



A SOCIAL INNOVATION PRIMER

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Opening Worlds

THE UNIVERSITY OF BRITISH COLUMBIA

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BACKGROUND

British Columbia is already a vibrant centre for social innovation, but it has the potential to become the leading hub in the world for enabling collaboration between the public, private and nonprofit sectors to tackle some of the most pressing problems we face as a species. This document was created to provide an introduction to the concept of social innovation in support of the BC Government's Task Force on Social Innovation and the Premier's conference on social innovation in November, 2011. The document provides a snapshot, however it is impossible to provide a comprehensive overview in a single document. Instead, UBC's ISIS¹ will host a digital initiative, with Telus as a founding sponsor, to tell the wider story of social innovation in Canada and to capture leading global examples of social innovation.

“THE SIGNIFICANT PROBLEMS WE HAVE CANNOT BE SOLVED AT THE SAME LEVEL OF THINKING WITH WHICH WE CREATED THEM.” - ALBERT EINSTEIN

INTRODUCTION

The defining characteristic of humans is that we are one of the most adaptable and innovative species on the planet. In other species, the natural environment drives adaptation from generation to generation through a process of natural selection in a struggle of the survival of the fittest. Humans have been able to use our knowledge, culture and skills to collaborate and cheat natural selection by adapting within generations. This has allowed a fairly slow moving, hairless and non-specialized animal to inhabit almost every corner of the planet, from the frozen north to the searing deserts of the Sahara. Innovation is inherent in our culture and in our DNA.

That success has allowed the global population to grow from 1.6bn at the end of the 19th century to 7bn people in 2011. That dramatic growth in just over a century has occurred because we have invested in medical developments that ensure far more newborn children survive through the early years of their lives, and as a result we have seen a dramatic growth in life expectancy. These innovations included the development of universal health care, immunization programs, improved nutrition and improved sanitation. These social innovations invested in protecting humans from natural hazards and risk and they resulted in dramatic changes in human well-being. In Canada, life expectancy grew from around 49 years in 1900 to around 78 years in 2000.² The benefits are not evenly distributed though; in some populations in Canada life expectancy is 8-10 years lower³ than average and quality of life is often much lower. The benefits of development were delivered through the efforts of the three core sectors that make up society: the private

¹ www.isis.sauder.ubc.ca

² <http://dsp-psd.pwgsc.gc.ca/Collection-R/LoPBdP/BP/prb0023-e.htm>

³ http://www.hc-sc.gc.ca/fniah-spnia/diseases-maladies/2005-01_health-sante_indicat-eng.php and <http://vancouver.ca/commsvcs/guidelines/D012.pdf>

sector, government and the social sector. Today, in the midst of a global economic crisis, those three sectors operate in silo's, each claiming to have a monopoly on solutions. We argue that the three sectors need to find new ways of innovating and collaborating with each other if we are going to solve the problems of the 21st century.

This document provides a primer on the meaning of social innovation, with an emphasis on Canada. It argues that for most of the 20th century we focused on improving human well being by protecting populations from natural hazards like infectious diseases, drought and hunger. As the most successful species on the planet, we now face challenges that are mostly of our own creation. Global warming is the by-product of our success and expanding energy sources and it now threatens to change the planet at an unprecedented rate. Economic growth has been unequal and excludes some sociodemographic groups from participating in the benefits secured by the majority. For some populations, the social services that are supposed to protect and support them have created cycles of dependency that seem hard to break.

At the heart of social innovation are two core observations. Firstly, in the 21st century most of the problems we face are social in origin. Secondly, for many of the challenges we face, no single sector can make progress alone. To break down the silo's between the sectors we need new processes of innovation and new forms of collaboration. This document describes the origins of social innovation, some of the leading domestic and international examples and describes some of the methods that have been developed to allow for great cross-sector innovation.

ORIGINS OF SOCIAL INNOVATION

The concept has been in circulation since the 1960's in academic circles and among practitioners, but it is only in the last decade that it has grown in popularity. Social innovation has many companions, including social entrepreneurship, social finance, social economy and, through the lens of the private sector, the concept of 'creating shared value'. Rather than trying to pin down a precise definition, it is better to think of social innovation as an umbrella concept that covers a wide range of practices and tactics. Academics have defined social innovation as 'the process of inventing, securing support for, and implementing novel solutions to, social needs and problems' and 'dissolving boundaries and brokering a dialogue between the public, private and nonprofit sectors'.⁴ All definitions of social innovation refer to the need for new approaches to old problems.

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Social enterprise tends to refer to nonprofits organizations operating a business or operating like a business. While social finance refers to the use of innovative investment models that leverage private sources of capital and also the endowments of the foundations that support social initiatives through grant and contributions. Social innovation as a concept is not owned by any one sector, and that is important. It reminds us that the goal of a society that lives and

⁴ Phillips, Deiglmeier and Miller, 2008, *Rediscovering Social Innovation*, Stanford Social Innovation Review, Fall, 2008.

works together is not simply to deliver abstract goals like maximizing profit, reducing bureaucracy or improving reciprocity but to solve social problems and improve human well being.

As we will see below, there are many global examples of successful innovation, from the creation of the Grameen Bank in Bangladesh to the development of new treatments to neglected diseases funded by the Gates Foundation. Canadian examples include the establishment of Enterprising Non-Profits in the nineties, the establishment of a Registered Disability Savings Plan (RDSP) and the creation of Atira Women's Resource Society in British Columbia. In North America and Europe, social innovation has led to the creation of new enterprise models like L3C's and Community Interest Corporations (CIC) which create a flexible hybrid business models that allows the three core sectors to work together more effectively.

Social innovation captures three key trends—social innovation in the public sector, strategic corporate social responsibility and scaling nonprofit social innovation—that have emerged globally out of the three core sectors. Government bureaucracies need to respond to their reduced ability to innovate, private sector leaders need to understand how to reinvent their businesses to support the creation of shared value, and organisations in the social economy need to work out how to grow small-scale innovations to scale.

Government spending in most developed countries is 30-50% of GDP and affects almost every aspect of the lives of citizens. Small changes in government service delivery can have very significant impacts in financial terms and it is for this reason that there has been a lot of attention on innovation in the public sector.

Many governments have recognized that they struggle to innovate well internally and they have been key drivers of social innovation. In Europe, social innovation has been driven by a new wave of activity that focuses on changing the way that government delivers social services to communities. While the growth of the welfare state over the course of the 20th century addressed these social services, through the provision of healthcare, employment insurance and education, the large bureaucracies created to deliver these services operate on a very large scale and have become alienated from the citizens they are supposed to serve, often losing the ability to innovate. Just as importantly, health and education budgets continue to expand, while rising costs do not always signify improved outcomes for citizens. For some populations, including First Nations in Canada, the public system creates what one author calls a dangerous 'Dance with Dependency'.⁵ In this case, the commitments under the Indian Act may serve to maintain long-term inequalities in First Nations communities in a way that limits their opportunities for social and economic development. Similar patterns of dependency can be seen in the long term unemployed.

The fear about social innovation driven by government in the social economy is that it has more sinister motives. The fear is that social innovation signals a retreat by governments from their duties and responsibilities for citizens; it's seen as an excuse to reduce spending. At worst, social innovation has been seen as a way of downloading responsibilities

⁵ Helin, Calvin (2006) *Dances with Dependency: Indigenous Success through Self-Reliance*. Vancouver: Orca Spirit Publishing and Communications.

to communities, increasing the burden on unpaid or underpaid community workers. As a result of these concerns, governments driving social innovation must build trust with the social sector and commit to focus first on the *effectiveness* of new initiatives over the cost and efficiency of spending. Authentic approaches to social innovation also have to recognize that success is not merely a function of introducing business approaches into the social sector. In fact, Jim Collins, author of one of the best know business texts, 'Good to Great' argues that 'We must reject the idea—well-intentioned, but dead wrong—that the primary path to greatness in the social sectors is to become “more like a business”⁶.

The global economic crisis, triggered by the collapse of housing and credit markets in the US is the latest and most dramatic challenge to modern capitalism. The original reason lending opportunities were opened up for families that would otherwise not qualify for mortgages was to help them build up an asset base through home ownership. That mechanism was exploited by lenders, resulting in the establishment of dangerous lending practices and the creation of complex financial instruments that transferred the risks to others. More broadly, many critics have questioned whether the modern economy, focused on growth and shareholder value has lost sight of its core purpose. Economic growth is not an end in itself; it is a proxy for improved human well-being and development. For decades, critics have argued that businesses sometimes succeed at the expense of society and the natural environment. Leading businesses recognize that they are facing a crisis of trust and confidence in the basic tenets of capitalism.

These pressures on modern businesses have resulted in a wide range of new approaches to managing their operations. These include the creation of 'Triple Bottom Line' strategies in businesses, strategic corporate responsibility programs and, the most recent incarnation, the concept of creating shared value. These strategies drive companies to examine their operations and to reduce their social and environmental impacts beyond compliance with local laws. It drives companies to look outside their operations at their impacts through their supply chains on manufacturers and commodity producers. External market measures like the Dow Jones Sustainability Index and the Carbon Disclosure Project hold companies accountable for the broader impacts of their activities in a way that influences share prices.

But the real change occurs when companies begin to look beyond defensive measures to make sure they 'do no harm' to initiatives where they are able to create much wider positive impacts on the communities they effect. In one example, the French food company, Danone, worked with Grameen Bank to create an affordable yoghurt snack for children in Bangladesh. The product was popular with children and contained a wide range of nutrients that had a direct impact on their development. For companies like Starbucks, changes to the way they buy coffee beans from producers in developing countries and changes in the payments they offer for environmentally friendly production have had a dramatic impact on their supply chains. Focusing on healthcare, the pharmaceutical company Merck has worked for many years to distribute treatments for river blindness in developing companies, taking advantage of existing

⁶ Jim Collins, 2005, *Good to Great and the Social Sectors*, Harper Collins.

distribution networks and relationships with healthcare providers. While it is still only the minority of companies that have recognized that they need to develop new strategies, the impact of changes to their operations are global.

In this realm, critics are suspicious of the motives of business seeking to 'create shared value' on the basis that, by definition, publicly traded companies are only interested in profit maximization. In reality, very few companies operate in this way. Even publicly traded businesses operate according to a balanced scorecard approach, where profitability is one of the goals, balanced against long-term resilience and risks to corporate reputation. Increasingly, employees and consumers demand that companies develop a more comprehensive and compassionate approach to development. Private and family owned businesses are able to take a much longer view of their contributions to the communities in which they operate and large scale organisations like credit unions and cooperatives have much more direct accountability to their members. Again, though, true social innovation requires an authentic commitment to improving human well being and in the current climate of suspicion of the private sector, this requires an initial investment in trust-building.

Much of the innovation in the social sector occurs in response to the challenge of expanding highly focused and innovative programs to a larger and more effective scale. Nonprofits and charities have limited access to resources and are highly dependent on grants, gifts and on government funding. It is a real paradox that the organizations that have the greatest ability to change the lives of the people they work with, often have the least ability to grow and expand their programs. In the past, there has not been the nonprofit equivalent of a venture capitalist or private equity firm that can take a small effective enterprise and provide the investment required to allow it to grow and expand without compromising the quality of its relationships with clients. Today, we are seeing the emergence of Social Investment and Mission Based Investment (MBI) initiatives that seek to support the growth and expansion of best practices in the social sector.

In Canada, recent initiatives include the Task Force of Social Finance⁷, which was established to 'unleash new sources of capital, develop intermediaries and policy and build a pipeline of entrepreneurial ventures with social and environmental impact'. A simple way of thinking about the potential for growth through innovation is to recognize that many nonprofits depend on grants that are funded by the interest on endowments held by foundations. According to 2007 figures, Canadians donate almost \$9bn to charities and foundations in Canada have assets totaling around \$20bn, generating around \$1bn per year in grants.⁸ To generate those grants, foundations have to invest in public markets, which means that in simple terms, a return of 5% requires the investment of around 20 times the amount of capital. If these funds had the ability to invest in social enterprises, it would open up a \$20bn pool of investment capital in Canada alone. A recent report examined the Community/Mission Investment (C/MI) practices of 9 Canadian Foundations with endowments totaling \$788m⁹. The study confirmed that community and private foundations in total hold \$17-20bn in assets. The 9 participating foundations have allocated a total of around \$32m in assets to C/MI

⁷ <http://socialfinance.ca/taskforce>

⁸ In CPRN study, Hall et al, 2007 and Draimin, 2008

⁹ Coro Strandberg, 2010, *The State of Community/Mission Investment of Canadian Foundations*, Community Foundations of Canada and Philanthropic Foundations of Canada. PDF here.

projects. While this is around 4% of the total assets, some foundations have allocated up to 40% of their assets to this form of investment, although they tended to be weighted towards smaller individual investments. Around half of the investments were in the form of a mortgage or a loan at market rates with below market rate loans the next most common investment. This reflects the cautious approach taken by fund managers, with investments secured against real assets like buildings. At the same time, if the organisations borrowing from foundations would not qualify for commercial loans, the value of this form of C/MI is that it helps build an asset base and potentially a long-term source of revenue.

The Task Force on Social Finance recognized that a number of changes to the tax code and to the management of funds are required to open up this pool of capital. Social innovation, in this case, focuses on bringing expertise from the social sector and from financial markets to bear on the creation of new forms of corporation, new financial instruments and funds and a pipeline of 'investable' projects.

Looking across the field of social innovation, we can identify many models for implementation, with the goal of creating shared value. Figure 1 describes a continuum from charities, through enterprising non-profits and social purpose businesses to pure commercial enterprises. If we accept that social innovation is not owned by any single sector then the task is to identify the problem we'd like to solve, develop intentional and ambitious processes of innovation and choose the right tool for the job. For some tasks, a charitable vehicle is still the right tool for the job; in other cases a conventional business model could be the right vehicle. In all cases, social innovation requires an investment in trust building across all three sectors and a willingness to work together.

SOCIAL INNOVATION LEADERSHIP

Leading examples of social innovation have emerged in North America and Europe as well as on the international stage. Europe has led in the development of innovative approaches to the implementation of public services through social enterprise and finance initiatives. The US in particular has seen more foundation led activities, for instance, through the work of the Gates and Skoll Foundations, which often seek to bring business concepts into the nonprofit sector. This may reflect significant differences in the structure of society between Europe and the US. In European countries, government plays a more direct role in the provision of social services, particularly through the provision of universal healthcare. In the US, nonprofits often fill unmet social and environmental needs and the sector is much better funded than in Europe or Canada. In Europe, governments in the UK and Denmark have recognized that large-scale public sector bureaucracies don't innovate well internally and have invested in social innovation laboratories that look for new approaches to social service delivery. The approaches are known variously as Mindlab, Change lab or S-Lab. The innovation process is discussed in more detail below. If there is a consistent technique in the US, it is to use business models and business plans to structure social innovation. Social innovation processes are discussed in more detail in the next section.

Canada's approach is closer to that of the European countries. Major centres of social innovation initiatives include Quebec, the MaRS centre in Toronto, Social Innovation Generator managed out of University of Waterloo, the hub of activities built around Vancity in Vancouver, The Mowat Centre at the University of Toronto and ISIS at the University of British Columbia. The organizations that have driven the social innovation and social finance agenda include the J.W. McConnell Foundation, Tides Foundation, Plan Institute, Social Innovation Generation and Vancity.

Given the broad meaning of social innovation, the simplest way to give the concept meaning is through case studies and examples. The examples below represent leading national and international initiatives, identified in a survey of social innovation thought leaders.

CANADIAN SOCIAL INNOVATION

The impact of social innovation activities is often hard to quantify. The sector is diffuse and it is hard to develop a comprehensive picture of the full range of activities it supports. In addition, the revenues of the sector only tell part of the story, since the work of many enterprises has a much wider impact and enhances or supports volunteer and unpaid labour. According to data from the National Survey of Nonprofit and Voluntary Organizations (NSNVO)¹⁰, there are 161,000 voluntary organization in Canada with annual revenues of \$112bn, employing over 2 million people. While healthcare is a major focus, even excluding hospitals, universities and hospitals, the sector has \$75bn in revenue. These organisations support 2 billion hours of volunteer time each year, equivalent to about 1 million full time jobs. The largest number of organizations (21%) is focused on sporting and recreation, while social services, grant making and volunteer coordination represent around 17% of total revenues in the sector. Excluding hospitals, universities and colleges, government funding represents 36% of total income and earned income represents around 43%.

To put those figures into perspective, spending on education in British Columbia alone is around \$4.5bn, while spending on healthcare is \$14.8bn¹¹. National healthcare spending in Canada in 2009 was around \$137bn. Calvin Helin has argued that national spending to support First Nations is at least \$9bn annually¹². Each of these areas of government spending involves challenges that appear intractable at the current level of thinking (to paraphrase Einstein). In these three areas of areas of government spending, there are likely to be real opportunities to innovate with a focus on improving the effectiveness of programs in the long term. Any effort involving government should be based on the recognition that there is a need to invest first to develop more innovative approaches in partnership with the private and nonprofit sectors. That investment needs to precede any effort to reduce spending in these critical areas of social services.

In recent years there have been a number of national and provincial initiatives to raise the profile of social innovation in Canada. One key study covering the history of social innovation in Canada was Goldenberg's social innovation report, published in 2004. An updated report was published in 2009, funded by the Social Sciences and Humanities Research Council. While it is hard to quantify the financial scale of social innovation in Canada, the report provides an excellent qualitative summary of the changes internationally and the growth of the sector in Canada. The report documents new forms of collaboration that are emerging between the public and private sector but also highlights concerns such as the fact that nonprofits are increasingly being asked to fill gaps left by the retreat of government. The report concludes with five recommendations for the expansion of social innovation in Canada:

1. An overall strategy to advance social innovation in Canada should be developed by leaders and experts from all sectors.

¹⁰ www.imaginecanada.ca

¹¹ http://www.bcbudget.gov.bc.ca/2010/bfp/2010_Budget_Fiscal_Plan.pdf

¹² Calvin Helin, 2006, *Dances with Dependency: Out of poverty through Self-Reliance*, Ravencrest Publishing.

2. Further research and study on social innovation needs to be encouraged by government and other parties, and data sources and research infrastructure need to be established.
3. Research on the social return on investment (SROI) is being undertaken in the United Kingdom and Europe in order to understand the economic value of social benefits. To better balance the focus between economic and social innovation, Canada needs to invest in work to better understand the SROI of social innovation.
4. In the short term, specific areas within social innovation that need to be examined include cross-sectoral strategies and relationships; social financing; funding models and mechanisms; governance issues; and accountability and evaluation in the social innovation field.
5. A national event should be created to bring together leaders and experts from all sectors. Practitioners and researchers across the field of social innovation would be able to connect and to share effective practices, governance and collaboration processes, knowledge transfer, and capacity building.
6. Knowledge transfer strategies and their adoption by social innovators need to be profiled and shared. This would help build capacity for social innovation.¹³

In late 2010, the Canadian Task Force on Social Finance, composed of thought leaders from across the country, completed a report looking specifically at opportunities to build and leverage new and emerging finance mechanisms to support social innovation. Cases in the UK and the US have demonstrated possible vehicles and opportunities to be achieved through changes in the tax code and entity structures. These can create significant opportunities for the expansion of social innovation activity and growth of hybrid socially focused organizations. The task force asserted that Canada is lagging behind its OECD counterparts in respect to the support of social innovation and developed a series of recommendations¹⁴ that would establish much greater incentives to innovate and tackle social and environmental challenges. Some of these recommendations of the task force were as follows:

1. To maximize their impact in fulfilling their mission, Canada's public and private foundations should invest at least 10% of their capital in mission-related investments (MRI) by 2020 and report annually to the public on their activity.
2. To mobilize new capital for impact investing in Canada, federal and provincial governments should partner with private, institutional and philanthropic investors to establish the Canada Impact Investment Fund.
3. To channel private capital into effective social and environmental interventions, investors, intermediaries, social enterprises and policy makers should work together to develop new bond and bond-like instruments. This could require regulatory change to allow the issuing of certain new instruments and government incentives to kick-start the flow of private capital.
4. To explore the opportunity of mobilizing the assets of pension funds in support of impact investing, Canada's federal and provincial governments are encouraged to mandate pension funds to disclose responsible investing practices, clarify fiduciary duty in this respect and provide incentives to mitigate perceived investment risk.

¹³ Goldenberg et al, " Social Innovation in Canada". Canadian Policy Research Network. 2009.

¹⁴ <http://socialfinance.ca/taskforce>

5. To ensure charities and non-profits are positioned to undertake revenue-generating activities in support of their missions, regulators and policy makers need to modernize their frameworks. Policy makers should also explore the need for new hybrid corporate forms for social enterprises.
6. To encourage private investors to provide lower-cost and patient capital that social enterprises need to maximize their social and environmental impact, a Tax Working Group should be established. This federal-provincial, private-public Working Group should develop and adapt proven tax-incentive models, including the three identified by this Task Force.
7. To strengthen the business capabilities of charities, non-profits and other forms of social enterprises, the eligibility criteria of government sponsored business development programs targeting small and medium enterprises should be expanded to explicitly include the range of social enterprises.

Both reports show that there has been a vibrant national conversation about social innovation and finance, and reinforces the perspective that Canada is home both to leading organizations like McConnell Foundation and Vancity, but also individual thought leaders who have begun to think and engage differently about the potential for social innovation in the Province. There are a number of specific initiatives in Canada that merit attention.

Focusing on the social enterprise space, enterprising nonprofits (enp) was created in 1997 to support the creation and growth of social enterprises. Enp recognises that nonprofits, cooperatives and charities can generate a blended Social Return on Investment (SROI), which means they seek to balance social and financial goals. These social enterprises can fill three objectives in society:

1. Fill needs that the traditional market will never reach on its own, such as providing employment to marginalized individuals;
2. Advance social and environmental missions;
3. Enhance the financial sustainability of an enterprise by generating surpluses that can be recycled to support the social mission.

Focusing on supporting startups, enp has funded over 200 initiatives and provides resources to social entrepreneurs. Enp profiles¹⁵ many of the organizations it funds and supports, building a valuable resource for the social enterprise community. Examples include Street Youth Job Action, Haida Gwaii Higher Education Society and Nelson Cares Earth Matters Eco Store. In 2009, SFU's Centre for Sustainable Community Development surveyed 120 organisations identified by enp, 71% of which had received enp funding. The 54 organizations that responded to the survey employ 860 people. The impact of their activities is made much greater through their engagement with staff and volunteers: training was provided to 7100 individuals and services were delivered to around 175,800 people. The social enterprises surveyed generated up to \$90m in income and paid \$8.4m in wages.

¹⁵ http://www.enterprisingnonprofits.ca/about_social_enterprise/stories

BC SVP is a network for senior business leaders who care about communities and seek to catalyze significant, long-term positive social change by:

- Encouraging individual donors to be effective, informed and engaged philanthropists, and
- Investing their time, expertise and money in innovative not for profits

They take an innovative approach to philanthropy, leveraging their dollars, networks, and professional skills to support their grantees. This "time plus money" approach helps the not for profits' increase their capacity to deliver positive social impact. They focus on women at risk, children and youth, and social enterprise. With Vancity, they have created the Social Enterprise Fund to invest in the growth of social enterprises.

THIS "TIME PLUS MONEY"
APPROACH HELPS THE NOT
FOR PROFITS INCREASE THEIR
CAPACITY TO DELIVER
POSITIVE SOCIAL IMPACT.

Focusing on specific enterprises, the Potluck Café Society, doing business as Potluck Café and Catering, has been in operation since its launch in the year 2000. Potluck Café and Catering operates on the main level of the acclaimed housing project, the Portland Hotel, in the Downtown Eastside of Vancouver. As recognized by many, the Downtown Eastside is one of Canada's most socially and economically challenged urban neighborhoods. Through its innovative program development and entrepreneurial plus sustainable Social Enterprise model, the Potluck vision is to help transform the lives of individuals and the broader Vancouver Downtown Eastside community. Revenue generated from its successful Potluck Catering operation, with some additional support from fundraising, subsidizes all Potluck programs. Currently, Potluck has developed and manages three successful programs, which include – Employment Programs, Meal Service Programs and a Community Kitchen Program.

British Columbia has been a hotbed for social innovation and social enterprise. Recent examples include the Save on Meats initiative to maintain access to high quality fresh food in Vancouver, Tyze, a social networking facility to help people who have been marginalized build social relationships and the Registered Disability Savings Plan (RDSP) is a highly innovative BC-led initiative to create a tax-sheltered investment vehicle that helps families build a long-term asset base to support a child with disabilities.

An account of social innovation in Canada would be incomplete without reference to Vancity. The credit union, which was founded in 1946 now has over \$15bn in assets and has provided critical banking services and community grants within British Columbia throughout its history. Vancity has funded a wide range of startups and initiatives including enp, and in recent years has invested in aligning its core financial and banking services with the goal of building greater social innovation capacity in Canada.

INTERNATIONAL SOCIAL INNOVATION

A number of governments around the world have created offices to support social innovation. Initiatives in the UK and Denmark are discussed in more detail below. The Obama administration established an Office of Social Innovation and the UK Government under Tony Blair established an Office for the Third Sector and a Social Enterprise Action Plan in 2006. The Office of Social Innovation released the initial list of funded projects for a total of around \$50m of commitments in late 2010. Funded programs included 'Jobs for the Future', which will train 23,000 people living in poverty, Foundation for a Healthy Kentucky, which addresses health inequality in impoverished communities and a DC based youth initiative called Venture Philanthropy partners¹⁶. Social innovation examples have been underwritten by a number of international organizations. For instance in the past decade, the Bill and Melinda Gates Foundation has played a central role in the innovative development of treatments for neglected diseases in developing countries. Contributions have supported very large-scale investment into the development of new vaccines for a variety of those diseases. The funders recognize that the burden of infectious diseases in developing countries is one of the greatest barriers to economic development, but also recognized that mainstream pharmaceutical companies have little incentive to develop new vaccines. The pharmaceutical sector is focused on the development of treatments initially for the US market and even generic drug manufacturers in India and China focus on producing drugs for US and European markets. Foundations, led by Gates, filled that gap by investing directly in drug research and development, leading to dramatic growth in the development of new treatments as well as pressure on mainstream drug manufacturers to make existing treatments, such as anti-retrovirals for HIV, available at an affordable price to all populations.

Deutsche Bank Eye Fund: The Deutsche Bank Eye Fund was officially launched late 2006, partnering with organizations such as Ashoka and the International Agency for the Prevention of Blindness; Deutsche Bank will invest \$20 million over the next 6 years to establish the Eye Fund I. The Fund will provide loans to build eye-care facilities to care for treatable and preventable eye problems. The Fund will also give grants to fund the technology and business planning that eye-care facilities need to be effective. Investors in the Eye Fund I will earn near-market returns, while helping to solve the serious problem of inadequate eye-care facilities. The fund enables Deutsche Bank to achieve its mission of becoming an investment bank for social capital, while changing the eye care industry. In creating the fund, the bank was not interested in maximizing profits, but rather in delivering a blend of maximized returns for their social and financial goals by creating a new channel of investment into the eye care industry globally.

Grameen Bank: The Grameen Bank is a microfinance organization and community development bank started in Bangladesh that makes small loans (known as microcredit) to the impoverished without requiring collateral. The origin of Grameen Bank can be traced back to 1976 when Professor Muhammad Yunus, Head of the Rural Economics Program at the University of Chittagong in Bangladesh, launched an action research project to examine the possibility of designing a credit delivery system to provide banking services targeted at the demographic normally excluded from the financial sector. A group-based credit approach is applied which utilizes the peer-pressure within the group to

¹⁶ <http://www.economist.com/node/16789766>

ensure the borrowers follow through and use caution in conducting their financial affairs with strict discipline, ensuring repayment and allowing the borrowers to develop good credit standing. The bank also accepts deposits and runs several development-oriented businesses including fabric, telephone and energy companies. Another distinctive feature of the bank's credit program is that a significant majority of its borrowers are women. The Grameen Bank Project (Grameen means "rural" or "village" in Bangla language) came into operation with the following objectives:

- Extend banking facilities to poor men and women.
- Eliminate the exploitation of the poor by moneylenders.
- Create opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh.
- Bring the disadvantaged, mostly the women from the poorest households, within the fold of an organizational format that they can understand and manage by themselves.
- Reverse the age-old vicious circle of "low income, low saving & low investment", into virtuous circle of "low income, injection of credit, investment, more income, more savings, more investment, more income".

This action research demonstrated its effectiveness in Jobra (a village adjacent to Chittagong University) and some of the neighboring villages during 1976-1979. With the sponsorship of the central bank of the country and support of the nationalized commercial banks, the project was extended to Tangail district (a district north of Dhaka, the capital city of Bangladesh) in 1979. With the success in Tangail, the project was extended to several other districts in the country. In October 1983, the Grameen Bank Project was transformed into an independent bank by government legislation. Bankers from ShoreBank, a community development bank in Chicago, helped Yunus with the official incorporation of the bank under a grant from the Ford Foundation. The organization and its founder, Muhammad Yunus, were jointly awarded the Nobel Peace Prize in 2006. Today, Grameen Bank is owned by the rural poor whom it serves, borrowers of the Bank own 90% of its shares, while the government owns the remaining 10%.

Kiva: Kiva is a leading example of how the information technology can be used to lower transaction costs and create a bridge between individuals who are thousands of kilometres apart. Kiva's mission is to connect people through lending in order to alleviate poverty. Kiva is the world's first person-to-person micro-lending website, empowering individuals to lend directly to unique entrepreneurs in the developing world. The birth of Kiva.org really came about after Matt and Jessica Flannery took a 3-month trip to East Africa to conduct impact evaluation surveys for Village Enterprise Fund. Jessica had heard Dr. Muhammad Yunus - founder of Grameen Bank and winner of the Nobel Peace Prize for his efforts to eradicate poverty - speak at Stanford University and felt compelled to pursue a career in microfinance. Meanwhile Matt, a Tivo engineer, was thinking of a new business idea every day in his quest to become a Silicon Valley entrepreneur.

WHILE THE PROFIT MARGINS MAY BE VERY DIFFERENT, THE SPIRIT OF ENTREPRENEURSHIP IS AS STRONG AMONG THE POOR OF THE DEVELOPING WORLD AS IT IS IN SILICON VALLEY.

For three months Jessica visited with entrepreneurs who had used small grants of \$100 - \$150 from Village Enterprise Fund to start a small business. They heard stories of people who were able to sleep on mattresses instead of dirt floors, afford to take sugar in their tea daily and buy fresh fish for their families a few times every week. Rather than meeting the poor and helpless, they found themselves meeting successful entrepreneurs who had generated enough profits from their small businesses to create a real impact on their standard of living.

Over their three months they came to three realizations:

- We are more connected to the developing world than we realize. Distance means little in the world of communication today.
- The poor are very entrepreneurial. While the profit margins may be very different, the spirit of entrepreneurship is as strong among the poor of the developing world as it is in Silicon Valley.
- Stories connect people in a powerful way. As they listened to story after story of a fishmonger who needed enough money to buy directly from the fishermen at the lake, or a farmer who needed to buy a better breed of cow to produce more milk, Matt and Jessica knew that any of their friends back home would want to support these business ventures if they also heard their stories. With each story came a human connection as similarities were identified, making an African entrepreneur someone easier to relate to despite differences in language, culture or levels of wealth.

It was clear from their fieldwork that while there was a vibrant pool of entrepreneurs, there was no mechanism to allow for individuals in developed countries to provide a microloan to an entrepreneur in the developing world. It took a year of phone calls and meetings with microfinance experts, lawyers, economists, Internet experts, and anyone else who would listen to their idea of "sponsoring a business". In March 2005, through a local contact in Uganda, 7 loans were posted on Kiva for a total of \$3,500. They included a goat herder, a fishmonger, a cattle farmer and a restaurateur. Six months later every loan had been repaid. These original 7 entrepreneurs became known as the "Dream Team" and they proved it was possible to lend to the poor over the Internet. In October 2005 Kiva announced to the world the first peer-to-peer microlending website via a press release. Shortly after the Daily Kos discovered Kiva and broadcast the website to hundreds of thousands of its readers. Since its birth Kiva has grown from a small personal project to one of the world's largest microfinance facilitators, connecting entrepreneurs with millions of dollars in loans from tens of thousands of lenders around the world.

Acumen Fund: Acumen Fund is a non-profit global venture fund targeting the four billion people living on less than \$4 a day. Its aim is to help build financially sustainable and scalable organizations that deliver affordable critical goods and services that improve the lives of the poor. Acumen Fund seeks to set the global standard for how to affect wide-reaching social change for poverty alleviation and private sector development by:

- Identifying extraordinary social enterprises with innovative approaches to serving the world's poor in the areas of health, water, and housing;

- Supporting these enterprises to become financially sustainable and scalable with equity and debt financing, and intensive support;
- Creating the standard for measuring the social and financial returns of these investments and establishing a position of thought leadership based on these successes;
- Building a global community of professionals (staff and Fellows), donors, institutional partners and social entrepreneurs capable of deploying financial, human and intellectual capital to solve some of the most intractable problems of poverty.

Aga Khan Foundation: The Aga Khan Foundation (AKF) focuses on a small number of specific development problems by forming intellectual and financial partnerships with organizations sharing its objectives. Most Foundation grants are made to grassroots organizations testing innovative approaches in the field. With a small staff, a host of cooperating agencies and thousands of volunteers, the Foundation reaches out to vulnerable populations on four continents, irrespective of their race, religion, political persuasion or gender. In 2004, it funded over 130 projects in 16 countries with a budget of US \$ 149 million. The Foundation operates on the principle that effective social and economic progress is based on partnership with individuals, communities, businesses, governments, and non-governmental organizations (NGOs). Many of its efforts are undertaken in partnership with the government of Canada through the Canadian International Development Agency. The Network is comprised of several institutions working in the areas of social, cultural and economic development, primarily in Asia and Africa. Their mandates range from health, education, architecture and rural development to the promotion of private sector enterprise.

Other leading international examples include the Clinton Global Initiative, Alliance for A Green Revolution in Africa, the Millennium Project and Ashoka. These organizations have all played an important role in underwriting the development of social innovation practice.

SUMMARY

The promise of social innovation is that it can generate new solutions to difficult and intractable social and environmental problems. This means that true social innovation involves new ways of thinking and organizing, often across sectors, and relies on new methods for organizing innovation processes. There is a wide range of methodologies, designed to take innovators out of their organizational comfort zone to reframe the problems they are facing and create the conditions where new solutions can emerge. We also need to recognize that in conventional private sector innovation there are two distinct phases. The first is the ideation stage, where a new invention emerges. That stage involves a great deal of openness and creativity, informed by the experience and creativity of the participants. For example, the journal, *Nature* and Google collaborate every year in a week long event called Science Foo camp. The diverse participants self organize to develop new inventions across disciplines or sectors; the ideas emerge out of the interaction of individuals who may have never met before. More formal design practices, such as those run by companies like *Ideo*, have long periods of openness.

But the second and often neglected stage of innovation requires closure on the development of a new intervention and a focus on delivery. The vehicles for delivering on that implementation can be the organisations that originated the idea, or they can be new hybrid forms of organisations, such as L3C's or CIC's, or they can be new funds that have specific investment criteria that shape the activities of the organisations they support. Jim Collins, whose book 'Good to Great' is one of the most influential business texts written turned his attention to the social sector to test whether the factors that make great businesses also makes for great organizations in the social sector. He describes the Hedgehog Concept as a commitment 'to attain piercing clarity about how to produce the best long-term results, and the exercising the relentless discipline to say, "No thank you" to opportunities that fail the hedgehog test'. He finds that while organisations in the social sector have a very different perspective on economic success, those that have been successful exercise this kind of focus, closure and discipline in implementation.

The simplest approaches to social innovation in the social sector resemble those found in anthropology or ethnography. Charles Leadbeater, one of the leading thinkers on social innovation describes a project with the city of Slough in the UK, which involved working intimately with families that have very high utilization of social services. Each family used on average GBP250,000 of services each year with no pathway forwards out of this level of dependency. The researchers spent weeks building trust with the families and living alongside them in their communities to understand much more about their life experience.

Changelab, an initiative funded by three ministries in the Danish government take a similar approach, mapping the complex service pathway's of social service users in Denmark. Video clips from interviews with users of social services proved to be especially powerful for humanizing the experience. These clips were presented to decision makers who quickly recognized that the complexity of the system they had created was leading to stress and trauma equivalent to the underlying conditions they are trying to address.

Changelab provides one model for innovating in the public sector and the approach is documented in a book by Christian Bason, 'Leading Public Sector Innovation'¹⁷. Changelab acts as an in-house innovation lab for the Danish government. It is funded by three ministries but maintains a high level of independence. The benefit of being inside government is that it has greater access and credibility. The disadvantage is that it is vulnerable to political change and potentially, to political interference. The equivalent in the private sector would be an innovation skunkworks or an R&D facility.

Other methodologies used to support social innovation processes include ideation, scenario development and backcasting. Scenario methods were originally developed by the military and by the Rand Corporation and were

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integrated into business operations by Shell in the early seventies. Scenario methods recognize that organizations operate in a business environment that is highly changeable and uncertain. Robust organisations develop strategy that is viable in a range of different scenarios; typically four. Scenario planning is the 'art of the long view' and it surfaces assumptions managers and decision makers hold about the world in which they operate. It can result in the development of a strategy that is a dramatic departure from the status quo and since processes are driven by the core stakeholders, who are responsible for the management of an organization and the

allocation of its resources, they tend to have more traction than visioning processes. Backcasting approaches come from a similar tradition, but focus on disrupting forecasting approaches and focusing instead on desired outcomes, rather than likely outcomes. Backcasting methods bring the outcome to the surface, much as value focused thinking shifts the emphasis away from intermediate outcomes to goals. Once a group has defined a desirable outcome, the final step is to chart a course from present conditions to that destination.

Social innovation processes help provide a structure that disrupts the normal routines of organizations and creates the conditions for the emergence of new ideas and approaches. It also requires the energy and ideas of thought leaders and entrepreneurs who are willing to take risks with ideas. It requires a willingness to try and fail and learn. To quote Thomas Edison twice: 'I never did anything by accident, nor did any of my inventions come by accident; they came by work.' and 'I have not failed. I've just found 10,000 ways that didn't work'. Committing to social innovation involves building trust across the silos between sectors, taking risks by turning ideas into action on a small scale, with the goal of learning from action and taking the innovations that are successful to scale. This is British Columbia's chance time to lead.

¹⁷ Christian Bason, 2010, Leading Public Sector Innovation: co-creating for a better society, Policy Press.

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