actions that reduce the costs associated with its operation while mitigating the risks that can generate the generation of a specific good or service. Example of reduction of costs is the generation of eco-efficiency processes, which seek to reduce the impact on the environment while streamlining their processes, such as the use of recycled materials. Reduction of costs also come with the improvements



■ Fig. 8.1 Motivations and impacts expected by the company for CSR (Source Author)



in working conditions with the interest of reducing fiscal costs or those associated with Occupational Safety and Health. In this way, the companies create programs of care for the environment and attention to the collaborator from their areas of social responsibility with the interest of reducing the costs associated with their operation.

Concerning the reduction of risks, the company visualizes the stakeholders as actors that are in the environment that must be controlled and viewed as possible threats. CSR is a way of orienting its resources and actions with the interest of attending to the demands of a specific stakeholder, under the logic of mitigating the risks represented by not having a good relationship with it and that in the medium term may affect its operation. From this perspective, CSR becomes a mechanism through which the company obtains its LSO.

The CSR optimizes or generates a competitive advantage when the company seeks to do actions that benefit the business and achieve position over its competitors. In some cases, the adoption of CSR does not revolve around generating competitive advantages, but rather to prevent other companies from obtaining them, such as the use of practices oriented toward environmental sustainability. Under this logic, the fact of not having a CSR plan can conduct that the competitor differentiates and obtains a greater presence in the market or a higher preference of the consumer. From this logic, CSR is a business case based on compliance with the demands of the sector, either in environmental or social terms.

About reputation and legitimacy, CSR is a way of aligning the interests of stakeholders with those of the company, thus facilitating the operation of the company in a local context. CSR is the mechanism through which the company adopts the interests of society and adopts them as its own, guaranteeing its acceptance and increasing its reputation from a social perspective. The company can generate such a reputation that positions in the public and social agenda topics to which they are sensitive or that concern its interests. This level of integration shows the legitimacy that the company has in society, to the degree that it becomes an opinion leader.

The last interest that a company can pursue in the implementation of CSR actions is the search for synergistic value. It occurs when the company defines itself as a social actor that shares a particular territory with other actors and that the only way to guarantee an improvement in its operation is through the generation of actions aimed to the well-being. The company focuses on creating and fostering opportunities to link, relate, and synthesize interests of diverse interest groups on a common agenda. The investment and reinvestment processes carried out by the company seek to generate value for all the stakeholders that converge in a territory. The company sees itself as a catalyst of social processes that, beyond seeking its benefit, seeks the benefit of the community in the long term.



Under the perspective of creating synergistic value, CSR is a way to create value in multiple ways, among which is the economic value, but which may not be the priority in an adverse social context. It may be that the company decides to allocate resources to address a social problem that is not directly related to its business model or its community, but which contributes to the construction of a more just and equitable society.

It is important to mention that, regardless of the motivation to carry out CSR actions, companies seek to generate some value, be it economic, social, environmental, or institutional (see ► Chapter 3). CSR created economic value when its motivation is economical and financial performance and competitive advantage. CSR delivers institutional value when the motivation is to reduce costs and risks, and the improvement of the company's reputation and its relationship with stakeholders. When CSR focuses on the search for synergistic value, it has the possibility of creating the four types of value simultaneously (■ Fig. 8.1).

## 8.5 CSR as a Source of Social Innovation

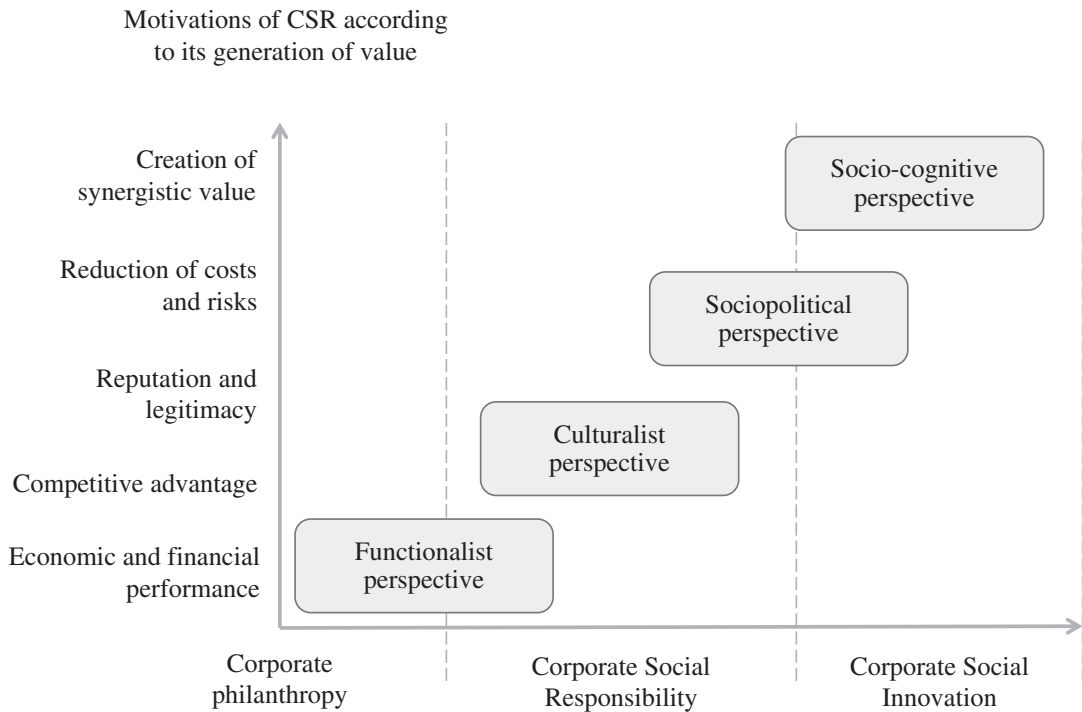
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The previous sections present the perspectives that a company can adopt when carrying out its CSR, as well as the main motivations that justify or support its implementation. Regardless of their motivation, CSR seeks the generation of some value (Altuna, Contri, Dell'Era, Frattini, & Maccarrone, 2015). These actions range from the purely philanthropic or welfare sphere, to an area where the aim is to empower different social groups to meet their needs, considering as a source of social innovation.

In order to identify how CSR can be a source of social innovation, it is necessary to identify which perspectives are the most likely to generate a change in society, since one of the core elements of social innovations is social change. In this understanding, CSR actions undertaken by the functionalist and culturalist perspectives do not meet this objective, since they do not seek to generate any change in society.

Sociopolitical and socio-cognitive perspectives do seek change in society. Both perspectives take into consideration the processes of recognition and inter-recognition that exist between companies and their stakeholders, strengthening and creating social relationships aimed at achieving an end, a key element in the generation of value by social innovations. However, in the sociopolitical perspective, the company is seen as a political actor that seeks to position its agenda and problems in society, even when these are not in harmony with the needs of society. Therefore, this perspective does not contribute to the creation of capabilities into society. Consequently, it hardly contributes to creating social innovations for companies.

The socio-cognitive perspective understands the relationship of the company with society as a continuous development process, where the primary interest is the welfare of all the stakeholders and the satisfaction of their needs in the short and long term. The



■ **Fig. 8.2** Level of value created by CSR according to the degree of integration that the company has with society (Source Author)

socio-cognitive perspective promotes that CSR is a mechanism through which companies offer innovative solutions to society, but also take advantage of the competencies and capabilities of specific social and public actors to meet the needs facing society. This perspective is one that is directly related to the interest pursued by the concept of social innovation.

In addition to the socio-cognitive perspective, it is necessary that companies, when implementing their CSR measures, take as their primary motivation the generation of synergistic value. Based on this motivation, companies consider themselves as social actors that, due to their size and ability to generate economic, social, and environmental benefits, are capable of articulate social transformation initiatives aimed at responding to problems that are not directly related to their business model (■ Fig. 8.2).

The implementation of CSR actions from the socio-cognitive perspective, motivated by the creation of synergistic value, results in the concept of CSI. This concept visualizes spending on CSR as a strategic investment that allows increasing the value generated by the company, using business assets to the current challenges, and strengthening collaborative processes with other actors to co-create sustainable solutions to the problems that society faces (Mirvis et al., 2016).

The creation of CSI is a process built within companies that requires time to consolidated (Nieto Antolín & Fernández Gago, 2004). This process usually begins with corporate philanthropy

initiatives, which serve as a palliative to a particular need, but without seeking to change society. It goes through CSR, where companies promote increasingly institutionalized actions and programs with the interest of addressing a particular need or problem, but which does so in a partial and sometimes solitary way. With time and with the increase of company's commitment to society, it generates alliances with other actors in society and articulates efforts aimed at transforming society in a sustained manner, becoming consolidated in a CSI (■ Fig. 8.2).

At this point, it is important to understand that companies, especially transnational companies, carry out many CSR programs and actions, some of which may have a philanthropic vision, while others a social innovation vision. This situation makes it impossible to categorize companies into philanthropic, socially responsible, or social innovators, so it is recommended to analyze the programs separately and identify how likely a company is to a particular perspective of CSR and therefore to generate processes of social innovation.

#### Case 8.5. Pfizer: Healthier Communities

Pfizer Central America and the Caribbean rethink the way of relating to people living in poverty in popular neighborhoods. For this, it created Healthy Communities, a model of distribution and sale of medicines at affordable prices in popular neighborhoods, taking advantage of its inhabitants as their representatives for which are hired and educated. It is a model based on education and collaboration that allows

residents and organizations to become self-managed that have a clear and compelling impact on the formulation of public health policies. Healthy Communities promotes relevant information on different diseases and their treatments so that the patient has a more active participation in clinical decision making, improves their relationship with the treating doctor, and can actively defend their rights. The project

is expected to be regional in scope, focusing on its early stages in markets such as Costa Rica, Guatemala, Panama, and the Dominican Republic. In each of these markets, it is intended to develop a small network of collaboration, in which the contribution made by the teams of the Patients, Specialties, and Market Access Program will be vital to feed and strengthen the expansion and growth of the initiative.

## 8.6 Conclusion

CSR is the link that exists between the company and the society where it operates, with the result that each one interprets this relationship in a different way. This diversity in interpretation results in different perspectives regarding the way in which each company decides to implement and carry it out. This perspective is usually the basis for generating the business case used by those in charge of the CSR areas to convince the different interest groups why it is a good idea to invest in it.

The way in which each company decides to adopt and implement CSR defines the degree of integration it wants to have with society, which ranges from an utterly economic logic to one in which the company recognizes itself as an actor capable of generating social innovation processes inside the territory where it operates. Based on the degree of integration and perspective that

the company adopts on the responsibility it has with society and the degree of participation and involvement, that its capacity to generate multiple types of values is reduced or increased. Those companies that choose to have a CSR aimed at generating economic benefits for themselves will have a lower capacity to generate social change than those who visualize themselves as actors in a society that requires their support to increase social welfare, regardless of this generates a direct benefit in their profits or not.

It is important to mention that some companies, mainly large ones, can have CSR programs based on different perspectives and with different motivations. This situation does not mean that it is incongruous but instead demonstrates the fact that CSR is the result of the degree of integration that the company has with society, as well as the diversity and versatility that this concept has.

The fact that a company takes as a starting point the socio-cognitive perspective and the creation of synergistic value does not mean that it will be incapable of generating economic benefits, reputation, or competitive advantages for it. On the contrary, when looking for models based on this perspective and with this motivation, they create CSI, which can produce new sources of income and generate a more relevant social innovation system and a corporate culture which is a source of competitive advantage.

Some of these CSI consolidated in new sources of economic and social value for the company and groups that are vulnerable or excluded, as is the case of purposeful business models. These CSI also become the center of processes of social transformation, as is the case of Red SumarSE Nuevo León, which began as an initiative of socially responsible aimed at improving the conditions of poor and marginalized neighborhoods. With the time, this initiative integrated national and international actors from the public and social sector and had been replicated in other States of Mexico.

## 8.7 Questions for the Debate

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- Do you think there is a company that can be considered more socially responsible than another? What should be the criteria that a company should follow when taking CSR actions?
- There is a company that cannot be considered as socially responsible. Do you have an example?
- At what point can CSR be considered as a social marketing device that does not generate any value for society?
- What is the biggest challenge that a medium-sized company faces to carry out CSR and ISE actions?

## 8.8 Exercise

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Consider the case of a housing construction company that employs more than 1000 employees in the generation of popular housing.

- Design a CSR program or action for each of the perspectives reviewed in the chapter.
- What would be the motivations of each of the programs? And what kind of value is generated in each of them?
- The program developed under the socio-cognitive perspective, in what way with the definition and key elements of social innovation reviewed in Chapters 1 and 2 of the book?

## 8.9 Additional Resources

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### Videos:

- Social Innovation through Corporate Social Responsibility
  - ► <https://www.youtube.com/watch?v=bJZPyWF0IBU>
- From Corporate Social Responsibility to Corporate Social Innovation
  - ► [https://www.youtube.com/watch?v=\\_y1QPdC8ipc](https://www.youtube.com/watch?v=_y1QPdC8ipc)
- Social Innovation In Business | Tatjana Brkic | TEDxWinnipeg
  - ► <https://www.youtube.com/watch?v=YjjWKSWMAsQ>

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# **Social Innovation from Companies: Social Purpose Business Models**

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## 9.1 Objectives of the Chapter

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- Define what a Social Purpose Business Model (SPBM) is.
- Explain what the different characteristics of an SPBM are and how it differs from traditional CSR models.
- Analyze and recognize each of the models of SPBM according to their characteristics and types of implementation.
- Recognize the scope and limitations of each SPBM.

## 9.2 Introduction

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Companies integrate social innovation as part of their management models to Corporate Social Responsibility (CSR) in recent times. This integration arises from the interest to attend in one way or another to the problems or interests that society faces, as well as to manage the relationships they have with their stakeholders (Ide-mudia, 2008). As a result of these efforts, companies implementing initiatives, named Social Purpose Business Models, aimed at addressing some social problem aligned with their business model, which its sum with the interest of the United Nations so that companies, especially transnational corporations, including as part of their social agenda the Sustainable Development Goals (Graves & Lingnau, 2016).

These initiatives have the characteristic of seeking the integration of the business model of the company with the generation of social value, reflected in the contribution to respond to a specific social problem. Through this integration, the company generates sufficient income to cover the costs incurred by these initiatives, and its drive is to make enough profits to consolidate into a possible additional business unit (Portales, 2017). It is important to mention that usually, large companies are who implemented and developed these models with the interest of increasing their social impact and of aligning their CSR measures with their day-to-day operations.

These models differ from the traditional CSR schemes in their approach, since their main characteristic is the implementation of business models that deliver simultaneously economic and social value, they seek to generate a win-win relationship. The motivation of these business models with purpose varies depending on the understanding that the company itself has on the relationship it has with society, which can be fully functional and instrumental, up to one aimed at generating synergistic value.

Based on this context, this chapter intends to expose the characteristics and motivations of the principal business models with a purpose that currently exist, as well as to present the social problems to attend which each one of them.

The chapter presents six sections. The first one exposes the main characteristics of a business model and its main differences with similar models, such as social entrepreneurship and social enterprises. The following three sections expose four different



business models, based on the context, the central idea of the model and the logic with which each one generates economic and social value. The last section concentrates on a series of conclusions about the chapter.

### 9.3 Social Purpose Business Models

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Social Purpose Business Models (SPBM) do not have a universal definition, and it is even trying to establish which are the characteristics that make a social initiative considered as a model of this type and which is not (Márquez, Reficco, & Berger, 2010). Social initiatives or social programs implemented by companies are classified by CSR, falling into a conceptual simplicity of what is the contribution of each company to the society and how innovative is (Brown, de Jong, & Levy, 2009). In the interest of avoiding this oversimplification, it is necessary to establish some criteria of differentiation between social initiatives developed by companies and SPBM that some of them have begun to adopt (Portales, 2017).

The first criterion for differentiating CSR initiatives from each other is the degree of social impact that each of them seeks. It is not the same an initiative that has as an interest to attend corporate volunteering to one that seeks to address a social problem, at least in the design and creation, from its causes. In this sense, the first initiative limited its impact because a volunteer is the realization of concrete social action in a short time and aimed to generate a short-term benefit to society. On the other hand, the second initiative has the drive to generate a social change that addresses a social problem, such as poverty or corruption, in the medium and long term.

A second criterion is the interest of the social initiative to align itself organically with the company's strategy, as well as the business model and the activities that have led it to consolidate. From this perspective, the social initiative is a reflection of two aspects. The first is the vision that company has in its medium and long term as an actor within society, that is, how much the initiative is a sample of the strategy of economic growth and social impact that the company wants to achieve. The second aspect is the ability of the initiative to align social problems and concerns in such a way that the business model and activities to generate economic value can also generate social value.

The third criterion is the ability of the initiative, at least on paper, to take advantage of a market opportunity to generate economic income for the company, while at the same time addressing problems and needs that a specific vulnerable group presents. This capacity is in line with the alignment that the income generation model has with the company's main activity and with the expertise generated over time.

The fourth criterion lies in the potential that the company has to consolidate as an alternate business unit to those already existing by the company, in such a way that in the long term it can operate independently, in financial and operational terms, by the

CSR department. Under this logic, in the long term, the SPBM will be seen as a unit that contributes and reports not only the impacts generated from a social perspective but also the economic benefits it generates for the organization as a whole. The ideal is that this type of initiative begins to generate processes of decentralization and institutionalization (see ► Chapter 6) where it does not depend on the intra-entrepreneur or the area that drove it and convert itself a strategic unit for the business.

As a final criterion for the definition of the attributes that a purposeful business model must contain is in the rupture that it represents regarding the traditional CSR practices of on the part of the companies. These models present innovation schemes that, from an integral perspective, seek to include actors traditionally excluded from the development processes of society and in the business model of the company itself, whether as a consumer, supplier, or client. Through this innovation, it is possible to generate patterns that regularly repeat themselves within companies, and that in the long-term address the social problems they want to attend.

Given the characteristics that these SPBM present, they can easily be confused with another concept that is under the umbrella of social innovation and that is social entrepreneurship. In this sense, SPBM differentiated from social entrepreneurship mainly by two aspects. First, the companies created SPBM, traditionally transnational, as a way to increase their social impact, highlighting mainly the work of the social intra-entrepreneur (Trujillo Dávila & Guzmán Vásquez, 2008); social enterprises are initiatives developed and created by social entrepreneurs with the interest of addressing a social problem to which it is sensitive. Second, the SPBM is an additional source of income for the company and may not generate profits, usually is view as a social expense. In the social enterprises, the generation of income is at the core of the business model linked to the attention of the social problem and its survival lies in its capacity to generate sufficient profits to maintain its operation.

With the definition of the main criteria of SPBM, the chapter presents four of the leading models that different companies develop under this approach. Although they are not the only ones, they are those that have a more presence and acceptance. These models are Businesses from the Base of the Pyramid (BOP), Inclusive Businesses, Creation of Shared Value, and Creation of Sustainable Value.

#### **9.4 Businesses from the Base of the Pyramid**

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Poverty is one of the main problems facing the world. In 2015, there were a total of 4.5 billion people living in poverty and 836 million people in extreme poverty. This population is the base of the economic pyramid. However, contrary to traditional thinking, this population tends to pay an over-priced in the acquisition of its products and services, which tend to be of low quality. This price is

mainly due to the condition of social, geographical, and economic exclusion in which they are.

Under this premise, BOP represents a huge potential market, to which companies could allocate resources and efforts with the interest of serving it (Barki, 2017). Despite this situation, the reality is that managers and large companies do not show interest in generating products or services for this segment (Prahalad & Hart, 1999). For this reason, the poor cannot pay for or use the products and services sold in developed markets, reinforcing the exclusionary patterns in which they find (Hall, Matos, Sheehan, & Silvestre, 2012).

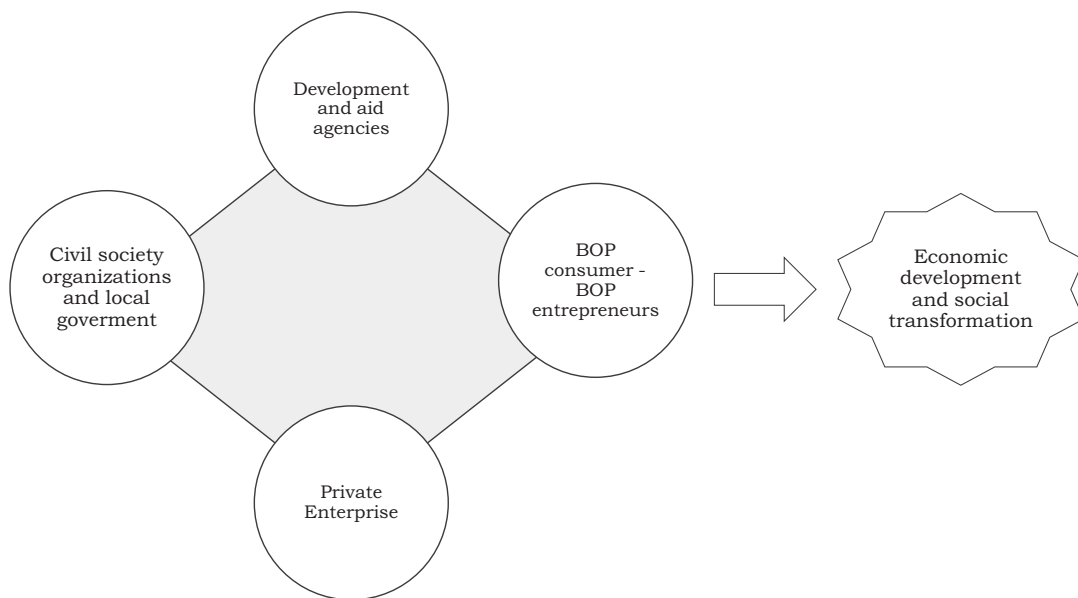
Exclusion patterns and current conditions lead not to consider the poor as potential customers since current cost structures cannot compete profitably in that market. Therefore, the BOP is not necessary for the viability of the companies in the long term and therefore the living conditions of the poor, far from improving, will continue their precarious process and the gaps between classes keep increasing.

In this context, Prahalad proposed a business model aimed at changing the paradigm and understanding of the people who are in the BOP. The proposal focuses on visualizing the BOP as a potential market that requires services and products, which must generate added value in their living conditions (Prahalad, 2002).

The change of vision considers collaboration with the poor to innovate and create sustainable profit scenarios for companies (Prahalad, Di Benedetto, & Nakata, 2012). In this way, companies that provide quality services to this segment will not only generate better living conditions for them but will also increase their profitability and generate better customers and consumers in the long term. This change in vision and relationship with the poor results in the creation of a business model for the BOP, defined as a business management concept focused on segments traditionally forgotten or relegated, and its integration into the value chains of the businesses, whether as customers, allies, suppliers, or distributors.

The justification for this type of business model is that these markets are sufficiently large and attractive by themselves. Likewise, many of the innovations that developed in the local terrain could be taken to other markets that present similar conditions and some will find their application in developed markets. A final element that justifies the implementation of this type of models is their ability to influence the management practices of multinational companies positively.

The business models for the BOP understand that solutions for the development of these populations cannot follow the same models used in developed countries, characterized by the generation of a lot of waste and expenditure of resources. These solutions must be aligned with the context, characteristics, and needs of this population. For this reason, the proposal has twelve principles for its implementation, which interlinked favor the creation of products and services aimed at addressing the needs of the population that is in a situation of poverty, while generating profitability enough for the companies that develop them.



■ Fig. 9.1 Actors that strengthen the business ecosystem of the Base of the Pyramid (Source Author)

An essential aspect of this proposal is the ethical element since some products or services used by the BOP are of low quality or do not generate an added value to their life condition (Davidson, 2009). This type of products only precarious their condition and do not allow the social mobility of this segment. It is therefore vital that the products and services developed for this segment have elements that generate value for them, reducing the barriers that promote exclusion and the conditions that reproduce the poverty circle in which they find themselves.

Under this logic, the business models of the BOP take as reference the creation of an ecosystem that favors the empowerment of the poor, social mobility in the long term, as well as economic development and social transformation (Kolk, Rivera-Santos, & Rufin, 2014). This ecosystem is made up of four principally interacting actors (■ Fig. 9.1). The first one is the company, who is responsible for launching this type of models with the help of local organizations and governments and development and aid agencies. The second actor is local or grassroots organizations and local governments, who bring knowledge and rapprochement with the poor to generate processes of empowerment and development. The development and aid agencies are the third actors that invest funds and promotes the integration of the poor into new markets. The fourth actor is the consumers and entrepreneurs who are in the BOP, who receive the benefits of the ecosystem and articulate with all the other actors achieving the change of their conditions.

It is important to not consider the population of the BOP only as mere recipients of the initiatives and efforts of other actors that make up the ecosystem. It is necessary to encourage them to get involved in the process of value creation, first as consumers and then as entrepreneurs who offer new products or services to the

locality, strengthening the local economy and generating local development processes oriented to their integration into global markets in the long term.

This approach to the BOP had two generations. The first is one in which the poor are consumers, in which companies provided products and services with a marginal benefit. Companies must transform their “business model” by adapting their cost structure, logistics, marketing, and even human resources. The second generation sees the poor as co-creators of markets. The people who integrate the BOP become business partners. In the construction of a shared commitment between the actors within the ecosystem, there must be a more significant concern for the development of creativity and the fusion of competences between the company and the communities to improve living conditions. Its objective is to create the conditions so that the projects allow the individuals of these communities to develop.

#### Case 9.1. GlobeTelecom, Philippines

In 2009, the Philippines, located in Southeast Asia, became the first country on the planet where network providers recorded higher revenues by text messaging than by voice calls. GlobeTelecom capitalized on this situation by allowing the people of this country to send their credits (or charge) to

other people. For example, for parents to send money to their children and make sure they stay in touch. Both prepaid and postpaid users can share their mobile wallet or time of use by entering the amount and their PIN code. In the same way, a Filipinas domestic worker who works in Singapore can send

money to her grandmother in the Philippines through an SMS message. As a result of this innovative model, GlobeTelecom developed new applications so that the BOP is not only an exclusive market for micro consumers, and there are also many opportunities for innovation.

## 9.5 Inclusive Businesses

Inclusive businesses are another way of serving groups that are in a situation of vulnerability or poverty. This type of model is an economically profitable business initiative, environmentally and socially responsible, that under a logic of mutual benefit contribute to improving the quality of life of low-income or vulnerable communities, through their participation in the value chain of a business (Márquez et al., 2010).

This type of business seeks the social inclusion of people with low incomes or in some situation of vulnerability through a business venture, which integrates different ways according to the context and business model of the company, whether as consumers, suppliers, or distributors. The central idea of inclusive business is to identify economic activities that allow the participation of the poorest or most vulnerable people in chains of value generation that allow them to improve their living conditions in a sustainable manner (Márquez, Reficco, & Berger, 2009).

Unlike the perspective of BOP, inclusive businesses do not see this segment as a consumer or customer that improves their living conditions through the acquisition of a product or service, they

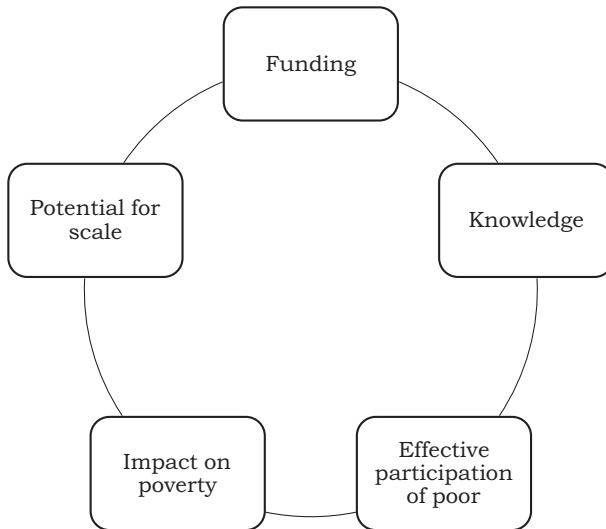
promote the co-creation of businesses directly in the value chain of large companies, mainly as suppliers.

From the perspective of the company, the intention is to generate value regarding profits through the integration of a suitable supplier to the needs of the company itself (de Jongh et al., 2010; Reficco & Ogliastri, 2009). That is, to achieve the integration of a vulnerable group within the value chain of a company, usually, requires some training and education. The training considers the processes and operation of the company, resulting in a more reliable provider and aligned with their operational needs. In addition to the operational issue, the social opportunity cost capitalized by the company triggers an increase in loyalty by the supplier consolidating its reputation and risk reduction. The inclusive business starts with a business opportunity that carries within itself an opportunity for the development of the low-income segment. The capitalization of this opportunity contributes to the reduction of poverty or vulnerability of a specific group through its inclusion in its value chain.

Among the motivators to develop these models for companies is the possibility of integrating their value chain more socially, a fact that brings social and economic benefits (Licandro & Pardo, 2013). In the social field, they allow to build a better reputation and even increase the demand of the client or final consumer of the chain, who views these types of actions with good eyes. In institutional terms, there is the legitimacy that gives the company at the level of compliance with the political and legal conditions of the countries where it operates. At an economic level, the driver is the risk management of the company through adequate management of its value chain.

For the vulnerable communities or groups, the motivations are mainly in the increase of their income; however, it also generates other types of benefits, such as the improvement of their living conditions through the expansion of their possibilities of consumption and the use of savings due to the possibility of accessing other markets. Likewise, they consolidated their rights by their participation in the economic system and reinforce their capacity for organization and management as an economic organization. The implementation of these inclusive models also increases the number of companies, as well as their probability of surviving the first years of their operation and consolidating in the market in the long term.

The interaction between companies and vulnerable groups for the construction of inclusive businesses generates a series of “externalities” that favor the development of the communities. The first one is the possibility for the company to access unexplored consumer markets and generate market intelligence on this segment. The second is the cost savings and the generation of time savings since the supplier will be able to perform their work in the way that the company requires. The third is the possibility of producing goods, inputs, or raw materials that the open market traditionally does not produce and that, moreover, because of its social value is highly valued by the client or final consumer, a fact that creates new conditions for the industry.



■ **Fig. 9.2** Key elements in inclusive businesses (Source Author)

Consolidating an inclusive business requires at least five elements (■ Fig. 9.2). The first is funding. Usually, it is the company who solves the initial investment of these projects. The second is the generation and transmission of knowledge among those involved, on the one hand, the company transmits knowledge to the vulnerable group, while on the other the group provides access to business intelligence. The third aspect is the importance of promoting and guaranteeing the active participation of the vulnerable group and the company in the consolidation of the inclusive business. The fourth element is the monitoring and demonstrating the impact of the business in the reduction of poverty and vulnerability. The last element is the potential of the business to be scalable or replicated in other similar contexts.

#### Case 9.2. Toks and jams Santa Rosa

The restaurant Toks Mexican company within its CSR strategy has a program called Productive Projects for Inclusive Business. This program aims the development of communities, the eradication of extreme poverty and marginalization of the country through the integration of new suppliers in its value chain. The project identifies small producers of artisan communities that develop quality products that

could be sold into restaurants. Through this strategy, Toks seeks a mutual benefit, for the image of the company offering quality services and for the development of the community. Within the framework of this program, Toks integrated different products, such as coffee, honey, granola and mole and jams. The marmalade produced by Santa Rosa Marmalades, a community located in the Sierra de Santa

Rosa, Guanajuato and formed by a group of five enterprising women in conditions of vulnerability. Toks trained these entrepreneurs for the manufacture and sale of the product, support of the business model, organization, quality systems and offered them the opportunity to produce more jam and meet the demand as a group.



## 9.6 Creation of Shared Value

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Michael Porter proposed the third model. It has its origin in an article he wrote with Kramer stating that CSR is a competitive advantage so that those companies that implement it will have a better position in the market (Porter & Kramer, 2006). This idea evolved years later, as a result of the positioning of the concept and practice of social responsibility, with the understanding that companies should stop focusing on mitigating the damages of their operations and adjust them regarding their scale and innovation with the interest of advancing social progress.

This change in the understanding of CSR resulted in the concept of Creation of Shared Value, defined as business practices that since its inception have the dual purpose of providing profits for the organization and improving social, environmental, or economic conditions of a specific population related to the company (Porter & Kramer, 2011). The management strategies integrate these, allowing companies to create measurable business value through the identification and solution of social problems.

The concept starts from the idea that companies can improve their economic performance by responding to a social need (Lepak, Smith, & Taylor, 2007). Therefore, the objective is to create hidden business opportunities in the problems of the society where they are currently operating. Therefore, it motivates companies to stop seeing social needs from the standpoint of social responsibility and philanthropy, as it reduces the ability to generate value for them and their stakeholders.

The value generation increases to the extent that opportunities for companies to respond to the interests and concerns of civil society organizations and governments, allowing companies to not only create value for them but also to other stakeholders.

Among the main criticisms that this SPBM received is the fact that it puts the interests of the company above those of other stakeholders (Le Pennec & Raufflet, 2016). Likewise, it could be used as an advertising and competitive advantage generation strategy for a company to increase barriers to entry to a segment and maintain the exclusion patterns suffered by vulnerable groups that allegedly benefitted. These barriers can generate monopolies, reducing the decision-making capacity of vulnerable groups and the possibility of accessing better products or services.

From this logic, the main criticism is that at the center of the model is not the generation of social value as the ultimate goal, but rather the generation of economic value for the company that has as an externality the generation of possible welfare for the society. This lack of focus on social issues dilutes the social impact, and the social initiative becomes an extension of the business model of the company that is implementing it.

The Shared Value Creation proposal has identified three different ways of generating value:

1. Redefinition of products and markets. It is about defining markets regarding unmet needs or the social ills they face, in



such a way that profitable products or services developed can remedy these conditions.

2. Redefinition of productivity in the value chain. The objective is to increase the productivity of the company or its suppliers by addressing the social and environmental limitations of its value chain.
3. Development of local clusters. It focuses on strengthening the competitive context in regions where the company operates in a way that contributes to its growth and productivity.

### Case 9.3. Unilever as a Generator of Shared Value

Unilever is responsible for the development of food products and skin care and hygiene, within its leading brands are Ades, Hellman's, Lipton, Maizena, Ax, Dove, Ponds, Rexona, Lux, Vasenol, Sedal, among many others. Under the concept of Creation of Shared Value, it decided to create, in India, the project of support for

women called "Shakti," aimed at providing loans and training to women entrepreneurs. Through this project, Unilever favors that women can contribute to their homes with income through their entrepreneurial tasks, and through the purchase of hygiene and cleaning products allowing them to improve health habits and thereby reduce contagious

diseases. Through this strategy, Unilever increases its income in two lines, the first of which is through the payment of credits, and the second is in the acquisition of their products by these entrepreneur women. Additionally, it increases its brand value and market penetration.

## 9.7 Sustainable Value

The last model is the one developed by Stuart Hart, who is one of the pioneers of the business concept for BOP, and creator of the concept of Sustainable Value. This concept focuses, mainly though not exclusively, on the attention to the main problems that society faces in environmental terms and the social consequences that these generate and will continue to favor in the future, such as poverty, inequality, and population growth (Hart, 2010).

This concept proposes that companies should be able to generate value in two axes, one temporary and the other depending on the areas of action (Hart, Milstein, & Ruckelshaus, 2003). At a temporary level, there is the value generated today and the value that will be generated in the future. Concerning the areas, there is internal and external. The interaction of these two axes creates four spaces, each one with its strategies, motivations, and return of the companies. The result of these four spaces results in the company creating a sustainable value.

Regarding the generation of value that the company can generate in the present, internally the primary motivation or concern is pollution, consumerism, and waste (Bocken, Short, Rana, & Evans, 2014). The strategies to follow are the minimization of the waste and the emissions of the daily operations, as well as the prevention and attention to the contamination that as a company has. The returns that the company receives from its action in this area is the reduction of costs and risks in its operation.

Likewise, regarding the actions, it can undertake in the present, but from an external perspective, the motivations of the company

are focused on addressing the concerns and pressures of civil society, the search for transparency and communication with its stakeholders, and connectivity. For this, the company follows a product care strategy and the integration of the visions/concerns of the stakeholders in its business processes. The benefits for the company are in the acquisition of legitimacy, compliance with the regulation and strengthening of its Social License to Operate (Portales & Romero Castañeda, 2016).

Regarding the future perspective, internally, the motivations should be disruption, the creation of clean technology and the reduction of the carbon footprint. The main strategies are the development of clean technology and sustainable skills for the future. The return that the company is expected to receive will be innovation and repositioning.

Externally and for the future, the motivations of companies are the solution to the different problems facing the world, such as population increase, poverty, and inequality. The strategies focus on increasing the vision of sustainability and the positioning of a path oriented to the attention of unsatisfied social needs. The long-term result for the company will be a growth trajectory (■ Table 9.1).

## 9.8 Conclusion

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Companies have begun to worry about integrating within their social initiatives the social problems that society faces, but from a perspective of generating social, economic, and environmental value. These initiatives seek to set aside the philanthropic and assistance vision on which the vast majority of CSR initiatives have been built and seek to be management mechanisms aimed at building capacities and competencies in the society where they operate, which are considered as purposeful business models that are aligned with the concept of social innovation.

The models show some ways in which companies seek to integrate into their management the attention to social problems in a harmonious way and from an integral perspective, where not only will generate value for the company but also to a specific vulnerable group and the society in general. The generation of value focuses, in most cases, on the construction of social value, reflected in the reduction of social barriers or conditions that create the social and economic exclusion reducing their ability to generate better living conditions.

The nature or origin of these models is as diverse as the context and the company that decides to carry it out; however, all converge on the need for companies to promote business schemes that generate social value for a particular segment of the population, at the same time they increase the economic value they receive for it. These models visualize companies as actors that contribute to the solution of the problems that society faces, without ceasing to be a profitable company that generates economic benefits for its shareholders, owners, and collaborators.

■ **Table 9.1** Comparison of business models with purpose

Social Purpose Business Model	Author(s)	Main interest	Role of the company	Role of the communities
Business from the Base of the Pyramid	Prahalad	Attend the Base of the Pyramid market as a consumer or entrepreneur	Creation of business models (products/services)	Consumer Entrepreneur
Inclusive business	Several authors	Incorporate a marginal or vulnerable population into the value chain of companies	Mechanisms to include productive projects or local suppliers	Develop products for the company
Creation of shared value	Porter y Kramer	Creation of value for the company and society: Cluster, new products, and markets	Generate innovation to generate a double value	Receptors of innovation
Sustainable value	Hart	Create value in the present and future to meet current and future needs	Creator of innovation for the generation of value	—

Source Author

It is important to mention the ethical element in the implementation of these business models since without it the risk of generating a great damage by trying to do good to the community increases. This situation is especially risky in the models where the poor are seen as consumers or as providers of some service since patterns of exclusion or subordination generated are similar to those that raised such social problems.

In general terms, the potential of the company to respond to the main problems faced by the world through socially responsible management and oriented towards the construction of a social transformation is great. However, if the implementation of these models is not accompanied by an ethical element and a real concern to change the social conditions that gave way to these prob-

lems, then, the business models with purpose will be a scheme through which the conditions of inequality between social groups.

## 9.9 Questions for the Debate

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- Do you think it is possible for a company to develop some business model with a purpose only in the interest of generating welfare in society?
- What aspects are relevant when carrying out this type of business models and what are the main risks they face?
- Do you know some model of this type? How would you describe it? Do you think that it is a way of social washing or real interest in changing society?
- What do attributes you think are the most important to start a business of this nature?
- Do you consider that this type of business model can be the future of CSR or are they another attribute of the social part of the company?

## 9

## 9.10 Additional Resources

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Lectures:

- Reality Check at the Bottom of the Pyramid—Harvard Business Review
  - ► <https://hbr.org/2012/06/reality-check-at-the-bottom-of-the-pyramid>
- Creating Shared Value—Harvard Business Review
  - ► <https://hbr.org/2011/01/the-big-idea-creating-shared-value>

Web sites:

- 10 technologies for the Bottom of the Pyramid
  - ► <https://www.cnbc.com/2014/04/20/10-technologies-for-the-bottom-of-the-pyramid.html>
- Shared Value Initiative
  - ► <https://www.sharedvalue.org/about-shared-value>
- G20 Challenge on Inclusive Business Innovation
  - ► <http://www.g20challenge.com/what-is-inclusive-business/>
- What is Inclusive Business? | World Bank Group
  - ► <https://oc.worldbank.org/content/what-inclusive-business>
- Inclusive Business—IFC
  - ► [http://www.ifc.org/wps/wcm/connect/AS\\_EXT\\_Content/What+We+Do/Inclusive+Business/Overview/](http://www.ifc.org/wps/wcm/connect/AS_EXT_Content/What+We+Do/Inclusive+Business/Overview/)
- Sustainable Value
  - ► <https://www.stuartlhart.com/sustainablevalue.html>

Videos:

- Sustainable Value Framework
  - ► [https://www.youtube.com/watch?v=4KF\\_fxkZsY](https://www.youtube.com/watch?v=4KF_fxkZsY)
- Creating sustainable value for a business
  - ► <https://www.youtube.com/watch?v=jpeS9lFDHpY>

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# **Social Intrapreneurship, the Main Factor of Social Innovations Within Traditional Companies**

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## 10.1 Objectives of the Chapter

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- Define what is and what are the characteristics of an intrapreneur.
- Define what is and what are the characteristics of a social intrapreneur.
- Differentiate between a traditional intrapreneur, a social entrepreneur, and a social intrapreneur.
- Explain the characteristics of the environment that favor the strengthening and positioning of a social intrapreneur.
- Use the process followed by a social intrapreneur to promote change within its organization.

## 10.2 Introduction

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Social innovation within traditional companies and public entities is a phenomenon that occurs more and more frequently. The need to address complex issues such as poverty, gender equity, or environmental degradation leads to more and more actors undertaking social innovations from established organizations and companies.

Individuals within companies or organizations usually drive these social innovations, using the structures and resources of the organizations where they work to meet the needs of the society. These individuals, known as social intrapreneurs, have characteristics similar to social entrepreneur and sometimes have to fight against their organizations to generate the expected results and to launch their social innovations.

Through these social intrapreneurs, companies and organizations of any sector begin their internal transformation and begin to generate actions that positively affect the attention to social problems before they even considered. They are a crucial element in the articulation of the ecosystem of transformation and social innovation since they tend to be the bridges between social entrepreneurs, leaders of third sector organizations and public intrapreneurs and other organizations.

Despite the importance they have in strengthening the ecosystem of social innovation, these actors do not receive the recognition that social entrepreneur obtains or the company or organization they represent. For this reason, this chapter aims to raise awareness of what is a social intrapreneur, what is the role they play in the processes of social innovation, and what are the conditions or factors that contribute to its positioning inside and outside companies or organizations.

The chapter has the following structure. The first section exposes the concept of intrapreneurship and its main characteristics. The second section presents the concept of social intrapreneurship, its similarities, and differences with traditional intrapreneur. The third section reveals the differences between a social entrepreneur and social intrapreneur. The fourth section



exposes the environmental characteristics that favor the strength of social intrapreneur. The fifth section presents the conclusions of the chapter.

### 10.3 Defining Intrapreneurship

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Macrae (1976) used the term intrapreneurship for the first time in an article published by *The Economist* in 1976. After this work, in the eighties, Pinchot takes the word intrapreneurship as the term that refers to the entrepreneur within a company, defined as a person who introduces and defends new ideas, from their initiative until they realize its implementation and developments (Pinchot, 1985). The concept became popular in the nineties and took more strength in the twenty-first century, especially when it began to study the origin of specific innovations within companies (Hisrich & Antoncic, 2003).

Intrapreneurship is the process of creating new initiatives, mainly economic, within existing companies or organizations, with the interest of increasing their strength and their competitive advantage (Delić, Đonlagić Alibegović, & Mešanović, 2016). It is a group of formal activities aimed to the creation of innovative business initiatives, which can be classified into the five types of innovations defined by Schumpeter (Trujillo Dávila & Guzmán Vásquez, 2008). The implementation of actions that favor intrapreneurship favors the renewal of companies, the redefinition of new ideas, and the application of strategic and organizational changes in the company (Baruah & Ward, 2014).

The intrapreneur is the individual who exercises the intrapreneurship, is an employee capable of generating new business or creating new activities within an organization, enjoying a broad knowledge about the resources controlled by other employees but that are available to its company (Trujillo Dávila & Guzmán Vásquez, 2008). The intrapreneur has the freedom to move internally and to collaborate with different employees that share resources for the benefit of the company through the creation of new activities (Belinfanti, 2015). Intrapreneurs act and respond to the needs that organizations face innovatively, increasing their value and strengthening their positioning in the markets where they operate (Braunerhjelm, Ding, & Thulin, 2018).

The intrapreneurship consists of four dimensions (Hisrich & Antoncic, 2003). The first of these contemplates the creation of new businesses or companies, which refers to searching and entering new activities related to the company's current products or markets. The second dimension is innovation, which refers to the creation of new products, services, and technologies within the same company. The third dimension includes self-renewal and emphasizes the reformulation of strategy, reorganization, and organizational change. The fourth dimension is the proactive element and reflects the orientation of top management in the search for greater competitiveness and includes initiative and risk-taking, and competitive aggressiveness and audacity.

The processes of intrapreneurship, unlike what happens with entrepreneurs, do not occur spontaneously or only by the intention of the intrapreneur to carry them out, they require a company or organization that provides them with the means to undertake their ideas. Organizations are in the continuum of entrepreneurship that goes from less to more entrepreneurial. There is a conservative companies-risk aversion-non-innovative and reactive-), and enterprising companies-assume risks, innovative and proactive- (Hisrich & Antoncic, 2003).

Companies that promote intrapreneurship drive an entrepreneurial culture, encouraging collaborators to identify opportunities within the company (Antoncic & Hisrich, 2001; Trujillo Dávila & Guzmán Vásquez, 2008). These companies usually offer a series of incentives and support in research and development to ensure the implementation of proposed initiatives (Braunerhjelm et al., 2018). Intrapreneurship can result from a business strategy that allows its execution and development organically within the organization.

In addition to the impulse of intrapreneurship from within the organization, there are also external factors that contribute to the emergence of this type of enterprise, which is usually related to the climate of uncertainty and change that occurs in the environment. The constant change becomes a source of opportunities that the intrapreneur can diagnose and take advantage of for the benefit of their organization. In the same way, risk factors such as the presence of a new competitor or new technologies also become conditions conducive to intrapreneurship.

Intrapreneurship and corporate entrepreneurship have significant differences (Hadad & Cantaragiu, 2017). The first is that the innovations proposed by an intrapreneur are not related to the strategy of the company but arise from an alternative process and sometimes not related to the operation or work performed by the intrapreneur on a day-to-day basis. The second focuses on the ability to take risks, in the case of corporate ventures individuals do not assume any chance, it is the organization itself that promotes the initiative. Otherwise, it happens with the intrapreneur, who performs actions even when the organization itself is not endorsing them. The last element that differentiates these concepts is proactivity, in the case of intrapreneurship, the organization does not contemplate activities.

#### Case 10.1. 3M—Post-It Note

3M was one of the first companies to recognize the creativity of its employees and allowed them to devote up to 15% of their work time to develop new projects. From here, the scientist Spencer Silver developed an adhesive

that was not completely solid; it was a “stickiness” easier to use. Unfortunately, he struggled to find an end use for him, until, about five years later, Art Frey, a colleague at 3M, recognized that the sticky solution could solve a daily problem he was

experiencing: His bookmarks fell out of his reading book. The Post-it Note born, and after an intense marketing campaign, it became a favorite of offices and paper companies all over the world.

## 10.4 Social Intrapreneur

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The social intra-entrepreneur is an individual who shares with the traditional intra-entrepreneur the vocation to generate entrepreneurial actions within an organization, but with the difference that they seek the generation of a value for society and not only for the organization where they work (Nandan, London, & Bent-Goodley, 2015).

The social intrapreneur has three aspects: (1) someone who works within large corporations or organizations to develop and promote practical solutions for social or environmental challenges where market failures currently stall progress; (2) someone who applies the principles of social entrepreneurship within an important organization; and (3) someone who is characterized by an insider and outsider mentality and approach (insider–outsider) (SustainAbility, 2008, p. 4).

The social intrapreneur is an employee that uses corporate policies to bring disruptive ideas to the market and more customers before, with a higher environmental or social impact, increasing the social and economic value generated by the company or organization where it collaborates (Schmitz & Scheuerle, 2012). However, this double generation of value sometimes is not well received by top management, because is a blurring of the work they should be doing (Berzin & Pitt-Catsouphes, 2015). For this reason, social intrapreneurs are challenging their organization, questioning the status quo to develop and implement commercially attractive sustainability solutions (Grayson, McLaren, & Spitzeck, 2011).

Social intrapreneurs have the possibility of making use of the resources and infrastructure of the existing organization for innovation and growth potential (Koleva & Roomi, 2015; Schmitz & Scheuerle, 2012). The social intra-entrepreneurs align themselves to the context faced by the world where companies participate in the generation of innovative solutions for the attention of social, economic, and environmental concerns, especially within the framework of the Sustainable Development Goals (Grayson, Kasbi Ridho, Vinichenko, & Makushkin, 2018; Scheyvens, Banks, & Hughes, 2016).

Social intrapreneurs create new business models, such as the case of Social Purpose Business Models (► Chapter 9) or the transition from Corporate Social Responsibility to the notion of Corporate Social Innovation (► Chapter 8). Social intrapreneurs push their organizations and companies out of their comfort zones, to see both the strategic risks and the profound opportunities that exist beyond the scope of traditional business units (Belinfanti, 2015). They are not satisfied with existing equilibria, where markets work well for some, but not for others (Martin & Osberg, 2007). It is the conjunction of the opportunity to satisfy a social need innovatively and the use of the structure and positioning of the company or organization which ends up defining the social intrapreneur and the ability to generate some change in society.

According to Grayson et al. (2017), there are four types of social intrapreneurs: excited, exasperated, emerging, and empowered, which are not fixed and tend to evolve depending on the changing attributes of social intrapreneurs. Social intra-entrepreneurs change their “type” and due to changes in the environment, dynamics in the organizational culture, hierarchies of power, resources, business climate, fluctuations in the socioeconomic and political context; and the changes they experience on a personal level, such as life experiences, behavior trends, skill sets, and contact networks.

As in the traditional intra-entrepreneurs, the sources of this type of intrapreneurship can come from both outside and inside the organization. The external motivations focus on some social problem that has been diagnosed by the intrapreneur (Elkington & Hartigan, 2008; Grayson et al., 2017). Internal sources are related to a propensity on the part of the company or organization to address social problems and the existence of an entrepreneurial culture oriented toward innovation, which may or may not be social (Belinfanti, 2015; Nandan et al., 2015; Spitzack, 2010).

An important aspect that differentiates the social intrapreneurship from the traditional one is that it can come from any sector of society, that is, any individual who has an entrepreneurial spirit can foster social innovations within their organization with the interest of satisfying an unmet need. This characteristic opens the door to the visualization of social intrapreneurs of the public, private, third sector and educational sectors. This diversity of possibilities for social intra-entrepreneurs favors the creation of stronger and more articulated social innovation ecosystems.

Social intrapreneurs share with the traditional intra-entrepreneur the search for opportunities within companies or organizations, with the difference that the former seek to solve social and non-organizational problems (Halme, Lindeman, & Linna, 2012a). They also share the innovative profile, the aversion to risk and the ability to act to achieve the implementation of the initiative you want to carry out, characteristics that are also of the social entrepreneur, who differs from other more important aspects.

#### Case 10.2. Laboratory of the City of Mexico

The Laboratory for the City in Mexico is an initiative created in 2013 to facilitate interaction between citizens and the Government of Mexico City, to think about the city. For this purpose, the lab created a bank of ideas and solutions to the challenges of the city. The fundamental goal according to its promoters was to build a city that supports and stimulates the imagination, a “creative

city.” Drivers that, incidentally, took a whole time to be heard, to captivate and involve others. As a space for speculation and essay, the Laboratory proposes new ways of making and living the urban landscape based on a dynamic of provocations. Also, it seeks to create dialogues and complicities between government, civil society, private initiative, and non-governmental organizations with the purpose

of reinventing the city and its government. This case illustrates, and on a larger scale, a way to bring innovation processes from the different social actors into the operations of decision making and public policy making. It shows the possibility of moving forward, from a “co-initiate” to a “co-inhabit” by installing an intermediate space of interaction between the

different actors that allows the acceptance of these innovation processes the genesis of the new public policies. From the civil

society, from the entrepreneurs, from the universities, such a space can be demanded and requested. However, it is the

responsibility of the State to appease it or at least respond from an attitude of intrapreneurship.

## 10.5 Differences Between Social Entrepreneurs and Social Intrapreneurs

Social intra-entrepreneurs share many characteristics with social entrepreneurs, the most important being their interest in addressing a social problem through the generation of a social innovation that generates social and economic value simultaneously. This characteristic allows the creation of collaborative bridges between social entrepreneurs and social intrapreneurs coming not only from the private sector but also from the public sector. This combination of efforts has allowed the development and positioning of some social companies in markets that would have been difficult to access without intrapreneur management.

The entrepreneurial profile is another aspect shared by social intrapreneurs and social entrepreneurs. In both cases, they apply entrepreneurial skills such as being innovative, proactive, action-oriented, creative, and courageous to achieve innovation (Mair & Marti, 2006). Both have the facility to communicate and interact with sponsors, employees, clients, and other interest groups (Nandan et al., 2015). They also have social skills such as building networks, emotional intelligence, work with all sectors, leadership, and risk aversion, which allow them to build work teams oriented to address social problems (Belinfanti, 2015; Grayson et al., 2011).

The main difference between social entrepreneurs and social intrapreneurs is the ability to take advantage of existing infrastructures and organizational capacities to offer social value on a large scale. Social intrapreneurs promote social and environmental objectives while generating profits for their employers (Grayson et al., 2011).

The possibility of using the resources of the company or organization where it operates also represents a possible limitation for the social intrapreneur, which the social entrepreneur does not have. This limitation is on the fact that the intra-entrepreneur has to operate under organizational structures and systems that can reduce their impact capacity or make it impossible to carry out specific actions. This situation forces the social intra-entrepreneur to rethink and restructure the organizations in which it works, in such a way that can achieve its objectives. Sometimes the organization becomes a facilitator of the work of the intrapreneur but can also become a detractor of this.

A final difference between the entrepreneur and the intrapreneur is the recognition that both receive. While the social entrepreneur is the founder of a social enterprise and therefore the work it does can be directly related to him. In the case of social

intrapreneurship, the recognition is for the company or organization it represents, so its role in generating social innovation may not be identified.

This aspect can put in risk the innovation developed by the intrapreneur, since before a change in the organizational policy or the direction of this, it can appease its exit from the organization or the impossibility of continuing generating this type of solutions, reducing its ability to impact society. So, it is essential that companies and organizations begin to create favorable environments for the creation of this type of intrapreneurship and the social innovations that come with them.

### Case 10.3. Martha Herrera from Corporate Social Responsibility to Corporate Social Innovation in CEMEX

Martha Herrera, Corporate Director of social responsibility of CEMEX, is the first Mexican to receive the “Leading Women Awards” recognized by the World Business Council for Sustainable Development. In her career, she highlights her work to promote the integration of social responsibility as a fundamental component of the business model of the company, as well as achieving a significant impact by getting involved with 3.5 million women in Mexico, thanks to the successful program “Todos Somos Esperanza” and the fulfillment of 15 of the 17 Sustainable Development Goals in the country.

Throughout her career, Martha Herrera led programs and developed alliances that benefited with more than 11 million people in Mexico, some of them exported to different parts of the world where CEMEX has operations. Several institutions recognized these initiatives such as United Nations, UN-HABITAT, the Organization of American States (OAS), the Inter-American Development Bank (IDB), the Mexican Center for Philanthropy (CEMEFI), the Confederation of Industrial Chambers (CONCAMIN), among others, for being social initiatives and businesses designed to alleviate

multidimensional poverty and for the empowerment of women and youth. CEMEX’s commitment as a company playing a leading role in the advancement of constructive change. The achievement of the Sustainable Development Goals is not only responsible but also strategically relevant from growth, since it fosters new business opportunities, builds markets and relationships throughout the world, improving the environment and the quality of life of society.

## 10.6 Favorable Environments for the Social Intrapreneur

The success of the work of social intrapreneurs not only lies in the personal competencies they have, but also in the existence of certain conditions within the companies and organizations where they work to encourage the implementation of different types of social innovation (Halme, Lindeman, & Linna, 2012b). From this perspective, social intrapreneurs can be actively enabled to create shared value or reject and place them in a “hostile environment” depending on the organizational maturity of the company (Koleva & Roomi, 2015).

The development of an environment conducive to the creation of social intrapreneurs requires consideration of different aspects by the organization, such as:

- Strengthening the social intrapreneur. It consists of seeking the connection of talented, intelligent people who can have their motivation, where the worker becomes an entrepreneur on his initiative. The challenge is to break with the paradigm and the

questioning about the relevance of this type of enterprises and the benefit it can have for the organization and be open to the generation of social innovation processes that go beyond economic benefit and seek the transformation of society (Berzin & Pitt-Catsoupes, 2015).

- Support from the organization. To provoke organizational change, it is necessary the support and commitment of the management, achieving the reorganization of this to facilitate intrapreneurship (Halme et al., 2012b). The development of initiatives inside companies does not depend on the intrapreneur, but also on the conditions that are established within the organizations so that they appear and act.
- Intrapreneurial culture. This organizational culture is the base for the generation of communication processes, interpersonal relationships, which encouraging intrapreneurs to generate intra-credits (Austin, Leonard, Reficco, & Wei-Skillern, 2006).
- Innovation, research, and development. The efforts of intrapreneurs require processes of innovation, research, and development from a patient perspective (de Jongh et al., 2010). This type of innovation considers that the benefits that social innovation can achieve regarding social change require time and effort, since it is not about positioning a product or a service in a specific market, but it requires rethinking the social structures and the actors that participate in it (Cajaiba-Santana, 2014).
- Strategic Alliances. The social change pursued by social intrapreneurs through their initiatives cannot be conducted in isolation but requires articulation with other actors in society (Le Pennec & Raufflet, 2016). These alliances are presented at an institutional level, so companies and organizations must be willing to promote the social changes supported by their intrapreneurs in an institutional and public manner (Portales, 2015).
- Incentives. The existence of rewards and incentives within organizations contributes to the emergence of social intrapreneurs (Howard-Grenville, Nash, & Coglianese, 2008). They foster the culture of intrapreneurship within the organization and promote that new individuals join the effort to change society through companies' initiatives.

The generation of social intrapreneurs requires alignment between the individual effort and the organizational response toward it. When there is an alignment between one and the other, the probability of success of social innovation increases, as well as the capacity to generate an impact on the company and society as a whole (Grayson et al., 2017). This alignment reaches a first moment when the initiative proposed by the intrapreneur is institutionalized within a department or functional area of the company, allowing the creation of an organizational infrastructure for its operation and facilitating the operational independence of the intrapreneur (Austin, Gutierrez, Ogliastri, & Reficco, 2006).



In most cases, especially in those where there is no culture of intrapreneurship or social innovation, social intrapreneurs face the challenge of transforming organizations from within (Belinfanti, 2015; Berzin & Pitt-Catsoupes, 2015; Halme et al., 2012b). It is important to remember that regarding social innovation the result is not as important as the process to carry it out. Therefore, intrapreneurs can follow four stages to develop and scale their projects: obtaining it, selling it, doing it, and scaling it (■ Fig. 10.1). Even for those who wish to become intrapreneurs, the League of Intrapreneurs has generated a toolkit to achieve this type of social innovation.

#### Case 10.4. Myriam Sidibe: Health Care from Unilever

Myriam leads one of the largest public health campaigns in the world, from within one of the largest companies in the world. Together with several partners, they are helping to stop the disease by promoting a straightforward solution: wash your hands with soap. Myriam is one of the only people in the world with a doctorate in public health focused on washing hands with soap. Diarrhea and pneumonia are the leading causes of death among children under the age of five, and yet most of these

deaths could be prevented merely by using soap. When Myriam finished her doctorate, instead of going to work for an NGO or a public sector agency, she decided to join Unilever. In his opinion, working with companies is the best way to reach people with information and access to this product that saves lives. Since joining Unilever, Myriam has become an integral part of the Lifebuoy brand team. She has helped soap sellers to see the connections between their product and lives saved.

Together with several partners, they are carrying out one of the largest public health campaigns in the world and have reached 183 million people in 16 countries. In these countries, Unilever's business has increased, and child mortality has decreased. Myriam knows that for some this link between business and health is uncomfortable. But the results speak for themselves. For Myriam, profit is not a bad word; it's saving lives.

#### Getting It

- Moment where the intrapreneur sees the opportunity to leverage his or her business to solve a particular problem.

#### Selling It

- Get resources to develop the initiative. This involves influence the key individuals who can help move the project along.

#### Doing It

- Perform the action that the intrapreneur will propose and obtain results that validate it.

#### Scaling It

- Scaling the solution is the end goal for most intrapreneurs. The big challenge for incubated projects is to incorporate into the mainstream.

■ Fig. 10.1 Steps to develop and scale an intra-enterprise (Source Author with information from SustainAbility (2008))



## 10.7 Conclusions

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The social intra-entrepreneur plays a crucial role in the generation and positioning of social innovations since it identifies business opportunities for companies or organizations to work with while addressing a specific problem or need. These intrapreneurs can take advantage of the resources available to their companies and organizations, which increases the impact their initiatives may have, such as Myriam Sidibe from Unilever or Martha Herrera from CEMEX.

The work of the social intra-entrepreneur presents challenges associated with the implementation of social innovation processes in general. The first is to move forward with the social innovation project itself and address organizational change to ensure a positive adjustment between innovation and the existing organization. In this sense, social intrapreneurs face the challenge of getting their organizations to support them, especially when it comes to actions that may not be directly related to their daily work. This challenge of transformation within the organization is complemented by the need for social change that led to social innovation in the first place.

Social intra-entrepreneurs face the challenges that any social entrepreneur faces to generate social and economic value simultaneously to achieve the social transformation that defines social innovation. But it also meets the double challenge faced by a traditional intra-entrepreneur, which is to convince top management to allocate resources for the realization of the innovation they wish to undertake, as well as to generate sufficient results for it to be consolidated and institutionalized within of the organization.

Social intrapreneurs play an essential role in articulating the ecosystem of social innovation and therefore in its success. Representing companies or organizations with a certain reputation and economic, social, and institutional power allows them to access more diverse collaboration networks with more resources, facilitating the articulation of efforts of different actors and sectors depending on the need you want to attend.

The power of change that social intrapreneurs have has to be accompanied by companies and private and public organizations that can stimulate, encourage, develop, and evaluate social innovations. These organizations are the basis for achieving the successful sustainability of intra-corporate social innovation efforts and their potential to generate capacities in a society that allow them to meet their needs in a fair manner, fulfilling their mission of creating economic wealth and social welfare.

## 10.8 Questions for the Debate

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- Why do you consider that companies do not allocate efforts and resources of different kinds in the generation of social intrapreneurs?

- You believe that all employees of a company can become social intrapreneurs. What does it take for a traditional employer to become a social intrapreneur?
- What are the main challenges faced by a social intrapreneur in a company and a public institution? Do you think they are different?
- Take the case of Rebecca Moore from Google to see how this social intrapreneur achieved that her company will implement the Google Earth Outreach initiative. Use the diagram in **Fig. 10.1** to perform the analysis (► <http://leagueofintrapreneurs.com/2018/01/26/case-study-google/>).

## 10.9 Additional Resources

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### Websites:

- League of intrapreneurs
  - ► <http://leagueofintrapreneurs.com/>

### Videos:

- TED Talk de Miriam Sibide
  - ► <https://www.youtube.com/watch?v=c64M1tZyWPM&feature=youtu.be>
- Gifford Pinchot III—Social Intrapreneurs: Innovations to Solve Society’s Problems
  - ► <https://www.youtube.com/watch?v=OuYxd844DP4>
- The power of social intrapreneurship: Kate Aitken at TEDx-HarvardLawSchool
  - ► <https://www.youtube.com/watch?v=ExXuMqCw8gk>

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# Social Impact in Social Innovations: Definition, Design, and Evaluation

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## 11.1 Objectives of the Chapter

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- Define what is and what is not a social impact by social innovation.
- Explain how to measure social impact and what are the different levels of indicators that exist.
- Recognize and analyze the different indicators that exist to evaluate the impact of social innovations.
- Design a social impact assessment for some social innovation.

## 11.2 Introduction

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Social innovations seek the transformation of society through innovative solutions. These solutions not only pursue the generation of social value but also operate under criteria of economic sustainability, making a tension in their management models and resulting in the creation of social enterprises, hybrid organizations, Social Purpose Business Models, among others.

Actors from any sector of society created this type of social innovations, highlighting those coming from the private sector, either through social entrepreneurs or traditional companies that seek to address social issues, or third sector, where non-profit organizations create business models or hybrid structures to achieve their sustainability. Despite this diversity in management and operation models, all share the mission of generating an impact in society through attention to a social problem.

One of the main challenges facing a social innovation is to show the impact it is having and how it is positively transforming society. Despite its relevance, the impact is an issue rarely addressed in the study of social innovations and social entrepreneurship, especially regarding its characteristics and the aspects that considered for its evaluation.

The present chapter has the interest to expose what is the social impact, what are the different levels of impact that exist, the relevance that it has for social innovations and as far as possible design evaluations that allow them to increase their legitimacy and demonstrate the value that they are generating in society.

The chapter has five sections. The first section explains what is social impact and what are the different levels that exist in its construction. The second section explains the relevance of this type of impact and the challenges that organizations face when trying to evidence the impact generated by the social innovations they develop. The third section presents the Theory of Change (ToC) tool, as a way to build and validate the narrative of social change that promotes social innovation. The fourth section presents basic principles on impact evaluation, as well as the criteria that support it and steps to carry it out. In the fifth section, the chapter exposes some tools or indicators used to report the impact of organizations and therefore of the social innovations they develop.

### 11.3 What Is Social Impact?

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The social impact is one of the main challenges faced by any social innovation, is the changes that the population presents at the level of their living conditions, their culture, their community, their political systems, their environment, their health and well-being, their personal and social rights, and their aspirations and hopes (Esteves, Franks, & Vanclay, 2012). In the case of social innovations, this impact is the attention and fulfillment of its social mission or the generation of its social value (see ► Chapter 3).

The social impact created by a project affects or involves any group of actors, so that almost any change can be a social impact, as long as a specific group of people values it or is important to it, and aligned with the objectives that the organization pursues. For example, environmental impacts are social impacts since they affect the subsistence of the inhabitants and generate changes in the social dynamics of the community itself. The effects on people's health and well-being are also social impacts. The recovery of cultural heritage from important habitats or biodiversity is also a social impact because the people of the community value them.

An important concept is a distinction between the process of social change and a social impact (Portales, 2018). That is, not all the processes that induce changes in a community necessarily cause social impacts, so it is essential to differentiate the changes that naturally occur in a community as part of its social dynamics and its process of change, of those generated by an external agent. For example, the change in the demography of a society that is aging more and more is the result of a social process, not the result of the action of a project or social enterprise that through its action seeks to generate a social change (impact).

The social impact addresses everything that is relevant to people and their lifestyles, which means that no part of a checklist of potential social impacts, but from the awareness and understanding of how social innovation will affect the community and how relevant is for its actors (Grieco, Michelini, & Iasevoli, 2015). From this logic, it is essential to define the expected and unexpected change that social innovation will generate, facilitating the management of adverse impacts and increasing their benefits. Additionally, social innovation should differentiate what consequence of its work is and what is not (CONEVAL, 2013; Vanclay, 2003).

In addition to the differentiation between social change and social impact, the challenge is to differentiate the products, the effects, and the impacts generated by social enterprises through its actions. The products are more superficial regarding the change they create in society, and the impacts are those that have a change in social dynamics and that therefore can be considered as permanent changes.

- The products are the goods or services delivered to the beneficiaries directly and as a result of the work of the social enterprise.

- The effects are the changes in the capacities and the conditions of development that will allow reaching the expected goal/ impact. They are the results achieved in a short–medium term as a result of a set of activities developed in a strategic and oriented manner.
- The impacts are changes in the long term in the groups or communities attributed to the work carried out by the social enterprise as part of its social mission.

#### Case 11.1. Educación Para Compartir (Education to Share)

Educación Para Compartir (EPC) is a Mexican social enterprise that develops educational programs (goods and services) that it delivers to schools in marginalized or low-income areas so that, through games, children have comprehensive education. Through their programs, children develop capacities of tolerance, listening, and empathy, among others,

allowing them to generate a better school environment and develop as individuals. In the long term, the communities of the schools where its programs operate evidence change in their behavior. The changes generated by EPC are when young students transmit the teachings acquired within their families and in their environment. At times, it is

the parents themselves who continue to participate in designing new initiatives that reinforce the learnings their children received with the EPC programs. EPC is a social enterprise that generates social changes at different levels of depth, from the first to the third order.

- Products (First-order). Educational programs of integral formation.
- Effects (Second-order). Tolerance, listening and empathy skills that generate a better school environment and integral personal development.
- Impact (Third-order). Change of behavior in the educational community (parents, young people, and schools).

## 11.4 Alignment of Social Impact in Social Innovations

The social impact of social innovations is directly related to their *raison d'être*. However, and like economic innovations or developed from traditional or non-social companies, not all have the same results or achieve the double purpose of generating economic and social value at the same time (Díaz Foncea, Marcuello, & Marcuello, 2012).

This situation arises for one of the following reasons: The first is the absence of a sufficiently innovative social business model that allows the organization to position itself in the market and guarantee sufficient economic income to generate the seek impact. In this case, companies should look for a better product or service based on the needs of the market they try to serve. The second reason is the inefficiency to resolve the tension between the generation of income and the social impact. In this case, it is convenient to classify the enterprises according to the degree of integration that the social mission has to which they seek to attend. The third reason is the lack of an impact model that allows them to demonstrate the way in which social innovation will achieve the impact they want to meet.

► Chapter 7 analyzes the first two reasons. This section presents a way to generate the social impact model through the



construction of a ToC, which is the process that a social innovation must follow to achieve a goal in the long term, understood as impact (Retolaza Eguren, 2010).

The ToC contemplates all the elements and steps that are followed to address the problem or condition that the project seeks, in the long term, achieve (Biggs et al., 2017). ToC is a theory-based approach to program design and evaluation that begins by making explicit how a program will meet its impact by describing the hypothesized steps along the causal path and using this theory to guide the assessment of the program (Breuer et al., 2016). The methodology used to create a ToC can also mean either the process or the result (Mason & Barnes, 2007).

The ToC differs from any other method to describe initiatives in various ways (Retolaza Eguren, 2010): (1) It shows a causal path to reach the objectives or impacts of the project. (2) It articulates the underlying assumptions to achieve the defined objectives. (3) Look for a change in the way to operate, the understanding of implemented initiatives and what is doing to make it. (4) It is the critical route to complete the proposed objective from an integral perspective, which generating a graphic visualization of the initiative.

Although there is no specific way to do a ToC or how to represent it (Davies, 2018), there are a series of steps that help in its construction process (Nesta, 2018) ■ Fig. 11.1:

1. Define what the main problem that wants to address and the long-term vision of the change to achieve.
2. Identify the people most affected by the problem, and that social innovation is going to help, could be a small community, a group, or a large organization.
3. Establish where to start the work, it may be a place, a person, or a thing that is the starting point.
4. Mention the logic or practical steps to carry out to make changes, such as creating associations or making adjustments to existing processes. Orienting all the steps to the action is crucial.
5. State what are the immediate results and medium-term results. These are the tangible results that show other people or organizations how their work makes a difference.
6. List the key findings that your activity would take: These are the preconditions to realize the vision.

### Case 11.2. Laboratoria

Laboratoria is a social enterprise that seeks to address the lack of quality employment opportunities for women with economic or social limitations, who have not been able to access higher education. For this, Laboratoria designed a Bootcamp through which

women receive quality training on programming and web development. They apply an efficient teaching model, with the preparation of only five months, managing to triple the income of the women it forms. To date more than 820 women have graduated

from their program and more than 80% work in technology, transforming their lives and the industry. Laboratoria has offices in Mexico City, Lima, and Santiago, and new training centers in Guadalajara and Sao Paulo.

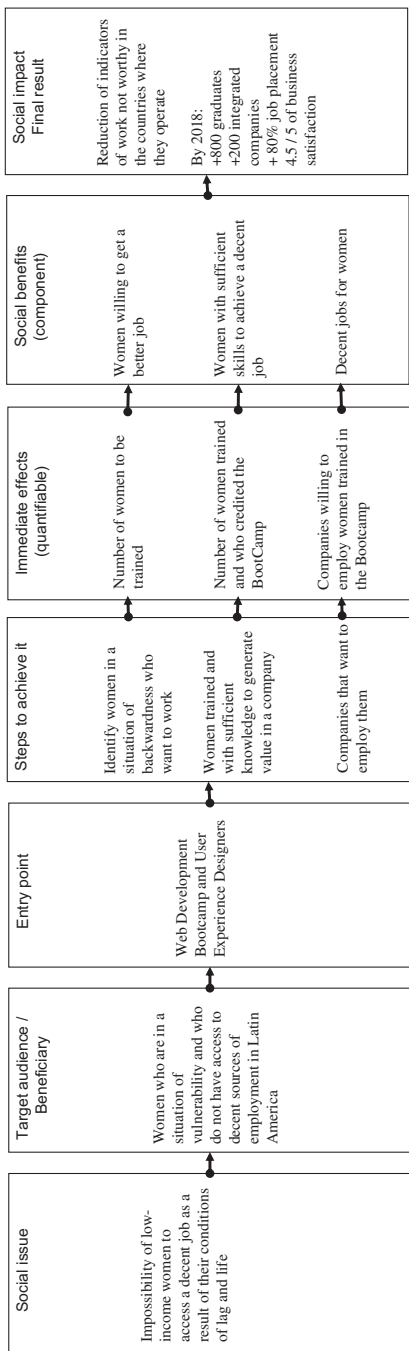


Fig. 11.1 Theory of change of laboratoria (Source Author)

## 11.5 Measuring the Social Impact of Social Innovations

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The definition of the process or the logic followed by social innovations to achieve the change is the first step to evidence its social impact in the long term. The exercise of defining the narrative helps to establish the results and indicators that should be monitored to show the compliance of the objective. The definition of these indicators contributes to social innovation in its legitimacy, as well as in the strengthening of economic and institutional value. A change generating by positive results or impact is more prone to receive more financing or to which its buyers or clients continue to opt for the good or service it offers.

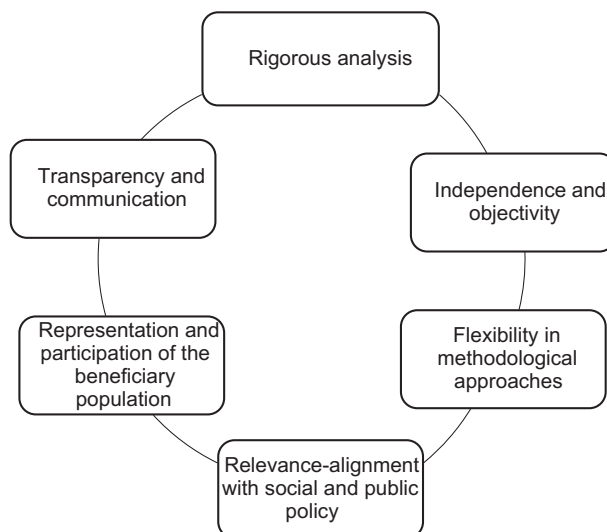
The assessment and monitoring of social impact is a crucial element for social innovations because show how and to what extent fulfilling their mission. This type of evaluation covers a vast range of activities and applies to the entire life cycle of social innovation, adapting the several concerns and social issues in different points of the intervention (Aedo, 2005).

Social Impact Assessment (SIA) is the process of analyzing, monitoring, and managing the intended and unintended consequences, positive and negative, of the interventions and of which any process of social change generates (Arce-Gomez, Donovan, & Bedgood, 2015). It is a systematic and objective assessment of an intervention for the development in progress or already concluded its conception, its implementation, and its results.

The SIA arises from the need to show how the actions undertaken by a particular organization, which aims to improve the living conditions of a specific group, achieve their purpose (Grieco et al., 2015). It is also a constant learning and monitoring mechanism, through which organizations can improve their efficiency regarding the social work they perform, as well as validate the intervention model on which they work. The reporting and dissemination of the SIA become a way to make transparent the work carried out as an organization, the good use of resources and the actions carried out on a day-to-day basis (Costa & Pesci, 2016).

The diversity of social issues and organizations working to highlight their impacts makes it challenging to establish a single methodology or process to carry out a SIA since each will present particularities based on different factors (context, intervention model, the territory, among others). However, this range in the types of evaluations does not mean that there are no minimum principles or elements to consider such as rigorous analysis, independence and objectivity, flexibility in methodological approaches, relevance-alignment with social and public policy, representation and participation of the beneficiary population, and transparency and communication (■ Fig. 11.2).

SIA contemplates qualitatively (e.g., improvement of the provision of medical care), quantitative (e.g., increase in the number of treated patients that would otherwise not be treated) and/or the monetization of the results (e.g., assigning a value to the benefits

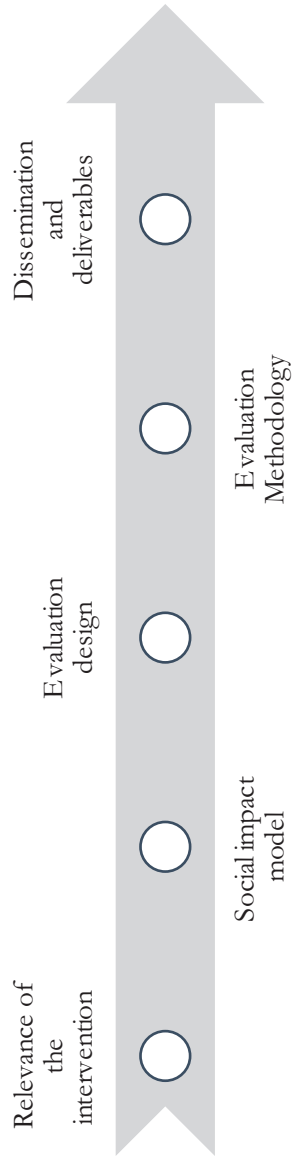


■ Fig. 11.2 Principles of the social impact assessment (Source Author)

for each patient treated, as well as to the benefits for society). A complete approach to measuring impact requires a formal evaluation that also translates the social impact into economic value. The social impact is not only measured but also addressed into the impact value equation, which balances the interests of the beneficiaries with the results and the investors.

It is clear that a shared understanding and standardized metrics provide credibility to impact reports while allowing the comparability of data and efficiencies among social innovations, hence the relevance of their definition in a systematic way. There are a series of elements to consider when conducting a SIA, presented and stipulated in its design and implementation, which follows five different stages (■ Fig. 11.3):

1. **Relevance of the intervention.** It focuses on defining the significance of social innovation at three different levels. The first, they are toward the organization, its mission, vision, and values, responds to the questioning of why it is relevant for the organization to carry it out. The second level focuses on the importance or relevance of the problem in the territory where it takes place. The third level is the degree of alignment that the problem has at a national and international level, that is, for whom it is most relevant to address this problem.
2. **Social impact model.** This stage focuses on demonstrating the process that social innovation will follow to achieve the stated objective, resulting in indicators for monitoring and management in the short, medium, and long term. The ToC is a useful input for this stage.
3. **Evaluation design.** It establishes the objectives and scope of the evaluation per se, not the intervention. This delimitation is a function of the time it takes the implementation and who will serve to make decisions. It constitutes the basis of evidence that is going to be collected, stored and how the data will be validated.



■ Fig. 11.3 Stages of the social impact assessment (Source Author)

4. Evaluation Methodology. With the definition of the objectives and scope of the evaluation, the next steps are a specification of the methods for collecting and analyzing the information, as well as the times and deliverables.
5. Dissemination and deliverables. The quality, level, and effectiveness of the impact are evaluated based on the analysis of the collected data. It focuses on reviewing the result and the measurement process, providing information for future improvements. It is also the opportunity to establish dialogues with the different interest groups according to their level and type of participation.

Measuring the social impacts of social innovation is not an easy task and is usually related to its level of maturity. From this perspective, there are five different levels (Epstein & Yuthas, 2014):

1. Emergent. The information or measurement supports internal decisions by tracking revenues and expenses. It focuses on maintaining the operation and survival of the organization.
2. Established. It focuses on evaluating the quantity and quality of the products and services delivered to the market and beneficiaries. The information helps to make decisions about the value generated by the product or service in a specific market niche and how is exploited.
3. Driven by objectives. It seeks to measure, directly or indirectly, the social impact created in the beneficiary, mainly at the level of direct effects. It begins to be a strategy to acquire more investments that allow the model to scale.
4. Integrated. They incorporate performance metrics in the company's processes, from a social and economic perspective. The measurement becomes a key aspect of decision making.
5. Evolutionary. Performance results are used to promote the allocation of resources and to review strategies to ensure the continuous improvement of social impacts. You enter a process of constant learning.

Regarding SIA, the indicators that emerge from these levels help the company to improve its performance according to its level of maturity (■ Table 11.1). At this point, it is important to emphasize that entrepreneurs must identify what information or indicator is useful for making decisions in their organization, since having an overly complicated indicator system runs the risk of focusing their efforts on generating information that does not add value to its operation.

## 11.6 Metrics and Indicators of Assessing the Social Impact

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In the case of social innovations, impact assessment is not only focused on knowing what the change that is taking place in the living conditions of the population or how it is transforming the environment where it takes place is. It also implies a bridge of

**Table 11.1** Types of indicators, level of maturity of measurement and stage of social impact

Phase of the social innovation	Type of indicators	Level of maturity	Stage of social impact
Start of the social enterprise	Operational—profitability	Emergent	None
Validation of the model	Products	Settled down	Improvement in benefited
Market consolidation	Effects	Driven by objectives	Change in conditions benefited
Scaling of the social enterprise	Local social impact	Integrated	Change of social conditions
Social conglomerate	Regional social impact	Evolutionary	Systemic change

Source Author

dialogue with actors from the same sector or other sectors with the interest of adding them to the initiative or of obtaining greater economic or institutional support in the following stages of its implementation. It is through impact assessment that social innovation achieves better relationships and increases the capacity of society to act, and even raises the efficiency of the solution it is carrying out.

Impact evaluation implies an understanding of the expected impact in each of the different moments of social innovation by the participate actors, especially those involved as investors or sources of financing. The impact of social innovation is linked to the financial and social objectives of the organization that carries it out, settling in the management and processes necessary to meet those objectives (Impact Management Project, 2017a).

In this sense, an excellent way to establish a dialogue with other stakeholders is the dimensions proposed by the Impact Management Project (■ Fig. 11.4). These dimensions seek to fully understand the impact that social innovation has, as well as the contribution and the risks exposed in its implementation. These dimensions are: What?, How much?, Who?, Contribution and Risk (Impact Management Project, 2017b).

Hand in hand with the efforts that each organization makes to report its impacts with its different stakeholders, depending on the demands that each of them could have at each moment, at the international level, there are several efforts to generate specific metrics to measure the social and environmental impacts of companies and organizations. These efforts seek to create frameworks that allow organizations or social groups from all sectors of society to establish points of comparison regarding the results that differ-

What	Understand what result (s) an effect relates to and how important it is
How much	Understand how important an effect is in a given period of time
Who	Understand who experiences an effect and how dissatisfied is the target population
Contribution	Understand how the effect compares and makes a contribution
Risk	Understand what risk factors are significant and how likely they are to happen

■ Fig. 11.4 Dimensions for understanding the impact (Source Author with information from the Impact Management Project, 2017b)



ent social innovations have at the local, national, and international levels.

One of the most important examples is the Global Reporting Initiative (GRI), which helps companies and governments around the world to understand and communicate their impact on critical sustainability issues, such as climate change, human rights, governance, and social welfare. The development of the GRI Sustainability Reporting Standards tool into considerations contributions from multiple stakeholders and rooted in the public interest.

Another way to demonstrate the impact and its profitability is the Social Return on Investments (SROI). This method adds principles of extra-financial value measurement about the resources invested, that is, the social and environmental value not reflected in conventional financial accounts. The SROI analysis produces a report of how an organization, program, project, or initiative create value and offer a coefficient that indicates the relationship between total monetary amount invested and the result obtained by each dollar, euro or peso.

At the level of impact investments, there are two options. The first is the Impact Reporting and Investment Standards (IRIS), created by the GIIN, as a platform that integrates accepted performance metrics that are used to measure the social, environmental, and financial results of an organization (GIIN, 2017a). This platform allows parameters to be filtered according to investment priorities and focus areas, which facilitates the identification of common indicators, whether by sector, the area of impact, type of organization, among others (GIIN, 2017b).

The second is the Global Impact Investing Rating System (GIIRS), which is a comprehensive and transparent system to assess the social and environmental impact of companies and market funds with a qualification and analysis approach analogous to the investment classifications of Morningstar and Capital IQ financial analytics. It is the only entity that has a focus on the impact performance of private companies; that uses an intersectoral and geographically crossed methodology; and that provides transparent, independent, and verified data.

Finally, the Progress out of Poverty Index (PPI), created by the Grameen Bank Foundation to determine the probability that a particular household is living below the poverty line, allows organizations to identify clients, clients or employees who are more likely to be poor, integrating objective poverty data into their assessments and making strategic decisions.

### Case 11.3. ECODES and the Evaluation of the SROI of Social Projects

ECODES is an organization that operates in Spain and Latin America with the mission of accelerating the transition to a green, inclusive and responsible economy, framed in new governance, through innovation

and the creation of bridges and alliances. ECODES works with a methodological approach based on principles of identification, measurement, and monetization of the extra-financial value, that is, the environmental, social,

and socioeconomic amount not reflected in conventional financial accounting about the resources invested in an organization, project, or initiative.

In 2017, ECODES evaluated the project Ni Un Hogar Sin Energia, which improves the situation of families who suffer from energy poverty and who cannot, or have great difficulties, to pay their bills and keep their home in a healthy temperature. The first objective of the program is to reduce the economic amount of their energy bills of households, either by reducing the energy consumption with

energy efficiency habits or measures or by adapting the characteristics of your energy contracts to your demand needs. All this approaching from a technical and social perspective, making participants aware of the economic consequences of using each of the equipment they have in their homes and understanding of energy bills, promoting responsible consumption habits of energy.

The ECODES assessment of the project Ni Un Hogar Sin Energy to fight against energy poverty in its 2015–2016 edition in the city of Zaragoza showed that it is a profitable intervention that has a return in monetary terms of more than €3 at a social, environmental, and socioeconomic level, for each euro invested over a period of five years.

## 11.7 Conclusions

The social impact is at the center of all social innovation initiatives, its achievement reflected in the fulfillment of the social mission and the rationale for these initiatives. For this reason, the generation of evidence that allows identifying it through the performance of impact evaluations systematically and transparently is a key element in its positioning and growth.

Generating schemes that show the impact that social innovations cause allow to recognize which are the factors that create a better effect on the problem they wish to address. It also allows establishing more efficient communication processes with its stakeholders, especially those that finance or invest in the development and implementation of this solution. This evidence constructs communication bridges with other actors that can be key in the social change, as well as in the processes of empowerment of the affected groups.

The implementation of evaluation mechanisms contributes to the improvement of intervention models, as well as to the validation and growth of the Theories of Change that organizations or companies designed with the interest of generating an impact in the long term. It also makes it possible to demonstrate the efficiency of its intervention proposal about other programs and make use of it as financing mechanisms (e.g., Social Impact Bonds).

Despite the benefits that an impact evaluation can have for social innovations, regardless of which sector they come from, it is essential to consider the reasons, the purpose, and the moment to carry it out. Otherwise, there is a risk of establishing very high standards or evaluation criteria for novices' initiatives or vice versa, using minimal standards for initiatives that should be delivering other types of social change.

To demonstrate the impact of social innovation is not only to show how it satisfies the needs of a specific sector through an innovative solution, but the process of generating information is also a vehicle for empowering society and strengthening the relationships between different actors. It is a way to create spaces for dialogue, improves social processes, knows about the advances

made as a society, and also offers mechanisms that allow to promote and demonstrate the social transformation generated by the social innovations.

## 11.8 Exercise

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- Use the diagram in **Fig. 11.2** to perform the ToC of the program “Ni Un Hogar Sin Energy to fight against energy poverty,” evaluated by ECODES in 2017. For further reference, you can review the report that generated this organization (► [https://ecodes.org/documentos/Informe\\_SROI\\_Pobreza-Energetica.pdf](https://ecodes.org/documentos/Informe_SROI_Pobreza-Energetica.pdf)).
- It uses the Laboratoria case and the stages defined in an Impact Assessment (**Fig. 11.4**) to design an impact evaluation of the program in one of the locations where it currently operates. Use the ToC defined in Case 11.1 to identify the indicators to evaluate its performance.

## 11.9 Additional Resources

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### Websites:

- International Association of Impact Assessment
  - ► <http://www.iaia.org/index.php>
- Nesta—Theory of Change
  - ► <https://www.nesta.org.uk/toolkit/theory-change/>
- Development Impact, and You
  - ► <https://diytoolkit.org/>
- Center of Theory of Change
  - ► <https://www.theoryofchange.org/>

### Videos:

- Social Impact Assessment “What is Social Impact Assessment?”
  - ► [https://www.youtube.com/watch?v=UDWRJxc2\\_ll](https://www.youtube.com/watch?v=UDWRJxc2_ll)
- DIY Toolkit | Theory Of Change
  - ► [https://www.youtube.com/watch?v=6zRre\\_gB6A4](https://www.youtube.com/watch?v=6zRre_gB6A4)
- Measuring your social impact: Theory of Change
  - ► <https://www.youtube.com/watch?v=dpb4AGT684U>
- Theory of Change Explainer
  - ► <https://www.youtube.com/watch?v=BJDN0cpxJv4>

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# Impact Investment, a Key Element in the Promotion of Social Innovation

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## 12.1 Objectives of the Chapter

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- Define impact investment and its differences with traditional investments.
- Recognize the elements in the construction of an impact investment ecosystem.
- Explain the different mechanisms that exist and that have been successful regarding impact investment.
- Propose a Social Impact Bond to address a specific problem.

## 12.2 Introduction

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Social innovation has the challenge of transforming society through the implementation of innovative solutions (products, services, processes, markets, etc.) to some of the most difficult problems facing the world. Social innovation seeks the participation of actors from different sectors of society that articulate efforts to increase the effect that the solutions have. The complexity of some of these solutions usually requires a high economic investment for their implementation. However, due to their capacity to transform and reach markets or populations that traditionally excluded, they also promote social and financial returns that may be attractive for some investors.

One of the main characteristics of the investors is the interest for financial maximization of invested capital, managing and reducing risks. However, in recent years, a new global trend emerged that questions the mechanisms used to achieve this maximization and the effects it generates. The questioning is supported by the economic volatility, complex social and environmental problems, and the growing awareness of the direct impact that human beings have on the planet, which awakens in people concern for the future.

The result of this controversy and awareness of the social and environmental issues facing society is the creation of efforts aimed at their attention by governments, philanthropists, civil society organizations, social entrepreneurs, among others. In spite of the goodwill and the increase in the number of these efforts, nowadays these actors do not have the necessary resources to solve these problems. For their part, the investors start to give more meaning to their money. Pioneers, activists, and entrepreneurs redefine the terms of profit and purpose, where financial investments offer a more significant impact and more effective than ever.

In this way, impact investment appears as an option that responds to current challenges, guiding the power of public and private capitals toward the development of disruptive solutions that ensure better results concerning social and environmental impacts. The purpose of this chapter is to present what impact investing is, what are its differences between other types of investments, and what are the mechanisms or forms it adopted in different contexts.

The chapter is structured as follows. The first section exposes what impact investing is, what is its origins and particularities that lead it to position itself as an element in social innovation. The second section presents the differences between the impact investment and other types of investments. The third section discloses the main factors for the construction of an ecosystem-oriented to impact investment. The fourth section presents some of the mechanisms used worldwide to position impact investment as an alternative to traditional investment. Finally, the chapter ends with a series of conclusions and reflections about impact investment and the role it can play in financing social innovations.

### 12.3 What Is an Impact Investment?

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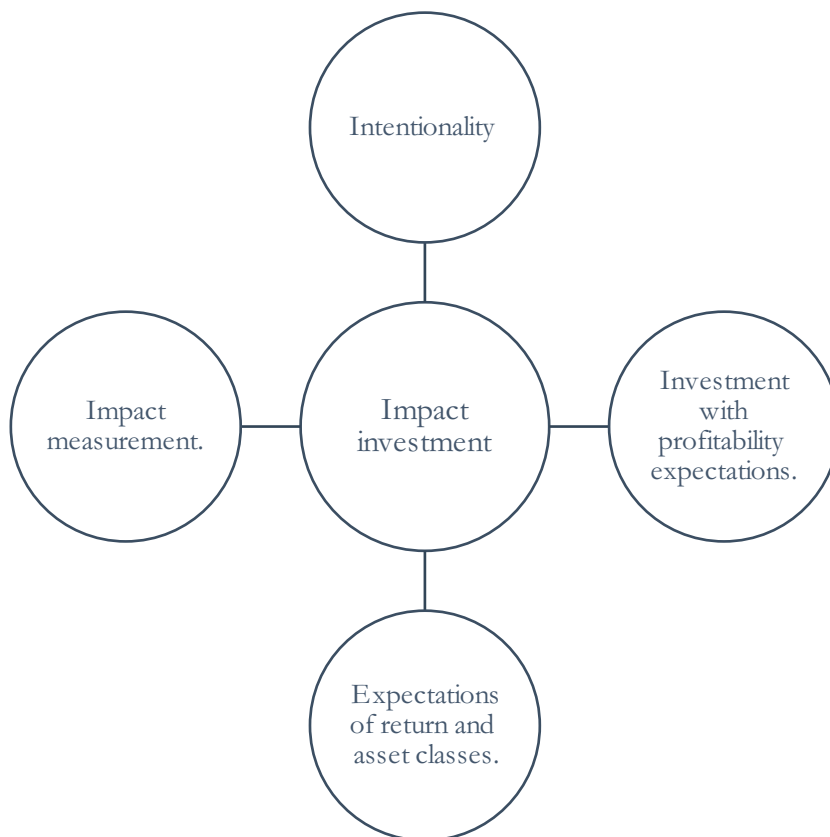
The Rockefeller Foundation defined for the first time impact investment, in 2007, as the intention to achieve a positive social and environmental impacts, in addition to performing good financial performance in investments (Social Impact Investment Taskforce, 2014). Based on this starting point, the impact investment specifies the motivation to generate a positive social or environmental impact, while establishing a capital provision. Therefore, the social benefit and the economic profitability are together in the impact investments (GSG, 2018).

The fact that almost all companies or organizations claim to generate some impact has sometimes become a label that all claim to participate, which makes the term may lose relevance (Liern, Pérez Gladish, & M'zali, 2017). The key is that not all economic activities with impact are impact investments, hence its importance to define them and differentiate them from other types of investments. In this sense, although there is no agreed definition of what impact investing is, the most accepted and recognized is the one proposed by the Global Impact Investing Network (GIIN), which establishes:

- » Impact investments are investments made in companies, organizations, and funds with the intention of generating social and environmental impact together with financial performance. (GIIN, 2018)

These types of investments can be made in both emerging and developed markets and aim at a range of returns below or above the market rate, depending on the strategic objectives of the investors and the social and environmental goals defined (GIIN, 2017). Its potential lies in the possibility of contributing to the solution of the most complex problems facing society, such as sustainable agriculture, renewable energy, conservation, micro-financing, and affordable and accessible services, which include housing, medical care, and education.

This same group establishes four principles in their understanding—Fig. 12.1—(GIIN, 2018):



■ Fig. 12.1 Characteristics of impact investments (Source Author)

1. **Intentionality.** The intention of an investor to have a positive social or environmental impact through investments is essential to impact the investment.
2. **Investment with profitability expectations.** Impact investments are expected to generate a financial return on capital or, at a minimum, return on equity. That is, not only sought a social or environmental impact, but a financial one must accompany it.
3. **Range of return expectations and asset classes.** Impact investments point to financial returns that go from below the market (sometimes called concessional conditions) to the market rate adjusted for risk and made in different asset classes, including, among others, cash equivalents, fixed income, venture capital, and private capital.
4. **Impact measurement.** A hallmark of impact investing is the commitment to the investor to measure and inform social and environmental performances and the progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and the construction of the field.



Impact investment optimizes risk, performance, and impact for the benefit of people and the planet, by defining specific social and environmental objectives along with financial ones and measuring their achievements.

Among the expected effects of this type of investment is the paradigm shift toward a future where there is a positive and measurable combination of risk, performance, and impact that drives investment and capital allocation (ANDE, LAVCA, & Impact Ventures, 2016). It also promotes large-scale change, through the conjunction of the power of economic capital and impact, providing the opportunity to address large-scale problems (CNCS, 2016). Finally, this type of investment brings together private and public capitals with social entrepreneurship and nonprofit organizations to promote social change for the benefit of people and the planet, offering financial returns. It is summarized in a simple formula: Purpose + Investment = Impact<sup>2</sup>.

## 12.4 Differences Between Impact Investment and Other Types of Investments

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Impact investments are among the different forms of investment that exist, ranging from investment for exclusively financial purposes, where are the traditional investment and socially responsible investment, to purely philanthropic forms of capital donation, in which are traditional philanthropy and what is known as venture philanthropy. In traditional investments, as well as in socially responsible or impact finances, the goal is to maximize profitability and minimize financial risk (■ Fig. 12.2).

Investors can be classified, according to their interests, into five types:

1. Traditional investors whose sole objective is to obtain competitive financial returns.
2. Socially responsible investors who seek a competitive financial return, but also want to mitigate the environmental, social, and corporate governance (ESG) risks derived from their investments to protect the creation of value.
3. Impact investors, who despite having the clear intention of achieving a positive social or environmental impact, look for competitive financial returns.
4. The venture philanthropists are impact investors, who accept financial returns below the market.
5. Philanthropic investors, who invest in social challenges that not generate a financial return (■ Fig. 12.2).

In the impact investment, companies or projects have the potential to create a positive economic, social, or environmental impacts; while the other types of investments can select companies or projects that do not cause harm. Impact investors seek to maximize simultaneously the financial profitability and the social impact of their investments, which must be measured and communicated transparently.

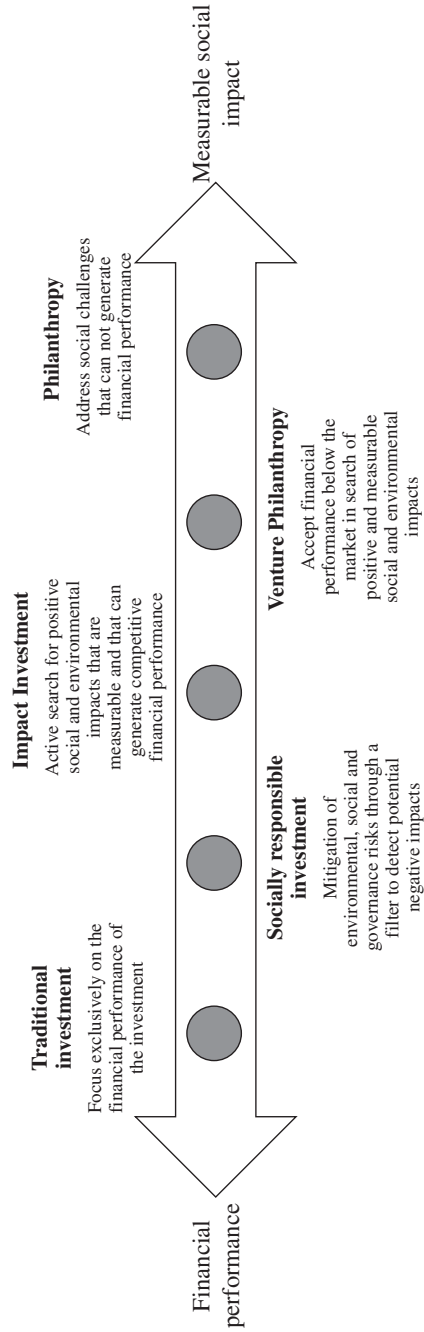


Fig. 12.2 Capital spectrum according to impact and performance (Source Author)

Impact investment looks to the future, takes into account the expected impact of investments or projects. In many cases, these investments consist of high-risk projects in the early stages of development. Concerning its objectives, all investments seek to maximize financial profitability, however, to impact investors, also pursue the maximization of the social impact of investments. Sometimes, the investor assumes poor financial results in the short term with the expectation of improving them in the future.

The impact investment seeks to change the vision of how the social and environmental problems facing society. It aims to improve the logic of addressing social issues through philanthropic donations and that investments in the market should focus exclusively on achieving financial returns.

## 12.5 Elements in the Construction of an Impact Investment Ecosystem

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The positioning of the impact investment as an alternative to the traditional investment model and the goals pursued has added entrepreneurs, funds, accelerators, nonprofit organizations, service providers, large corporations, government agencies, among other actors, resulting in an ecosystem that structures and strengthens these investments. The addition of more and more stakeholders to the impact investment market allows visualizing a more complex ecosystem in which each plays a role in its conformation, whether as an investor, social enterprise or intermediary. It is necessary to have an evaluation of the different components that make it up this ecosystem to have a global vision of this market.

The social needs facing a society drives the main components of the ecosystem, the awareness of these needs and the desire to address, stimulate the creation of demand by social service providers (social enterprises, nonprofit organizations, among others). The market offer of the impact investment considers capital groups and investors. And within this ecosystem, the role of intermediaries and market intermediation is highlighted, which includes transactions and financing instruments. The enabling environment consists of the conditions that frame it, such as social systems, taxes, and regulation, also play a fundamental role in the social impact investment market and must be considered for the strengthening of the ecosystem. Finally, a group of actors that act as intermediaries between the demand and the offer of the impact investment has as an objective the strengthening and habilitation of the ecosystem in the offer, the demand and in the environment through different strategies.

According to this vision of the ecosystem, impact investment is a complex phenomenon, in which more and more actors participate and where each of them has a vital role in its positioning, implementation, and management, which leads to the need to generate spaces for articulation and dialogue that allow establishing a common language and objectives.

## 12.6 Mechanisms of Social Innovation for Impact Investment

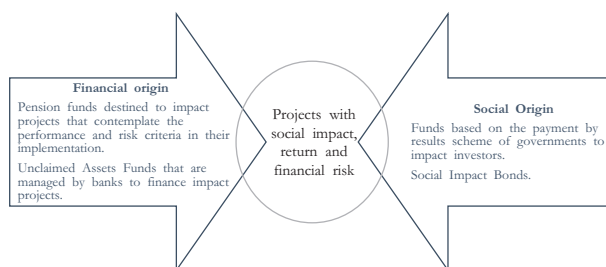
In the interest of promoting the ecosystem of impact investment, it also needs to improve the advantages of using new instruments that encourage both governments and investors to make higher investments with social and environmental impacts. The constitution of funds with social objectives can be an alternative that promotes more and better investments, as shown by international experiences, although it is still necessary to join efforts to give the required conditions for these instruments to prosper.

In the context of investor skepticism, some mechanisms, based on the idea of social innovation, have taken advantage of the existing economic resources in the financial and social sector to finance initiatives aimed at addressing the social problems that arise in a particular region or territory. In all of them, respect the principles of impact investment and have the necessary evidence to strengthen the hypotheses of this type of investment.

These financing schemes start from the logic that the problems to address through social ventures are public. That is, the impact or benefit all those who are in a specific region, so their financing could come from private, public, or collective funds, such as pension funds.

Under this understanding, two types of financing strategies for social innovations emerged, one of a financial nature and the other social, based on the assumption that the economic resources for the implementation of their action plans are already in the investment market (■ Fig. 12.3). The financial mechanisms focus on identifying those resources that are in the market and that are not going to be used in the short term, as is the case of pension funds and Unclaimed Assets (NRA) funds. The social mechanisms take into account that governments spend on social problems through efficient programs and high administrative costs, so subcontracting is presented as a viable option.

These financing schemes capitalize the existing resources in the financial and social sector to boost and strengthen the impact investment ecosystem in several parts of the world.



■ Fig. 12.3 Types of alternative financing mechanisms for impact investment (Source Author)

### 12.6.1 Pension Funds as a Form of Impact Investment

In the last decades, institutional investors increased their participation in the financing of impact investment projects attracted by the advantages they obtain from this asset and by the new business models. The insurers and pension funds consider attractive to invest in the long term, according to the duration of their liabilities, usually measured in decades, and related to the social changes or impact that projects or initiatives of social enterprises seek (Lartigue Mendoza, 2018).

For pension funds to participate in the impact investment, the products must satisfy the long-term needs of the fund and reliably evaluated for their long-term effects on the fund's portfolios. This type of investment presents better returns than traditional ones such as sovereign bonds and corporate debt (Liern et al., 2017). Today, the pension funds of developed countries have a considerable amount of available resources, invested in capital markets and projects of various kinds, among those that include social and environmental objectives (Rust, 2018).

Pension funds focused on long-term returns, particularly in Europe, are a significant catalyst for the adoption of this type of investment. Issues such as energy efficiency, water scarcity, security, and diversity gain more interest from investors, even without the sustainability label (Lartigue Mendoza, 2018). According to a report by the World Economic Forum, around 6% of the US pension funds made an impact investment, and almost 64% say they expect to do it again in the future (Wood, 2013).

The demands of the pension fund for the integration of long-term investment problems and the hopes of asset managers to raise dollars from millennial investors and women are driving the growth of impact investment (Fort & Loman, 2016). The positioning of this type of investment in these funds can be encouraged from a national perspective or the fiduciaries themselves, as is the case of companies that are responsible for managing them. A key element in the addition of pension funds to impact investment is the use or definition of a methodology to measure the impact of sustainable investment developed by experts.

#### Case 12.1. Church Pension Fund, a Pension Fund for Impact Investment

The Church Pension Fund (CPF), headquartered in New York, is in impact investing for almost 20 years. By 2018, the Episcopal Church's pension fund had \$1 Billion committed to impact investments, of which \$840 million were invested in three major areas: (1) environmentally responsible investments (sustainable forestry, clean technology, and ecological

buildings), (2) economically specific investments (initiatives related to microfinance, affordable housing, sustainable agriculture, and urban redevelopment), and (3) women or minorities. This fund finance eight companies that provide loans to support renewable energy activities and three operating companies that are active in

what it describes as solar home solutions, which provide solar panels on roofs. By connecting a battery to these panels, people living outside the network in slums, which can, for approximately the same price as kerosene, use cleaner energy and enjoy a better living situation. Around 200,000 families benefited from the fund.

**Case 12.2. Private Pension Plans from the Private Initiative: Bimbo Group**

Grupo Bimbo is a Mexican multinational company, and the largest breadmaker in the world with operations in America, Asia, Africa, and Europe. Since 1980, its shares are on the Mexican Stock Exchange with the slate key BIMBO and BIMBOA. In 2017, it decided to enter the world of impact investing through his

pension fund. Fondo de Fondos, a corporation that does not invest directly in financial assets but buys shares, and Sonen Capital, a company dedicated to the management of high-impact investments, created the instrument. The model operates with a 50% split in funds and 50% in networks.

It manages five certificates of development capital and two Cerpis, offering the possibility for investors to enter the world of impact, to think more holistically and to approve that the impact investments, in the end, are investments and play in favor of the interests.

### 12.6.2 Fund for Social Purposes with Unclaimed Assets

The need for governments to finance projects that generate not only economic but also social and environmental benefits as part of their agenda also makes present the search for financing alternatives to resolve such actions. The opportunity to take advantage of Unclaimed Assets, which can amount to billions of dollars, is one of these alternatives (Kajimoto & Umekawa, 2018).

The definition of what an NRA is, as well as the procedure for its management, varies according to the legal framework of each country. These are usually bank accounts without movements during a certain number of years and that banks have not been able to establish contact with their owners or beneficiaries (Investopedia, 2018). In some cases, the management of inactive or Unclaimed Assets lacks a specific regulation and some legislations oblige the banks to transfer the inactive funds to government offices for various purposes, either their receipt and return, or their appropriation and redirection to favor of the State.

One of the means for governments to promote public benefit is by investing Unclaimed Assets in projects, companies, or funds that seek social or environmental benefits (Farthing-Nichol & Doyle, 2016). The capital recovered and the income obtained could be recycled into other investments of public benefit, or it could flow into the government coffers. The sums involved, if wisely invested, could catalyze a significant movement of private capital in impact investment, expanding the funds available to develop and scale solutions.

**Case 12.3. Social Investment Bank of the United Kingdom**

In 2006, the Social Investment Bank (SIB) was created, which channels finance through a range of specialized intermediaries and multiplies the impact of Unclaimed Assets through leverage and by attracting additional

capital to the sector. This bank has supported different organizations oriented to impact investment, such as the Big Society Capital (BSC), founded in 2012 with the interest of leading the development of the impact investment market. BSC emerged

with a contribution of 400 million pounds from Unclaimed Assets Fund and another 200 million from grants from various banks—UK's leading retail banks, Barclays, HSBC, Lloyds, and RBS (Reuters, 2010).

In economic terms, the BSC has an annual flow of transactions of 595 million pounds, compared to 213 million pounds in 2011, with a yearly growth rate of 28%. Overall, 2 billion pounds were in circulation at the

end of 2016, compared to an estimated 800 million pounds in 2012, and have more than 3500 impact investments, of which approximately 810 were in 2016 (BSC, 2017b). At the organizational level, the BSC

took more than 3500 charities, and social enterprises to social investment, 467 million pounds of its capital gone to charities and social enterprises, of which 325 million pounds come from co-investors (BSC, 2017a).

### 12.6.3 Social Impact Bonds as a Form of Social Innovation in Impact Investments

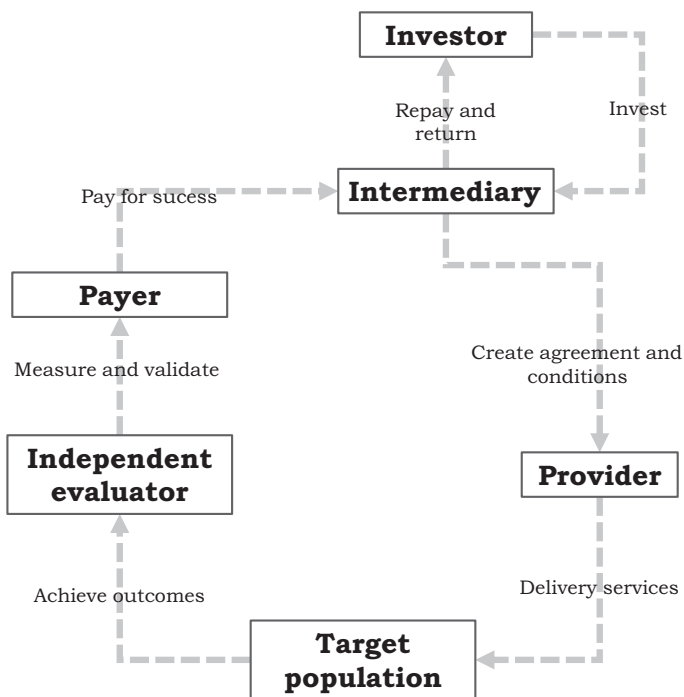
In the collaboration between the public and the private sectors, one adopted mechanism is Pay for Result (PforR), which help boost the financing of projects that address the challenges of social and economic developments, while contributing to improving the results of public management and the effectiveness of spending management (CAF, 2012).

The emphasis of the contracting agreements in the PforR is the results achieved through the program of service provision and not in the practical aspects of how these services are delivered (Social Outcomes, 2018). For example, instead of counting the volume of prescription drugs for chronically ill patients, the approach goes on to count the number of patients recovering from or reducing their illness. This perspective allows social service providers to innovate and integrate a range of programs that show to help improve the health of these patients (e.g., mental health counseling, exercise regimes, stable housing environments, etc.).

There are several contractual schemes based on the PforR mechanism that comply with the previous conditions and that seek to promote better investments between the public and private sectors, such as public-private partnerships (PPP) and Social Impact Bonds (SIB). Due to their characteristics, the SIB is the best-known model for projects that require a high social benefit, and in which the public sector seeks to maximize the investment of private capital to promote high-impact social and economic projects (Pendeven, Nico & Gachetn, 2015).

There is a set of benefits for the different actors that participate in BIS, based on their contributions and their role within the contractual mechanism; principally, that the sponsor for results undertakes to reimburse the investor only if the project achieves the social results previously agreed in the contract or agreement.

The formation of a SIB requires the articulation of several actors, coordinated centrally by an intermediary body that seeks to reconcile the incentives of the other participating entities (Gatica, Carrasco, & Mobarec, 2015). The governments decide to commit themselves to a SIB and contact an intermediary that articulates the project. The government agrees with the investors, through an intermediary, the social problems, and the expected impact. Investors invest in a program that commits future returns by the government with a risk associated with the real impact. After the design and the investment made, the program is implemented.



■ Fig. 12.4 Process of implementation of a Social Impact Bond (Source Author)

An external evaluator is in charge of determining if the results obtained coincide with the commitment. If this is the case, the government manages to improve the impact on the target population, and at the end of the period, the government pays the investors the principal plus a previously agreed return, equivalent to the risk assumed. In the case of not reaching the objective, the government does not make the payment (■ Fig. 12.4).

**Case 12.4. Instiglio, a Provider of Advice for the Creation of Social Impact Bonds**

Instiglio is a company that is responsible for connecting the financing of social programs with their results, changing the traditional mentality of funding for development that focuses on activities and contributions instead of outcomes and impact. Instiglio encourages the implementation of high-impact programs and places the well-being of vulnerable communities at the center of every decision and action taken, by providing technical assistance to create and implement impact

bonds and other results-based financing projects. For example, during 2014 and 2015, it contributed to the creation of a Social Impact Bond with the interest of increasing enrollment in secondary school in the State of Chiapas, Mexico. The service provider was Escalera, an organization that carries out the REACH program, based on the delivery of “mentor-in-a-box” high school preparation kits to public schools in the year before enrollment in the High school.

The kits contain the information a student needs to make an informed decision to enroll in high school or vocational school, including role-play videos, workbooks, and lesson plans for teachers. Instiglio provided technical assistance in the design of the performance-based contract to help the Chiapas government scale up the Escalera REACH program, including the structure of the results metrics, the payment function, and the advice on the design of the



impact evaluation. Escalera partnered with the National System for the Integral Development of the Family (DIF) to deliver and scale up its REACH program; and will receive a payment based on each additional year of enrollment in high school per student. In June 2014, the government of Chiapas signed a performance-based contract

to allow Escalera to reach 2700 students who otherwise would not participate in the program. After the first year, a randomized evaluation found that enrollment in secondary school had increased by 6% due to the program. These positive results encouraged the Chiapas government to renew and extend the performance-based contract in 2015 to reach an

additional 40,000 children throughout the State. This SIB is the first time that a subnational entity signs a contract based on performance in education. Its success presents a new opportunity for State governments to improve the quality of life of their citizens and public spending, linking funds to measurable results.

## 12.7 Conclusions

Social innovation is a phenomenon that seeks to respond to the social and environmental challenges facing the world, which cannot be addressed from a single area and by a single sector. In an ideal scenario, the private sector, investors, the government, international development agencies, and the different ecosystems of social entrepreneurship, must work hand in hand to find and implement the necessary solutions to the social and environmental problems that afflict the society. Impact investment is a “natural” mechanism to achieve this articulation or collaborative work between different sectors.

To carry out that social innovations its necessary their funding, positioning the impact investment as one of the alternatives to achieve it. The importance of this investment lies in the fact that it reconciles the generation of economic dividends with the generation of social impact, resulting in the growing interest of investors to allocate their resources to initiatives that generate a double or triple value to society.

The relationship between social innovations and impact investing must be virtuous, since to the extent that social and economic results deliver higher returns for investors, the actual investment model, and the return paradigm will change. This new paradigm and model change need to expose and announce positive impact investing experiences, such as the case of Instiglio in Colombia, or Private Pension Funds in the USA, Europe, and Mexico.

Social innovation begins to align with impact investment through the generation of innovative investment mechanisms and instruments, based on two essential assumptions. The first one is the fact that there are already economic resources in the system to carry out this type of investment, such as the case of the Pension Funds, the Unclaimed Assets Funds, or the resources destined to the operation of programs to combat poverty. The second center on changing the focus of the evaluation of the initiatives of attention social problems from the actions to the results, as it happens in the traditional investments, where the decision making focuses on the returns that an investment instrument and not so much in the process followed to achieve it.

The SIB are a good mechanism to demonstrate these logics. These bonds can be financed by a pension fund that relies

Table 12.1 Summary of Social Impact Bond

Name of the Social Impact Bond
Expected result
Problematic
Innovative project or solution
Solution funder
Impact payer
Service provider
Implementation data
Expected results (economic and social)
Relevance of the Social Impact Bond

on how a social enterprise generates a more significant impact than the current government programs. These bonds can be pay by the State directly to the owners of the pension funds, as long as the social enterprise achieved the impact promised to deliver.

The dynamics generated by impact investments can be a catalyst for the ecosystem of social innovation. Increase the economic resources allocated in the sector of social transformation and the impact that social innovations have on the attention of social problems. This dynamic will eventually force public institutions to generate regulations and incentives that promote this type of investment in a more accessible way and developing a market for social entrepreneurs and impact investment.

### 12.8 Exercise

#### Developing your own Social Impact Bonus.

- Identify a problem that presents itself most strongly in your community, city, or region.
- Make a diagnosis of the problem in which secondary data evidence the magnitude of the problem and the economic cost of its attention to society (analysis of the cost of the programs developed by the government or the cost of not addressing this problem, among others).
- Identify which organizations are carrying out actions in your community, city, or region to solve this problem, identify their model of intervention or accompaniment, and what are the impacts/results generated.
- Quantify the economic costs associated with the solution analyzed in the previous point (how much does it cost to produce the solution?).
- Compare the current economic cost against the financial cost to implement the solution and obtain a rate of return.
- Carry out the business case for the Social Impact Bond (use the following Table 12.1 to help outline and present the Social Impact Bond).

## 12.9 Additional Resources

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### Videos

- Three Things: What Is Impact Investing?
  - ► <https://www.youtube.com/watch?v=WBNAsvInERs>
- Social Impact Bonds: An overview
  - ► <https://www.youtube.com/watch?v=DIXdCV9KyuE>
- Impact Investing: Your money doing good in the world—and your wallet | Kevin Peterson | TEDxFargo
  - ► <https://www.youtube.com/watch?v=Zr5mJAzdaU>
- \$1 Billion Impact Investor Explains How She Makes Money While Making The World A Better Place
  - ► <https://www.youtube.com/watch?v=gTJYOHETn-4>

### Website

- Social Investment Toolkit—UBS
  - ► <https://www.ubs.com/microsites/social-investment-toolkit/en.html>
- Impact Funds—CDC—ESG Toolkit for Fund Managers
  - ► <https://toolkit.cdcgroup.com/impact-funds>

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# Alignment of Social Innovation with Sustainable Development Goals

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### 13.1 Objectives of the Chapter

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- Differentiate between the Millennium Development Goals (MDGs) and the Sustainable Development Goals (SDGs).
- Recognize how social innovation is aligned with the SDGs.
- Use the post-2015 architecture proposal to design or validate a social business model.
- Identify social enterprises that are contributing to the fulfillment of each of the SDGs.

### 13.2 Introduction

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During most of the twentieth century, the generation of economic wealth was synonymous of success. This paradigm was not only at the level of companies but also of individuals and society in general (Quijano, 2017). The social and environmental issues were addressed by the generation of a more amount of economic wealth, which would be distributed among the population in such a way that everyone could satisfy their needs in a dignified manner (Kliksberg, 2001).

Under this paradigm, the State addressed social problems through programs to combat poverty, strategies for redistributing benefits or regulations, and institutions that sought to balance the disparities (Portales, 2017). Given the inability of the State to address these problems and the reduction of the welfare state during the eighties in most developing countries, as Latin Americans, nonprofit organizations implemented programs and initiatives that provided social assistance to vulnerable populations and groups excluded from the development process (Defourny, 2001; Verdusco, 2001).

International organizations, especially the United Nations and the World Bank, complemented the efforts of the States and nonprofit organizations made. These organizations also established the main problems to be addressed and the criteria for overcoming them, which focused mainly on the fight against poverty and its consequences (Haughton & Khandker, 2009). Although these agendas were globally accepted, it was until 2000 that a common agenda emerged with the creation of the MDGs, which would eventually become the SDGs.

It is up to the creation of the SDGs that the paradigm about who is responsible for achieving the goals stipulated in each of the objectives changed. These objectives include actors from all sectors of society, especially those whose size and wealth generation have a higher capacity to promote them, as is the case of transnational corporations (Kasbi Ridho, Vinichenko, & Makushkin, 2018).

With the inclusion of any actor to address social issues and the interest of generating alliances aimed at meeting the objectives, social innovation emerges as a way to achieve these goals and offers a framework for its promotion from any sector of society. Based on this understanding, this chapter aims to present the

alignment of the SDGs with social innovation through the construction of a post-2015 architecture, which includes the participation of various sectors of society.

The chapter integrated several sections. The first section presents the MDGs and the SDGs, to evidence the transition between these goals. The second section shows the differences between these two types of goals. The third section exposes how SDGs are a framework for the implementation of social innovations by different actors. The fourth section presents the post-2015 architecture, a proposal for organizations to integrate the creation of social and economic value in the framework of SDGs. The last section exposes the conclusions of the chapter.

### **13.3 From the MDGs to the SDGs, the Inclusion of the Private Sector in Addressing Social and Environmental Issues**

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The first effort to define the goals that humanity should face was the MDGs. Their creation was at the United Nations Millennium Declaration, unanimously approved by all the member states of the United Nations on September 8, 2000. It recognizes the collective responsibility of the governments of the world to achieve human dignity, equality, and equity, as well as the responsibility of world leaders toward their citizens, especially children and the most vulnerable.

The world leaders who met at the Millennium Summit committed their nations to a new global alliance to reduce extreme poverty and established a set of goals with concrete deadlines, with 2015 as the deadline (United Nations, 2012). The MDGs are:

1. Eradicate extreme poverty and hunger;
2. Achieve universal primary education;
3. Promote gender equality and the empowerment of women;
4. Reduce the mortality of children under five years old;
5. Improve maternal health;
6. Combat HIV/AIDS, malaria, and other diseases;
7. Guarantee the sustainability of the environment; and
8. Promote a global partnership for development.

Each of these objectives had its specific goals and during 2015 United Nations exhibited the progress made in each one of them. In general terms, the balance was positive, all the objectives showed progress. For example, the reduction in the number of people living in extreme poverty decreased by more than half, the enrollment rate in primary education reached 91%, world mortality rate of children under 5 years of age decreased by more than half and the maternal mortality rate fell by 45% worldwide (United Nations, 2015).

Despite the achievements of many of the MDG targets, progress was uneven across regions and countries, leaving huge gaps. Millions of people remained homeless, particularly the poorest

and disadvantaged because of their sex, age, disability, ethnicity, or geographic location. The challenges focused on: Gender inequality, increasing the gap between the poorest and wealthiest households, and between rural and urban areas, climate change and environmental degradation, conflicts as a threat to human development, and the persistence of millions of people still live in poverty and hunger, without access to basic services.

Although the MDGs were the first effort to establish a common agenda for the States and the institutions that represented them, these objectives do not directly contemplate the private sector or the third sector. This situation reduced the possible commitment that companies or other organizations have in achieving these objectives, as well as the strategies they develop to reach them (Sexsmith & McMichael, 2017).

In September 2015, after reviewing compliance with the MDGs, more than 150 heads of State and Government met at the Summit on sustainable development in which they adopted the 2030 Agenda. This Agenda contains 17 universally applicable objectives that, since January 1, 2016, govern the efforts of countries to achieve a sustainable world in the year 2030 (United Nations, 2015). The SDGs seek to expand the successes achieved by the MDGs, as well as accomplish the unmet goals.

These new objectives present the uniqueness of urging all countries, whether rich, poor, or middle income, to adopt measures to promote prosperity while protecting the planet. They recognize that initiatives to end poverty must go hand in hand with strategies that favor economic growth and address a range of social needs, including education, health, social protection, and employment opportunities, and at the same time that they fight against climate change and promote the protection of the environment. These objectives are:

1. End poverty in all its forms everywhere.
2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture.
3. Ensure healthy lives and promote well-being for all at all ages.
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
5. Achieve gender equality and empower all women and girls.
6. Ensure availability and sustainable management of water and sanitation for all.
7. Ensure access to affordable, reliable, sustainable, and modern energy for all.
8. Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all.
9. Build a resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation.
10. Reduce inequality within and among countries.
11. Make cities and human settlements inclusive, safe, resilient, and sustainable.
12. Ensure sustainable consumption and production patterns.
13. Take urgent action to combat climate change and its impacts.



14. Conserve and sustainably use the oceans, seas, and marine resources for sustainable development.
15. Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation, and halt biodiversity loss.
16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions at all levels.
17. Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Although the SDGs are not legally binding, governments adopt them as their own and to establish national frameworks for their achievement. The countries have the primary responsibility for monitoring and reviewing the progress made in meeting the goals, for which it is necessary to gather reliable, accessible, and timely data. Regional follow-up activities will be carried out with the national analyzes and will contribute to global monitoring and review.

The fulfillment and success of the agenda require policies, plans, and programs of sustainable development of the countries. The SDGs act as a compass to harmonize national plans with countries' global commitments. The strategies of sustainable development assumed by the States and driven by them require strategies of financing and mobilization of resources.

In fulfilling of these goals, all stakeholders, namely governments, civil society, and the private sector, will contribute to the achievement of the new agenda. That is why a revitalized global partnership is needed to support national initiatives, and multi-stakeholder alliances are an essential component of any strategy that aims to mobilize all stakeholders around the new agenda.

#### Case 13.1. La Colmena Que Dice Sí and Its Alignment with the SDGs

¡La Colmena Que Dice Sí! It is a consumer initiative that facilitates direct contact between local producers and consumer communities, called Colmenas (hives). The model born in France in 2014, by the hand of Guilhem Chéron, Social Entrepreneur of Ashoka, with the double objective of supporting local and sustainable agriculture and offering quality food without intermediaries. For consumers, it is an accessible online shopping system, with the added value of knowing

the producers on the day of distribution, which takes place once a week at a specific point in the city. Besides, anyone can create a hive in their neighborhood or town, dedicating a few hours a week. It becomes responsible for the hive and with its work, it obtains a complementary income of 8.35% of sales, and it has a positive impact on the economy of its region. In Spain, there are about 90 beehives, distributed by several autonomous communities.

The model continues to replicate at European level, with 60,000 orders per month, 4000 producers, and more than 900 hives existing or under construction in France, Spain, Belgium, Italy, Germany, and the UK. The experience of ¡La Colmena Que Dice Sí! is aligned with Goal 12: responsible production and consumption, with the goal of guaranteeing sustainable consumption and production patterns.

### 13.4 Differences Between the MDGs and the SDGs

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The 17 SDGs with the 169 targets have a broader scope and go beyond the MDGs in addressing the root causes of poverty and the universal need to achieve development in favor of all people. The objectives cover the three dimensions of sustainable development: economic growth, social inclusion, and protection of the environment.

Building on the success and momentum of the MDGs, the new global goals are more encompassing with the aim of addressing inequalities, economic growth, access to decent work, cities and human settlements, industrialization, oceans, ecosystems, energy, climate change, sustainable consumption and production, peace and justice.

The new targets are universally applicable to all countries, while the MDGs were for developing countries. A vital element of the SDGs is the great attention paid to the means of implementation—the mobilization of financial resources—the development of capacity and technology, data and institutions.

The new objectives recognize that it is essential to fight against climate change to achieve sustainable development and the eradication of poverty. An example of this situation is the breakdown of Objective 7 of the MDGs, guaranteeing the sustainability of the environment, now divided in five different objectives that detail the protection of the environment through sanitation and water treatment, responsible consumption, climate care, the preservation of underwater, and terrestrial life.

Another difference is that the SDGs contemplate axes of action or impact. The first axis is people, which include the goals related to the improvement of the conditions of the individuals. This axis groups the goals of the end of poverty, zero hunger, health and well-being, quality education, and gender equality, all of them with measurements related to people. The second axis is the planet, which contemplates the goals referred to care, preservation, and protection of the environment, having metrics oriented to the earth. The third axis is prosperity, which focuses on the means of consumption and production in the regions; their indicators are regional and according to the way in which people and companies sustainably meet their needs. The fourth axis is peace, which seeks to promote peaceful, justice, and inclusive societies. The fifth axis is partnerships, which is about generating alliances to achieve the SDGs.

### 13.5 SDGs: A Framework for Social Innovation

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The SDGs come to renew the efforts made at the international level to address the problems facing the world. Despite being an effort promoted by the United Nations, it breaks down in two ways with the traditional paradigm of attention to global issues. The first one is the understanding that all countries are jointly responsible for the fulfillment of the expressed objectives. This change in

vision also allows to suppose that they are partners in the generation of the problems that they want to address; that is, the governments and companies of a developed country are also guilty or accomplices of the issues that arise in a country less developed. The second one, and perhaps more important, is the inclusion of all sectors of society in the fulfillment of these objectives.

The shift in the paradigm promoted by the SDGs lays the foundations so that social innovation processes can be developed more easily by different aspects. The first, and perhaps the simplest to observe, is the fact that it favors to which organizations, companies, and governments that are in developed countries and contribute in the attention of these problems in developing countries from a perspective of co-responsibility and not of charity, increasing the possibility of fulfilling the generation of social value. This change of vision encourages the creation of impact investments by foreign investors in developing countries (Social Impact Investment Taskforce, 2014), where they can find attractive markets for the commitment to social innovations developed by local social entrepreneurs, such as the case of Algramo (► Chapter 5) or Instiglio (► Chapter 12).

Another aspect that contributes to the creation of social innovations from the perspective of the SDGs is that although it provides a framework for the definition of problems address by social entrepreneurs, social intrapreneurs, and organizations, it also offers the possibility to build a common language about a specific question (see Case 13.2). That is, it not only identifies problems but also defines, quantifies, and establishes criteria for their measurement and evaluation, a fact that contributes to a better dialogue between the actors involved, improving their relationships and fostering their capacity to carry out joint actions.

#### Case 13.2. SDG Compass Guide for Maximizing the Contribution to the SDGs

The SDG Compass guides companies on how they can align their strategies, as well as measure and manage their contribution to the realization of the SDGs. Companies can apply five steps to adjust or align their course, depending on where they are on the path to ensuring that sustainability is a result of the central business strategy. The five steps of the SDG Compass fall on the

recognition of the responsibility of all companies to: comply with all relevant legislation, respect minimum international standards, and address as a priority all negative impacts on human rights. The SDG Compass focuses on large multinational companies, but also encourages small and medium enterprises, as well as other organizations, to use it as a source of inspiration and adapt

it as necessary. It is designed to be used at the entity level but can be applied at the product, site, division, or region level as required.

The SDG Compass Guide has sections that address each of the five steps of the guide: (1) understanding the SDGs, (2) defining priorities, (3) setting Objectives, (4) integrating, and (5) reporting and communicating.

The SDGs favor the creation of an international market for the development of initiatives and proposals to support the creation of social innovations that contribute to the fulfillment of these goals. International organizations and national governments promote this market by recognizing the capacity of the actors from the third sector and the private sector to meet the SDGs, creating calls

and programs aimed at identifying and promoting social innovations that meet the specific needs of society.

The creation of this market not only favors the implementation of more social innovations but also allows comparisons between them, to identify those that have higher efficiency and generate a more significant impact. This evaluation process contributes to the existence of better social innovations, promoting the scaling of those that create higher value for society at a lower cost (Case 13.3).

### Case 13.3. UNESCO and Committed, Toward the Search of Youth Social Innovations

From the Regional Science Office in Montevideo, Uruguay, UNESCO promotes and encourages entrepreneurship and youth social innovation by the challenge “Estamos Comprometidos” (We are Committed). It is a joint initiative of Ashoka, Socialab, and UNESCO that has been carried out every year since 2015 and seeks to support and

give visibility to innovative and creative proposals from young people that contribute to the sustainable development of communities, social inclusion, and strengthening of the leading role of young people as leaders of change. Through a collaborative platform, teams of young people from all Latin America who are between 18 and 29 years old

participate and seek to generate positive social impact, be leaders of change, infect others, and improve their communities together by collaborating in the 17 SDGs. “Estamos Comprometidos” has the support of the youth secretariats, universities, companies, and entrepreneurship organizations throughout the region.

The strengthening of the market for social innovations under the SDGs is not only due to the support or contributions of international organizations and public institutions, but also to the implementation of impact investment mechanisms that allow actors who traditionally did not participate in this type of initiative, start doing it (Roberts, Davidson, Edens, & Lall, 2018). Examples of this situation are the investments made from the Private Pension Funds, the Unclaimed Assets Funds, and the Social Impact Bonds.

The most exciting thing about this market is that it causes actors who traditionally did not participate in social innovation to begin to do so by understanding the challenges that the UN has set as priorities to solve and thereby seek innovations that achieve it. On the other hand, it encourages the State to align itself with the private world by developing solutions that collaborate with the construction of the common welfare (Scheyvens, Banks, & Hughes, 2016). A necessary condition of this type of initiatives is that all sectors must commit themselves to have a full collaborative attitude. Let the other know their challenges and strengths, as well as openly share their strategic plans and the limitations that both see in the future (Le Pennec & Raufflet, 2016).

## 13.6 Post-2015 Business Engagement Architecture

The explicit inclusion of other actors in the achievement of the SDGs brought with it the need to generate a proposal that will facilitate the participation of the private sector in the 2030 Agenda.

Global Compact of Nations Units, the World Business Council for Sustainable Development (WBCSD), the Global Reporting Initiative (GRI), and other organizations develop a proposal, called Post-2015 Business Engagement Architecture, that seeks to help the private sector to contribute to meeting the SDGs (UN Global Compact, 2014). The Post-2015 Business Engagement Architecture illustrates the main building blocks needed to improve the sustainability of companies as an active contribution to sustainable development, creating value for both the company and society (Küblböck & Staritz, 2014).

Although this proposal considers traditional private companies, it is useful to social enterprises and organizations from other sectors of society that seek to respond to the SDGs proposed by the United Nations. The proposal of this architecture focuses on the generation of commitment by the generators of economic value so that they can meet the business objectives and the SDGs simultaneously, taking a more active role in society and the problems to that faces.

This proposal is composed of five component blocks. The first block focuses on the adoption of a philosophy aligned with business sustainability based on three dimensions: (1) respect for universal principles, (2) support for the SDGs, and (3) commitment to participate in associations and actions at the international and local level. The growth of business performance in these domains requires a level of leadership and corporate governance. This orientation covers an expanded definition of the mission of companies or organizations, where the delivery of long-term value is in economic, social, environmental, and ethical terms.

The second block is the SDGs and the long-term business objectives. Businesses, regardless of which sector they come from, should contribute to the SDGs through the implementation of strategies that promote inclusive economic growth, equity, social progress, and environmental protection. These strategies and practices contribute to the growth of revenues, the productivity of resources, and the mitigation of operational, legal, and reputational risks. Improving the understanding of the overlap between public and private interests is key to inspiring more companies and organizations to participate and act.

The third block is drivers and incentives for the sustainability of the organization. This block contemplates the norms and expectations transmitted by groups of citizens, NGOs, and government policies toward business, with the interest of rewarding more responsible and sustainable operations. Sustainability strengthens market-based motivations as it affects a company's ability to attract and retain customers, investors, employees, and business partners.

The fourth block is the construction of platforms for action and partnership. These platforms can help to optimize and expand the efforts made by the company, as well as contribute to the participation of companies in the broader aims of various stakeholders to achieve the SDGs. These support elements include multiple forums and platforms that allow companies and other stakeholders to work together, by geography, sector, or topic. Such initiatives

are crucial in facilitating partnerships and collective actions to achieve systemic change.

The fifth block is transparency and accountability, which must incorporate a set of reliable measures of responsibility to make organizational commitments transparent and ensure that progress toward them is real. At this point, the review of the progress periodically has the interest of maintaining this architecture dynamically and relevantly, as well as identifying gaps and redefining priorities and strategies concerning compliance with the SDGs.

The implementation of post-2015 architecture provides a framework for organizations in any sector to develop business models oriented to the achievement of the SDGs from an organizational sustainability perspective. This perspective not only focused on guaranteeing the current and future needs of the world, but also of the organization itself, which, by contributing to society and its objectives, also helps to stay in the market (Portales, García de la Torre, Camacho, & Arandia, 2009).

### 13.7 Conclusions

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The public sphere traditionally attends social problems. The generation of programs or solutions to this type of issues were the responsibility of the State, while the private sector concentrated primarily in the production of wealth that, through different regulations and legislation, was distributed among the population, allowing it to satisfy their needs.

The creation of the SDGs modifies the paradigm of the division of activities about the generation of social value, visualizing all sectors relevant in achieving the goals that each one of them integrates. This systemic vision provides a framework for the development of social innovations by different sectors of society, as well as the opportunity to generate alliances that satisfy the capacity of society to meet their own long-term needs.

The implementation of social innovations from the perspective of the SDGs facilitates the integration and articulation of the efforts of organizations that may or may not be within the territory where it takes place, such as international organizations or transnational corporations. The participation of these actors fosters the creation of a market of supply and demand of social innovations, strengthening the ecosystem of social innovation and increasing its positioning as a sustainable alternative to the enormous problems facing humanity.

This market allows establishing points of comparison between social innovations in function of their efficiency and their capacity to generate processes of social transformation in the long term, leading not only to the increase in the number of this type of innovations but also to the quality of these. From this perspective, the SDGs are a framework that not only positions social innovation but also strengthens it and obliges it to respond in a better way to the needs of society.

In general terms, the SDGs increase the capacity of the actors that make up society to act from different sectors and in different ways around a common agenda, which is the main characteristic pursued by social innovations and the way in which they achieve the transformation of society sustainably.

### 13.8 Exercise

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- Took the 17 SDGs and sought at least one social enterprise that is serving each one of these objectives in Latin America. Explain what would be the goal that it would attend and in what way is doing it through its operation. Took the example of Case 13.1.
- Investigate the Mexican social enterprise Extensio (► <https://www.extensio.mx/>) and identify how its post 2015 architecture is structured.

### 13.9 Additional Resources

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#### Websites:

- UN Sustainable Development Goals
  - ► <https://sustainabledevelopment.un.org/>
- The Post-2015 Business Engagement Architecture
  - ► <https://www.globalreporting.org/information/policy/Pages/Business-Engagement-Architecture.aspx>

#### Videos:

- UN Sustainable Development Goals
  - ► <https://www.youtube.com/watch?v=0XTBYMfZyrM>
- How social enterprises can help us meet the SDGs
  - ► <https://www.youtube.com/watch?v=gj1ABEjkuVM>
- 5 Ways to Unleash the Power of the SDGs for Social Innovators
  - ► <https://www.youtube.com/watch?v=1uZzfCFIN0o>
- The SDGs and Business
  - ► <https://www.youtube.com/watch?v=ivm191V50KE>

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