



# **INNOVATION IN SOCIAL ENTERPRISES**

## **FINDINGS FROM RESEARCH IN BELGIUM, THE NETHERLANDS AND UK**

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**Identities and names have been protected to ensure  
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<sup>1</sup> The sole responsibility for the content of this report lies with the authors. It does not necessarily reflect the opinion of the people who contributed to the research.

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## 1 INTRODUCTION

### 1.1 The purpose of this report

This report is the outcome of research undertaken by the SPARK consortium to understand the innovation challenges and the innovation activity in Social Enterprises (SE) in three regions of the Interreg 2 Seas area: Flanders (Belgium), North Holland (The Netherlands) and East and West Sussex (UK).

This research has been spurred by the shortage of studies or literature addressing the management and support of innovation in SE. At the same time it gives the opportunity to understand particular characteristics of innovation activity in SE in these regions. A total of 160 people (90 from Social Enterprises, 41 Stakeholders and 30 from Support Agencies) were interviewed as part of this research in the three regions.

This internal report provides the foundation for developing the SPARK innovation model which will be used to guide the SPARK project support activities to stimulate innovation and collaboration among Social Enterprises across the three regions.

### 1.2 The themes explored

Six themes were explored across the three regions:

- The challenges and enablers for SE to develop their trading activity and their social/environmental aims and to what extent they manage to balance activities between these two fundamental purposes
- The challenges and the enablers of using innovation to support the development of trading activity and/or their social/environmental aims
- The challenges and the enablers of the actual development of innovation including the innovation process and other management processes of the SE
- The impact of innovation especially in terms of trading activity and their social/environmental aims
- The support they get through the innovation system of their region/country/EU
- The framework conditions within which they try to pursue these activities

### 1.3 Comparison of themes across the three regions

A first analysis was carried out to compare the findings of research in the three areas (Flanders, North Holland and Sussex). Points presented in the following sections present the first insight gained through this comparison.

### **1.3.1 The challenges and enablers for SE to develop their trading activity and their social/environmental aims and to what extent they manage to balance activities between these two fundamental purposes**

There is a lot of common ground in the challenges faced by SE across the three regions. One of these is finding the right balance between their trading activities while fulfilling their social/environmental purpose.

- A lot of SEs are clear about the role of trading in their activities, but for some there are issues about whether or not it is right to make money. These attitudes can be hard to overcome, but SEs need to realise that without being sustainable they will not be able to deliver their social impact.
- The desire to generate income from trading activity is not the same as the ability of SE to do so. Many are hampered by their lack of business experience and need to be aware of and address their skills gaps so they can achieve their potential.
- SE can become dependent on non-traded sources of income and spend so much time chasing funding that there is little time to develop the business side.
- Most SEs are driven by their social/environmental purpose. This gives them great drive and determination, but it can divert attention from the trading side of the business.

### **1.3.2 The challenges and the enablers of using innovation to support the development of trading activity and/or their social/environmental aims**

There are more similarities than differences across the three regions in the ways that SE innovate. The main variation is in terms of the sector in which they are operating - those in the sustainable energy sector are more focused on product and technological innovation compared with those in social care provision and service-focused sectors (e.g. training, advice, education, therapy provision, consultancy).

- The majority of SEs are small businesses and need to innovate with the limited resources they have available. For some, this can constrain innovation because they do not have the time and space to explore new directions since they are too focused on day-to-day operations.
- Space for innovation needs to be purposefully created by setting aside time and resources for exploring and developing new ideas and giving individuals or teams responsibility for pursuing innovation activities.
- Some SEs find it difficult to manage transitions in their development and need extra support to help them through these periods. Transition pressures occur as the business grows or faces sudden changes in the external environment, such as market shifts and funding reductions.
- Social enterprise is itself seen as innovative - a different way of doing business - but also needs to address the realities of surviving as a business.

### **1.3.3 The challenges and the enablers of the actual development of innovation including the innovation process and other management processes of the SE**

Although each SE has a unique journey in innovation, there are a number of common challenges and issues identified by participants across the three regions:

- Innovation is often ad hoc and opportunistic. This can make SEs very flexible and responsive to opportunities and agile in coming up with new ideas, but without a planned approach they can also miss opportunities and fail to push innovation projects to completion.
- Few SEs across the three regions have systematic innovation routines that cover the whole range of activities from idea generation through to implementation and capturing value. This can create pressure points where innovations can be derailed through inadequate planning, monitoring and evaluation.
- Many SEs are excellent at proposing new ideas, but find it harder to select, develop, and implement the most promising ones. Some recognise this and attempt to counter this tendency by purposefully assembling a range of suitable expertise, either internally or externally.
- SE innovation is very open and networked - it is about creating and leveraging connections with other people and organisations to assemble different skills, knowledge, and expertise. SEs are better at managing some of these connections than others. Close relationships with target groups served by SE and immediate stakeholders help to generate and develop new ideas, with some SE explicitly referring to a model of co-creation. Relationships with funders and statutory bodies can be more difficult.

#### **1.3.4 The impact of innovation especially in terms of trading activity and their social/environmental aims**

A variety of strategies have been identified in the way innovation is used by SE to leverage their impact. Despite this variety, some common trends emerge through the research:

- When effectively managed, innovation has an important impact on the sustainability of SEs and helps them to meet their social/environmental mission.
- Communicating impact to the outside world is essential in demonstrating the added benefit that SE can deliver.
- Some SEs are exploring new ways of assessing and demonstrating their impact, in commercial and social/environmental benefits. There are opportunities here for supporting other SEs in the use of such methodologies.

#### **1.3.5 The support they get through the innovation system of their region/country/EU**

The support system of each region emerges through a complex interaction between a number of historical events, political priorities and economic, social and environmental needs. However a comparison between the different support systems reveals a number of common trends:

- The type of support needs to be appropriate for the various stages of development of the SE. Support measures tend to be focused on the skills needed to start a business rather than helping established companies grow and develop.

- Support available is not specifically designed for SEs. It is either standard support for enterprise and business, or focused on voluntary sector activities. SEs do not necessarily take advantage of what is offered because they do not see it as relevant.
- There is very little support directly aimed at helping SEs with their innovation activities - it is typically general business and management training and advice.
- Problems with attracting funding and investment for innovation are affecting SEs across all three regions.
- Successful SEs build their own support networks, often leveraging social connections from their previous background and experiences. Many take advantage of appropriate managed networks where they are available, especially if they provide the opportunity to interact and share experiences with other SEs.

### 1.3.6 The framework conditions within which they try to pursue these activities

A number of themes emerge from comparing the framework conditions identified across the three regions:

- The role of *legal and other regulations* have significant impact on SEs. Multiple legal structures for SE may lead to confusion, unless sufficient information is provided. Regulations also affect the target groups SEs are trying to help, making it difficult for SEs to realise their potential. This suggests the need for intelligent regulations appropriate for the conditions faced by SEs to help them perform their work and spur innovation.
- The significant role and the relationship with local authorities. Most SEs seek to address local needs but the relationship between demand and supply is not a straightforward one. Research has highlighted the need for SE to align with local priorities (as set by local authorities) but at the same time the need for SEs to try and actively 'mould' these priorities.
- The need to allow or even provide SEs with resources for innovation experimentation. This is directly related to the priority assigned to SE by the (local or national) governments. The role of public procurement is pertinent here – research has identified several cases of effective public procurement that led to dynamic SEs. The larger SEs can also provide resources to younger SEs for innovation experimentation.
- The perceptions about SE and their contribution have been found to influence the way SEs are treated. Lack of understanding of the SE's role may lead to complaints of unfair competition by other stakeholders (e.g. commercial SMEs competing for the same contract), although procurement rules are typically designed to avoid this. The authenticity of SE is critical in this respect i.e. the genuine pursuit of social and/or environmental goals avoiding phenomena of 'whitewashing' and 'greenwashing'. SE have a part to play in clearly communicating their vision and identity, while stakeholders and support agencies can play their part in raising awareness about social enterprise.

## 2 COUNTRY BELGIUM

### 2.1 Introduction

A range of SEs were investigated in Belgium. These enterprises belong to various developmental trajectories representing different strategic aims along with different departure points.

The analysis has identified several trends which are listed in Table 1 with further elaboration on the next sections of this Chapter.



<b>The challenges and enablers for SE to develop trading activity and social/environmental aims and to what extent they manage to balance activities between these two fundamental purposes</b>
The challenge and the cost of combining trading with social/environmental aims
Accessing intelligence about trends and opportunities in the economy, the market and the environment
Careful management of the SE image
A lot of SEs struggle with drastic context changes, appropriate support is critical to help them cope with these changes
<b>The challenges and the enablers of using innovation to support the development of trading activity and/or their social/environmental aims</b>
Secure (ex ante or ex post) support from the top management to champion innovation and commit resources
The need to fit in (or set up) a value chain with suppliers and customers
Efficient and effective partnerships are critical for leveraging innovation
Innovation often induces (or requires) organisational restructuring
SE need to learn how to convert customers to an innovative offering
<b>The challenges and the enablers of the actual development of innovation including the innovation process and other management processes of the SE</b>
Provide space and resources for innovation to the right people at the right time
Innovation is a resource-intensive activity, which is sometimes very challenging for SE
SE are well equipped for the ideation part of the innovation process but weaker in the commercialisation phase
Lead users (major users or customers of the SE's product or service) are used for spurring innovation but in an informal and ad hoc way
Incremental innovations or innovation a slower pace may be the price to pay to preserve social/environmental impact
Some SEs move towards innovation capability but it is still embryonic
Nascent open innovation activity including interactions with universities, target groups and community
<b>The impact of innovation especially in terms of trading activity and social/environmental aims</b>
The maturity or readiness of the market to receive the SE offering is often a more critical driver than the intensity of the social (or environmental) need
The virtuous circle between communication, value generation and social/environmental impact: the power of focused communication strategies
The vicious circle between poor communication, value generation and social/environmental impact: the lack of resources and communication expertise
Avoid the impact pitfalls: unrealistic expectations or lack of financial returns
<b>The support they get through the innovation system of their region/country/EU</b>
The support priorities: make up for large overheads, support innovation, facilitate the linkages with academia and help the commercialisation
Risks and problems of seeking and receiving support resources
'Soft' resources required for innovation management
Potential pitfalls for the government when they manage subsidies programmes, such as spreading available resources too thinly to effectively realise the aims of the programme
<b>The framework conditions within which they try to pursue these activities</b>
The need for intelligent regulations to spur innovation in the social economy while protecting the needs of accountability and competing social interests
Innovation enhancing programmes from smaller SE with an established innovation track record
The role of public procurement as innovation leverage in the social economy
The need to align but also to influence the local authorities priorities
Shortcomings of the education system: lack of blended skills to cover both business and social or environmental impact

**Table 1: Main points identified in Belgium research**

## 2.2 Develop and Balance Trading Activity with Social and Environmental Aims

### 2.2.1 The challenge and the cost of combining trading with social/environmental aims

There are very few managers who possess *strong skills in both areas of entrepreneurial activity and social (or environmental) impact*. Although the solution is obvious (make sure that the SE employs people from both backgrounds), in some SEs the senior management team tend to recruit people with similar (rather than complementary) skills. For instance, in BESE12, an employment agency for people with autism, the founders were people from the social sector; as soon as they realised that they had limited skills in business, they recruited a person with business expertise to help the development of trading activity, enabling their SE to reach high rate of growth.

The recruitment of people with the right mix of skills is *not always easy to implement* because it can be associated with a *substantial cost*. According to an interviewee “it is a special challenge to be creative and human at the same time”. For instance, vulnerable people can only be employed for a limited time at a SE while they often expect to be employed for regular working hours. These conditions put the SE in the position of incurring a lot of overheads for instance in terms of high training costs and management (e.g. attracting, training and managing new employees regularly) and relatively high cost of labour.

Several SEs find *the strategic objectives of trading and social/environmental impact as difficult to balance*, ending up in a strategy that favours one of two strategic objectives. For instance BESE04’s commitment to the social aim means that its farmers are employees with very favourable employment conditions: with fair wages, full social security and paid holidays. However, the labour-intensive character of the farming process, results in a tiny profit margin, undermining its trading strength. Similarly, BESE05, a SE making quality cheeses with a strong bio character, preferred to slow down their growth in order to be able to preserve the quality and the environmental image of their product.

### 2.2.2 Accessing intelligence on the economy, the market and the environment

Targeting both aims of trading and social/environmental impact is a challenging job that requires a broad range of intelligence – broader than the intelligence required by commercial enterprises. As with other commercial companies, a SE needs to gather *intelligence on both ends of the value chain*<sup>2</sup>: downstream (i.e. consumers’ attitudes and behaviours) and upstream (i.e. raw materials, suppliers, etc.). BESE03 identified early a trend towards sustainable and responsible consumption in the downstream value chain with “consumers ... businesses and government departments jumping on board”. At the same time, they kept an eye on the upstream value chain and detected “an alarming

<sup>2</sup> A value chain is the total set of activities involved in adding value to a product or service as it is transformed from its initial state to a completed offering ready for consumption. This usually involves multiple firms and other actors and the position of a company along the value chain is an important influence on its activities.

side-effect” whereby recycled and sustainable materials become scarce, as the demand grew higher and higher.

SEs should keep an eye on both environmental and retail trends. BESE20, which uses sea containers to farm herbs, vegetables, fish and shellfish in a sustainable manner, regularly watch the environmental trends that spur development, such as water stress, overfishing, food safety (e.g. pesticides), food loss etc. while they also watch the retail trends that play a part in their business, such as consumers favouring locally sourced and sustainably produced food, Asia consuming primarily local fish and shellfish etc.

The need for intelligence on a broad range of issues make some SEs to adopt inclusive decision-making structures. In the past, the majority of board members in BESE15 were employees of the company. Now, three of the eight board members are not operationally involved in the day-to-day management, and so their independent perspective brings alternative views and fresh ideas into the SE.

### 2.2.3 Careful management of the SE image

SEs need to sustain a delicate balance between the protection of their existing brand and the development of new ones. Two strategies have been identified when SEs pursue new lines of business.

The first one is to follow a *“House of Brands” strategy* i.e. to introduce several brands, all of which are managed by the same entity, but each brand having their individual identity. For instance, BESE03 is the managing entity of a range of brands: a building brand, a recycled wood furniture brand, a brand for cleaning statues and monuments, a restaurant with recycled interior, and a recycled design shop.

A second strategy is to set up a new (legal) entity (e.g. a new SE) to protect the existing brand but also facilitate new connections. A typical example is BESE12 that helps high functioning people who have autism to find a job. BESE12 screens, trains and coaches people with autism to be software testers and quality assurance operators. BESE12 decided to adjust their service in order to address a different market segment, namely the more experienced and senior level people with developmental conditions. They established a new legal entity, in which BESE12 is the majority shareholder, to enable the development of a new image that will help, in turn, with attracting and connecting to new players. The new entity was created specifically for people with autism who have reached senior positions, in jobs like big data analysts, experts in statistics, programmers with extensive experience. These people need a different kind of coaching than BESE12 traditionally provided while they are too experienced (or overqualified) for the jobs in the original market BESE12 serviced.

### 2.2.4 A lot of SE struggle with drastic context changes, appropriate support is critical to help them cope with it

A lot of SEs find it difficult to cope with the radical changes within the organisation, their value chains and the other stakeholders. At the same time, the support services for SEs fail to incorporate in their approach the dynamic aspect of the SE lifetime. For

instance, several support systems assume the same management team throughout the lifetime of a SE. On the contrary, often the team that leads the early stage of a SE may not be the same as the one steering the growth period. A typical example of struggling to cope with radical context changes is the case of BESE04. BESE04 was one of the first organic farms in its region which grew into a cooperative, organising a network of producers and collection points. BESE04 has been unable to deal with fast changes in society and the changing dynamics in the distribution channels. Other entrepreneurs copied the very successful model of BESE04 while consumers are now subscribing to bigger systems and the subscription to food packages delivery has become big business. BESE04 finds it difficult to compete with the economies of scale these companies enjoy. Although it has become clear that they need to innovate, they are struggling to find a way.

Nevertheless, research has also provided evidence that coping with such drastic changes in context is possible when appropriate support is provided. Demanding transitions require very special skills as well as the effective collaboration of several stakeholders (e.g. the public sector, the SE employees and its senior management). For instance BESE03 used to be 100% owned by the government but in 2009 government cuts forced its privatisation. An experienced Director was appointed who was asked to reform the organisation so there would be a shift from government grants to market focus (B2B or B2C). The transition required the development of new business models and the setting-up of new value chains. The transition also required the co-operation of the employees. In the Director's words: "innovation needs to be carried not only by the market but also by the organisation, so you have to be able to explain it to your vulnerable employees and convince them to go along." The regional government also played its role. Although the privatisation was triggered as a result of government cuts (rather than a growth objective for the enterprise), the government accepted the gradual pace of this transition. The government divested step by step resulting in a minority ownership of the SE (about 25%) by 2016 in order to allow BESE03 the sufficient space for learning and the development of the new business models and the new value chains. In 2009 as much as 87% of BESE03 revenue came from the city of Ghent, in contrast to only 6% in 2014 (93% of the revenue from the market).

## 2.3 Use Innovation to Support Trading or Environmental/Social Impacts Aims

### 2.3.1 Secure (ex ante or ex post) support from the top management

The support of innovation by the senior management of the SE is crucial for ensuring that the generated innovation is embedded in the organisation. BESE03 transformed successfully from a public sector entity to a healthy privately-owned SE. Part of this success was attributed to the senior management, who held the opinion that innovation is necessary for the long running survival of the SE. In a similar vein, the manager in BESE11 argued that the evolutions and the competition in the sector over the decades have made him value the importance of innovation in surviving such challenges: "every enterprise should keep on innovating and not let things hang". It is possible for the innovation to start without the official approval of the senior management but the

senior management should provide at least *ex post* support to secure the exploitation of the outcome of an innovation project. For instance the interviewee was working for BESE07 when he “stumbled upon a new innovative idea”: to organise collective purchasing of ‘green’ machines. While the interviewee was developing his idea (e.g. listing the most popular product groups for social economy enterprises and matched every product group with the most wanted suppliers), BESE07 senior management were not aware of the idea. The interviewee developed a first draft of the idea and by the end of the summer, he had written an extensive note to describe the business potential of this idea. Only then the note was sent to the Board which gave him the permission and the resources to go ahead.

An *ex ante* support from the top management (i.e. support at the beginning of an innovation project) ensures that the project is equipped with sufficient resources. The main project champion in BESE28 had written an extensive note to describe the business potential of this idea and sent it to three members of the Board of BESE28. He requested the resources to enable an investigation of the idea and any development potential. As put by the interviewee in BESE28, “it is important to have openness and willingness at the top, because a good idea often requires time and investments to be developed”.

Another example of *ex ante* support for the development of innovation is found in the case of BESE13. BESE13 emerged from the activities of another SE –the ‘parent’ SE– which offers education, play materials and support for local organisations who work with children living on the street. The parent SE run for 5 years with contributions from philanthropists but the philanthropists wanted to withdraw, believing that the organisation had enough track record and credentials to secure funding from grants or other charities. The Director of the parent SE instead decided to explore if they could set up a social business that could ensure proper revenue streams for the SE. In 2007-2008 they started brainstorming and gained support from the Board (of the ‘parent’ SE) to explore business opportunities. In 2008, BESE13 became a limited liability company and started developing products and services to promote talent development, and the training of managers in developing leadership skills. The content and the approach of the training offered by BESE13 is based on the experiences with street kids and invests 100% of its profits into the ‘parent’ SE.

### 2.3.2 The need to fit in (or set up) a value chain with suppliers and customers

SEs find out very quickly that innovation requires much more than conceiving a powerful idea and developing a successful offering out of it. Commercial success requires the SE to join (or set up) a value chain with the right suppliers, customers and partners, i.e. the full range of activities required to transform ‘raw materials’ to a final offering for the end user. More importantly, it requires an ability to join all these ‘components’ together while fulfilling the main value proposition of the SE.

In some cases, a value chain exists already within the social economy, therefore it is a matter for the SE to *convince the partners of an established value chain to allow them to join-in*. For instance, BESE20 (which tried to use advanced technologies for farming agricultural products in urban spaces) have done a lot of research, both technically and



commercially in order to convince financiers, restaurant owners and other stakeholders of the value of their concept; this is an essential requirement for “the commercialisation to start”.

In other cases, the SE may find itself in the position of having to *set-up a new value chain* (e.g. its offering does not fit any of the existing value chains). BESE28 was set up to develop a collective purchasing process of green machinery. Although there were individual specialised suppliers who were selling to individual customers, there were no processes or activities to organise the collection of individual needs of customers, cluster and prioritise their needs, negotiate better prices with the suppliers, purchase the equipment and provide technical assistance. In short, there was no value chain present in this area. BESE28 has developed an active strategy to recruit partners for a new value chain and connect them with each other to enable the value chain to operate. The strategy included activities like the recruitment of social and commercial enterprises to become members of the cooperative (i.e. the purchasing ‘club’), the continuous watching of the market trends to identify the most popular products, the matching of the most popular product groups for SEs with the most wanted suppliers etc.

Another example of a social entrepreneur who has set up an entire value chain is the founder of BESE16. The interviewee developed the idea of using flies to process biological waste and use the larvae as an additional resource. The larvae can be processed as feed for livestock and can be used to extract chitin (a resource used in other industrial processes). Immediately it was clear that the interviewee would have to research and develop the whole production (also engineering the production machinery) and value chain (business model, commercialize and create market). There was no precedent on which to base this.

This unique capability of a SE to develop *new connections in the social economy* is one of their invaluable elements. For instance BESE24, a “City Lab”, combines international artists with a community of makers providing time and space for experimental and idea development. The main value proposition of BESE24 is to connect creative individuals, government departments and businesses through an intelligent and effective brokerage. As a neutral actor, BESE24 interacts with the government as well as private actors to bring new value frames to business. The interviewee, a manager from BESE24, argued that “entrepreneurship is a matter of creating a context for the exploitation of a good idea” and “BESE24 will first and foremost create that good context”.

The implementation of this capability to make new connections and, hence, set up or adapt value chains requires *special negotiation skills, time and resources*. For instance, BESE05 (an organic cheese maker company) is a cooperative that includes its employees, its shareholders and its active partners in the decision-making for its strategic policy: this has slowed down certain processes but it seems that it also made them stronger. Similarly strategic decisions in BESE24 have to be carried by all the active partners, so they have to reach consensus. This requires time and patience but stimulates partners’ interaction and new connections.

### 2.3.3 Efficient and effective partnerships are critical for leveraging innovation

SEs have discovered the value of having partnerships to *complement their offerings and support them* in the process of generating social or environmental impact. For instance, BESE03, who produce tailor-made furniture from recycled wood and employ vulnerable people, state the decision to work together with an interior designer “proved golden”, resulting in the ongoing decoration of 6-7 world stores per year and allowing an increase in the revenue by approximately 60%. A very important aspect of these partnerships is to consider them from a *strategic value perspective* rather than on the basis of price or any other narrow financial consideration. The Director of BESE03 stated “equal partnerships are important and will bring results, so don’t just take up the role of price breaker when setting up partnerships, be it in innovation or elsewhere.”

Another important aspect of good-fit partnerships is the *active search for partners* with similar values and strategic fit. BESE12 (the SE working with people with autism) tries to tackle this through giving inspirational talks (about 50 per year) to raise awareness about their model of social entrepreneurship for a specific target group. For BESE05 (a cheese-maker producing quality and organic label products), the recent launch of an open market space, was a way to create additional value for customers from suppliers that have the same values. Even more impressive is the way BESE15 (a cooperative producing and distributing renewable energy through citizens participation) actively contributed to the set-up of associations for renewable energy at both regional and European level. These organisations had the mission to promote, support and lobby for distributed production of renewable energy. BESE15 decided also to allow smaller producers to supply their energy through the systems and permits of BESE15. In this way, small producers avoid the (heavy) investments in obtaining permits, setting up customer services, and so on, while BESE15 has the opportunity to build an ecosystem of producers complementing its own production.

Sometimes finding the right partners is critical to the survival and further development of the SE’s innovation. This was the case for BESE22 (a SE offering various product/services to people who want to record their life story). A year after BESE22 was set up, the founder met the Director of an external organisation providing housing and support. The external organisation were immediately enthusiastic about the product offered by BESE22 requested that the BESE22 founder be included on their payroll and work under the wings of this external group. This enabled the BESE22 founder with the space, resources and ideas to develop further the concept and business model of the SE.

### 2.3.4 Innovation often induces (or requires) organisational restructuring

The successful development of an innovation project may require a significant organisational restructuring because the developing product or service may not be compatible with the routines or the culture of the host organisation. BESE12, the SE which worked with people with autism and achieved about 30% growth in 2016, discovered that this success posed requirements for the company to keep up with the internal growth i.e. increase capacity to provide sufficient job coaching, assessments,

training, coaching etc. Moreover, BESE12 decided to set up a ‘sister’ SE because of ethical arguments, namely not wanting to distinguish amongst employees in different sectors and at different seniority levels in terms of the types of coaching, training and remuneration provided.

BESE13 (the talent development SE) also had to be cautious about putting the innovation in the market due to organisational capacity. BESE13 receives increasing demand to give keynotes and inspirational talks abroad. However, these often lead to demands for other activities like workshops which BESE13 has no capacity to meet. As a result BESE13 had to take the difficult decision to limit their attempts to scale up.

### 2.3.5 SEs need to learn how to convert customers to an innovative offering

Even if an innovation project generates a very attractive new offering, a SE needs to invest resources in converting customers to it. In fact, the process of converting customers to a new offering (especially when customers are not familiar with this type of offering) is anything but a straight line. This was the experience of BESE04: although its customers like biodynamic<sup>3</sup> vegetables, they are not prepared to pay more for these products despite the labor-intensive (and therefore more expensive) character of biodynamic agriculture. This is why BESE20, which are using a hybrid approach combining common sense farming with hi-tech solutions (i.e. aquaponics, artificial light and natural feed in one closed system to produce fresh and qualitative products) spend a significant amount of resources to educate the public (including its potential consumers) for the benefits as well as the costs of this approach.

Something that comes as a surprise to many SEs are the level of resources required to convince customers of a new (innovative) offering. In fact, converting customers to a new (innovative) offering is not only a matter of resources – it also requires know-how of how to adjust your education and marketing campaign according to the level of penetration of the product in the market. In particular, the first introduction of a really innovative product in the market aims to target the ‘early majority’, i.e. these people (whether customers, users or stakeholders) who like original and innovative solutions and are prepared to try new offerings, even if they are not perfectly functioning. The interviewee in BESE20 captured this challenge in the following statement:

*our main issue now is to convince the early majority of restaurant owners in and around Ghent and get them to keep ordering ... This will take and has taken up a lot of time, which means money. This is an overall challenge which keeps us busy and worried*

The focus of the education and marketing campaign should be the innovative character of the offering. Once (and if) the new offering manages to convert this group of people the focus should then turn to the more conservative customer (the ‘late majority’)

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<sup>3</sup> Biodynamic agriculture is a form of organic farming that treats all its activities as ecologically interrelated and part of a single system.



whose priority is the smooth functioning and quality assurance of the new product or service.

A critical enabler of this conversion process is the intense interaction of the SE with various actors in the field (e.g. customers, related suppliers) in order to provide feedback on its offerings and help the SE to adjust its marketing campaign. BESE20 refer to a range of products that will be fine-tuned and tested in the market before commercial exploitation while BESE28 allows a 'try-out' period for interested enterprises and a roadshow where suppliers are involved to inform, promote and provide food and drinks; these actions aim to educate various related actors as well as to attract feedback for the SE to fine-tune its marketing campaign.

An interesting insight into the challenges of converting users and/or customers is illustrated by BESE29. BESE29 (a SE promoting sustainable consumption) wanted to offer a free app in order to reach the maximum number of users and follow this with a further paid option for organisations and companies. It was very difficult to conclude a first sale, because the paid option is a tailor made service, adapted to the needs and circumstances of the client's organisation. The first deal was concluded in June 2016 and now doors of new clients are opening up much more easily. Targeting, finding and convincing the first paying client was a very resource-intensive effort for BESE29.

## 2.4 Manage Innovation in SE

### 2.4.1 Provide space and resources for innovation to the right people at the right time

A lot of SEs pointed out the significance of having the right people on board for developing innovation. According to the interviewee in BESE20 "innovation ... is defined by a good idea but even more by the people behind it!" The right people are not the same throughout the innovation process. The interviewee in BESE20 argued that "other important challenges [for innovation] come down to getting the right people on board at the right time". At the front-end of the process (the ideation part) a SE needs 'wild thinkers', people that have a vision and they are not constrained by the current practices of their industry (or their market). Later in the process, the commercialisation part, SEs need people with more sales and marketing skills, people that can generate value out of an existing offering. It is reasonable to assume that the social economy has more people of the former inclination rather than the latter.

Although there are several skills required for the completion of an innovation project, there are some people that play a key role in the progress of innovation. These key individuals are a 'rare breed' and they bring talents and abilities that can be crucial for the successful completion of an innovation project. BESE28 are very clear that these key individuals are more important than the innovation idea itself: "Don't bet on the horse but bet on the jockey" they proclaimed. There is a variety of roles that key people can play: to convince stakeholders to enable access to resources; to drive and motivate others to go through the strains of the innovation process; to provide the necessary expertise to resolve important questions etc. In BESE28, it was only when the main

project champion was able to convince the senior management team to invest in the project, that the idea could be developed. He was praised for his “expertise, experience and determination” and the support he provided to “innovators by answering questions and countering doubts”.

People with important talents and skills for the innovation process cannot use their potential unless space and resources are provided to them to pursue innovation activities. Initially, space and resources have to be given to key individuals that are knowledgeable, experienced and creative. The principal idea behind BESE28 was developed when the interviewee (the CEO of BESE28) was asked to dig into BESE07’s purchasing history during a calm period. The interviewee was the right individual for this assignment given that he has a history with purchasing and knows how to negotiate better deals, especially for larger quantities and groups. When considering green machines, often required by BESE07, he came up with the idea of negotiating better conditions for all possible products that social enterprises need in their daily activities. This ranges from vans, over office supplies, to landscape maintenance equipment. By doing so, the cooperative will save time and money for its members, which will be mainly social economy enterprises (BESE28).

#### **2.4.2 Innovation is a resource-intensive activity, sometimes unbearable for SEs**

Innovation is much more than a powerful idea. Innovation is about completing the journey all the way from the initial idea, to the development of the idea, into a concrete outcome (product, service or process) and through to commercialisation and the generation of value. As a result, the innovation development process is a resource-intensive activity. The manager in BESE28 put it in very clear terms: “Innovation which is successful and lasting, will always demand money. If not to invest in material, then definitely to invest in time”.

Managing innovation is usually a strenuous activity, involving a lot of experimentation, disappointments and retreats. The emotional stress caused is considerable, so SEs (and the involved people) should be prepared for this. According to BESE03, “it often came down to (strong) people to successfully develop innovations into sustainable business, no doubt causing stress and uncertainty along the way”.

Both material and emotional stresses can prove critical in special circumstances (e.g. in radical innovation or at start-up stage) where innovation has by default a multi-aspect character. In BESE15 (a radically new model of producing and distributing renewable energy), innovation occurs in the business model, the products (such as opening the supplier role to small producers, pellets factory), processes (the ‘strawberry model’ by which electricity is collected from several individuals, Human Resources and compensation policy, setting up umbrella and advocacy organisations) etc. BESE20 (a typical case of a start-up) refer specifically to the multi-aspect character of innovation which needs to combine product, process, marketing and organisational innovation. Obviously the material and emotional stresses can create bigger problems for small SEs rather than the more established and larger ones.

Identifying low cost activities to start-up a process and receiving support from their regional innovation support system were crucial for dealing with the challenge of resource-intensive aspect of the innovation process. According to BESE16 (a SE which converts waste into new raw materials) the innovation process was a ‘procession of Echternacht’ (Dutch expression to say ‘2 steps forward, 1 step back’) due to its very resource-intensive character. The interviewee managed to fund the resource-intensive process of research and development through innovation grants from specific innovation support programmes such as MIP (Materials Innovation Platform) and FISCH (Flanders innovation on sustainable chemistry hub). BESE16 is not yet commercially active due to lack of sufficient scale - less than 1% of costs are covered by sales. One of the important challenges for scaling-up was to find an appropriate production site. At the start the interviewee used his attic as a production site! Finding a suitable production site was not at all easy (frustrating, since a lot of incubator space is offered for service and IT start ups but not for maker or productive start-ups which want to install production machines and being able to process biological waste). For now, BESE16 cannot fulfil market demand on a commercial scale but the search is on to find the proper financing and location to set up sufficient scaled production.

#### **2.4.3 SEs are well equipped for the ideation part of the innovation process but weaker in the commercialisation phase**

Innovation can be triggered by a number of external or internal factors such as new challenges (e.g. subsidies cuts, inability to respond to a customer request), new opportunities (e.g. a new order from the city administration, a take-over opportunity) or internal events such as the succession to the next family generation of owners. In BESE12, the idea to develop a new ‘sister service’ for senior professionals with autism was triggered when people with this profile applied, but the founding SE could not offer an appropriate solution. In BESE11 innovation activity was developed when the interviewee took over from his father, became the general coordinator and started experimenting and introducing a wide range of new ideas.

The ability of SE to connect with unconventional people becomes an asset for innovation especially for the ideation phase of the process i.e. the phase which generates new ideas and new approaches. For example, BESE24 is in regular contact with artists who stated that the economy nowadays is throwing away too much of value. Weeds and ‘exotic species’ are disposed of while they could be of value. BESE24 started a process to utilise natural resources that were being disposed of within their region. These resources have then been repurposed by BESE24 raising income and fulfilling their social aims through recycling waste. Brainstorming and reflecting collectively on the nature of problems also helps the ideation process – about 5 people sit together in BESE28 about once a month to follow up innovation and generate new ideas.

The commercialisation part of the innovation process is challenging for several SEs for a number of reasons. The very challenging character of the commercialisation process is exacerbated in SEs which can face more limitations than a commercial enterprise. For instance SE may feel very strong about keeping high quality in their offerings, or maintain the involvement of ‘less capable’ employees in order to maintain the high level of social or environmental impact. The very innovative and dynamic BESE03 (which

managed to transform itself from a public organisation to a dynamic SE) points out that “in getting an innovation into the market, (smaller) social enterprises seem to struggle”. Similarly, in BESE05, the first decades were dedicated to improving the production and the quality of the cheese, resulting in an organic product of very high quality. Although they managed to resolve several related problems and they got into some chains of stores, they found it more challenging to commercialise their product more widely (at least without compromising its quality).

#### **2.4.4 Lead users are used for spurring innovation but in an informal and ad hoc way**

Evidence was found that lead users namely people or organisations who are ‘ahead of their time’ and can provide ideas for innovation have been used in the innovation process of SE but in an informal and ad hoc way. BESE11 was set up to help office workers located in rural areas to become more employable. BESE11 came up with the idea of a new phone service (periodic ordering of goods and services) a couple of years ago when an existing client asked them if they could do orders by phone. BESE11 decided to try, and after encouraging results, after testing the idea, they developed it as a standard service for all clients. BESE11 ended up providing the service to food distributors (because food runs out or expires rather quickly), installers of heating (because heating needs maintenance periodically), installers of alarm systems (because the systems need maintenance once in a while). Similarly, BESE24 gathered different actors to invent new packing material and a renewing ‘route’ for catering after the demand of another SE, BESE18.

#### **2.4.5 Incremental innovations or innovation a slower pace may be the price to pay to preserve social/environmental impact**

Several SE have consciously decided to slow down the pace of innovation or to target incremental (rather than radical) innovations to minimise risk and preserve the engagement with (vulnerable) social groups and a variety of other stakeholders. For instance, BESE05 has had chance to grow faster but refused to do so because it wants to maintain the quality of its products and the involvement of its employees. One of the co-founders put it clearly: “we want to grow organically, keeping our core business in mind.” Similarly in BESE15, the slow, but sustainable growth path is due to the fact that they always handle a prudent approach when deciding to invest in and develop new projects and business lines since, as they pointed out, “we are working with the money of our cooperative members”.

#### **2.4.6 Some SE move towards innovation capability but it is still embryonic**

Some SEs have started developing an innovation capability, i.e. the ability to repeat the innovation process and have more permanent structures for fostering and managing innovation. However, the development is still at an embryonic stage. BESE15 have learned to incorporate an innovation agenda item during the monthly meetings held between the project team and the customer team. BESE15 is now considering its next steps along this journey, such as setting up a room dedicated to the development of new ideas. BESE11 learned the need to innovate the hard way in the last few years, however they admit that they do not have an innovation policy: “the increasing competition has

made us innovate in a lot of aspects, which hasn't been formalised in an innovation policy”.

After BESE24 having gone through a process to obtain ideas from artists and initiate relevant innovation projects they continued researching using similar procedures. The need to develop more permanent structures for innovation is highlighted by BESE24 when they acknowledged the significance of momentum for innovation development. In similar vein, BESE28 admits that innovation is about timing. It requires a speedy reaction to keep the momentum of progress: “The innovation journey was a rapid one, so far. In just half a year the idea was conceived and almost entirely developed, with commercialisation planned within a few months”.

Although an SE may engage in ad hoc innovation activities, the development of an innovation policy (or strategy) is a very slow process. It took BESE07 as many as 10 years to create an “innovation policy”, with clear references to all related issues such as the people management, the relationships with external partners, etc. These efforts are now coming to fruition including special schemes, like an innovation team to generate, develop and commercialise ideas for the social economy. The formation of an innovation policy (or strategy) can help SE to manage several of the challenges that emerge in the innovation process. Take for instance BESE20's experience in innovation where they admit that they are overwhelmed by the number of new ideas. They report that they need a kind of selection mechanism (e.g. clear innovation priorities) to be able to focus. They admit that they have few procedures and a horizontal structure and did not feel the need to structure innovation, but are now starting to consider it: “Taking the right steps at the right time was difficult ... took time and stress, due to ... the lack of rules when it comes to innovative practices”.

#### **2.4.7 Nascent open innovation activity including interactions with universities, target groups and the community**

The research has found nascent open innovation activities among the investigated SEs that is activities to identify and receive inputs from external parties for their innovation activities. The interesting aspect is that SEs have a unique position to leverage open innovation due to their far-reaching connections with the community and other stakeholders. However, to be able to use the potential of these connections, they must be able to set up the relevant procedures such as procedures for receiving ideas from external parties, how to agree on a focus of their interactions and how to formulate agree joint exploitation plans.

There are SEs which have developed connections with *scientists and universities*. In some cases, lower-order linkages like students or junior researchers are good enough. For instance, BESE24 asked the city to no longer destroy knotweed and to allow them to use it as construction material. Students of the university college of Kortrijk designed a new product: panels of 120 x 120 cm which will be used as insulation panels for buildings. When more advanced or more complex problems are addressed, the involvement of more senior researchers and scientists is sought to use their expertise as well as to get access to sophisticated facilities and equipment. For instance, in BESE24 having developed the new product, it now faces the “complexity of the construction



sector". For all the materials used, they need detailed specifications. These specifications need to be done by scientific tests, and in all likelihood, they will require the involvement of more senior academics or researchers. Similarly, in the case of BESE20, where their offering involved a significant amount of high-tech solutions, a connection with more senior researchers and scientists was made. BESE24 argued that an additional benefit of working with scientific partners is the extra credibility the SE gets through this interaction.

BESE29 has a lot of experience in partnering with different organisations and receiving input for their innovation projects. While developing their online application, BESE29 collaborated not only with IT developers but also with other parties such as universities (to acquire knowhow of users' behaviour), design experts (to enhance the interaction of the application with the user), sustainability consultants (to design an environmental friendly process), market research agencies (to design sophisticated marketing campaigns), business support agencies (to get any extra support) etc.

SEs can also ask *their shareholders or their own employees* to provide input to the innovation process. In fact, the SEs that operate as cooperatives have the privilege of access to a wide range of people, whose ideas and expertise can be used to benefit the SE innovation activities. For example BESE15 always put cooperative members at the heart of the organisation and invest a lot of effort in communicating and mobilising them. This pays off as cooperative members raise critical questions and help identify new opportunities. In the future, BESE15 want to harness further the potential in cooperative members to develop innovations. BESE11 has a policy of involving its employees in weekly team meetings. Through this policy a number of innovative ideas have emerged bottom-up. Employees also have a say in which products are to be promoted.

Another potentially useful source of input for open innovation is *the target groups* the SE is trying to help or accommodate, or the wider community they are interacting with as part of their social aim strategy. BESE12 set up a think tank to explore opportunities, possibilities and models for social enterprises working with the target group (people with autism). Similarly BESE18 involved their local community in seeking solutions for new packing material and they ended up re-defining the question from "how can we improve packing material?" to the question "what do customers want"? In fact the community added their own 'personal touch' by suggesting adding packaging improvements such as small bells and the opportunity for customers to exchange their favourite recipes with each other.

SEs can use other organisations to develop *collaborative innovations* through the integration of their offering with *complementary products*. For instance BESE05 allied with another four local enterprises to develop an open market space; in this way they can complement the offering of their product (organic cheese) with other similar products and services sold by other SEs and local businesses, such as biological fruit and vegetables, artisan bread and freshly cooked meals. An important consideration in this venture was to find parties that have the same values and time to dedicate to building consensus: "the development of an open market space took its time because all active

partners were involved and consensus was needed. ... negotiations were interrupted several times”.

Evidence was found of SEs actively building a *network of open innovation partners* either to receive innovation inputs or to develop and jointly exploit (or commercialise) collaborative innovations. This allows them to access knowledge, capabilities, and resources that they are not able to develop on their own. For instance, BESE15 (the SE promoting renewable distributed energy) developed the “strawberry model” (a strawberry plant grows new siblings in a horizontal way). This model allows BESE15 to make available its knowledge, expertise and financial help (rolling fund) for starting cooperatives in Belgium and wider Europe, which are keen to adopt the citizens-owned production and distribution of renewal energy. To accommodate the development of this network BESE15 has set-up a number of Belgian and European institutional sister’ organisations. These relationships are two-ways streets, enabling BESE15 to learn and capture critical views on innovation in the field that were later incorporated in their strategy but also enabling the promotion and exploitation of BESE15’s energy production model (i.e. renewable and distributed).

## 2.5 Impact of Innovation

### 2.5.1 The maturity of the targeted market is a more critical factor than the intensity of the social (or environmental) need

Some SEs made an important distinction between *the intensity of a (social or environmental) need* and the *maturity of the market* (to realise the relevant need). Take for instance BESE12, who work with people with autism to increase their employability by focusing on their talents rather than their limitations. While the employability of people with learning/behavioural difficulties is a national issue, BESE12 very carefully selects the regions to establish a presence in based on the extent that the customers (e.g. banks) are prepared to collaborate with them. For instance, BESE12 recently opened a second facility in Hasselt, Limburg because the market was ready to pay for their services as opposed to West-Flanders where they refused to open a facility because the market was not ready. Another example is BESE22 (the SE helping people to create life stories). The biggest challenge is to develop a sound business model as BESE22 still has to ‘create’ the market. People are not very familiar with recording personal histories and are not aware of the positive impact it can have, not only for elderly people but also for their families. A critical dimension of the problem was that this is a multi-faceted benefit difficult to communicate via marketing: “one slogan does not cover it”.

The need to present an offering of high value to the market makes some SEs *reluctant to promote the message of social impact*, out of concerns that the quality of their offering will be diluted. For instance, BESE11 did not use its status as a SE to attract clients, because they wanted to be chosen for what they can offer and the quality they can bring to any new deal. It is only recently that BESE11 started to utilise the social responsibility element, occasionally and as an additional message rather than the main USP (Unique Selling Point), to give them an ‘edge’ over other competitors.

### **2.5.2 The virtuous circle between communication, value generation and social/environmental impact: the power of focused communication strategies**

The better a SE is able to articulate and communicate its main message, the more parties with a potential interest in its offerings (e.g. customers, organisations with complementary offerings etc.) or the particular social cause (e.g. people from the target group) it can attract. This in turn generates strong momentum for the SE to strengthening its position in both terms of value generation and social/environmental impact.

Take for instance the case of BESE15 a co-operative which has a strategic interest in attracting individual citizens who are prepared to buy, contribute to, or invest in renewable energy. BESE15 had a specific set of USPs but it was not able to communicate them clearly to individual citizens, especially in foreign markets. When they realised the limitations of their communication strategy, they took action to remedy the identified issues and as a result they were able to attract a much higher number of individual citizens who participate (as producers, buyers or investors) in the cycle of producing and distributing renewable energy.

BESE15 also identified as a strategic interest the development of other citizens-driven cooperatives of renewable energy around Europe. They actively contributed to the establishment of a European federation and then developed a special communication strategy complemented by an open source strategy with several components. Firstly BESE15 accepted to share its knowledge and expertise on the citizens-owned production and distribution of renewal energy with all members of this federation. Secondly financial assistance was made available for start-up cooperatives which adopt the citizens-owned production and distribution of renewal energy. Thirdly the federation members had the option of buying or selling renewable energy to each other, strengthening their value generation and their social and environmental impact.

The development of successful innovations (and the reputation that comes with it) can provide powerful communication leverage. This was the case for BESE15 where the successful involvement of citizens in renewable energy co-operatives has reinforced their image which in turn helped them to attract more people as producers, buyers or investors.

### **2.5.3 The vicious circle between poor communication, value generation and social/environmental impact: the lack of resources and communication expertise**

Some SEs are in the difficult position of being unable to develop fully-fledged communication strategies because they lack resources (e.g. time to dedicate to the job) or specific expertise (e.g. social media experts). According to BESE11, a SE has to incur high overheads in order to be able to attain social impact. As a result there are very few resources to devote to a fully-fledged communication strategy. For instance, the interviewee from BESE11, has studied marketing and communication but they lack the time to develop a full communication strategy (most of the employees are travelling for 1 to 2 days per week). Moreover, BESE11 lacks the knowledge and the expertise to



manage more modern channels of communication such as social media, SEO, SEA etc. As a result, BESE11 suffers from a poor communication strategy which in turn puts serious limits to the development of its trading as well as its social/environmental impact. The most typical example for this is BESE11 plans to develop a new niche service/product, to be further developed in forthcoming years. Although BESE11 is fully aware of the need to develop a new communication strategy to promote this new service/product, they lack the time and money to follow up on this appropriately.

#### **2.5.4 Avoid the impact pitfalls: unrealistic expectations or lack of financial returns**

SEs face two pitfalls in developing innovations: (i) unrealistic expectations for impact and (ii) generating social or environmental impact but without financial returns.

The commercialisation of a new innovative idea takes time, especially if the commercialisation process needs also to create social or environmental impact. A SE that embarks on the commercialisation of a new product, service or process should be ready to cope with the financial, and any other constraints during this (potentially long) period. This is what BESE20 found out when they were developing their innovative offering of combining common sense farming with hi-technology under one roof. BESE20 realised that achieving a social or environmental impact does not necessarily mean that there is an income attached to it. Although quality improvement, speed and efficiency of production and variety of offerings have been achieved, they have not yet reaped the financial rewards – they may do in the long run but not at this point of time.

BESE16 is a SE founded to sustainably treat waste produce and create new resources. In 2012 the interviewee had the idea of using flies to process biological waste and use the larvae as feed for livestock and to extract a material used in other industrial processes. Today BESE16 produces about 150,000 larvae per day, however BESE16 costs are not yet covered by sales, due to a lack of scale.

## **2.6 Support for Innovation in SE**

### **2.6.1 The support priorities: make up for large overheads, support innovation, facilitate the linkages with academia and help the commercialisation**

A lot of SEs feel that to attain their social or environmental aim, they must incur *high overhead costs*, certainly higher than the equivalent overheads of commercial (i.e. profit-making) enterprises. These extra overheads come from the need to carry out activities while observing their social or environmental aims. Take for example BESE12, which connects people with autism with major employers (e.g. banks). This requires more elaborated processes to recruit, screen, train and coach employees with autism and the presence of (qualified and specially trained) coaches. These cost items represent additional overhead costs. Large employers like banks are prepared to consider recruiting people with autism but are often not prepared to pick up additional costs of coaching. This puts BESE12 at a competitive disadvantage compared to standard employment agencies. As a result, BESE12 feel that they could not have a viable

business model without the support they receive from the regional government to cover the increased overhead costs.

Another need identified by the research is the provision of resource to *support the development of innovation*, especially when the pursued innovations involve capital-intensive resources like the purchase of high-tech equipment. BESE20 combines advanced technologies and equipment with common sense farming. The interviewee, argued that “the overall challenge was and will be money, which is normal when you are innovating”.

A way to assist the development of innovation is to *facilitate linkages with universities and scientists*. The value of these linkages is not only the scientific skills and knowledge that the SE get access to, but also, the opportunity to use advanced equipment and labs. The development of these linkages is not easy or cheap. Academics and SEs do not necessarily have the same agendas: for example, academics wish to pursue their research (irrespective of financial or social aim considerations), whereas SEs want to promote their social/environmental aim and develop trading activity. It is possible to connect these two distinct agendas but this means that resources are needed to cover the cost of this exploration process and to motivate people on both sides. BESE20 worked with scientists and universities to develop its processes and its offerings benefitting from valuable knowledge contributions from the academics and scientists and the chance to use advanced facilities. However as put by the interviewee in BESE20, “this came at a price, which was covered partially by an innovation subsidy.” In a similar vein, BESE24 (the SE that gives space to artists and other ‘creative’ people to experiment and develop innovations) regrets that co-operation with scientific partners is mostly expensive and slows down your innovation. BESE24 would love to work together with knowledge institutes, but they “don’t have the budget and time to do so”.

BESE16’s experience demonstrates that there is value in cooperation but agendas and pace of working are not necessarily compatible. The interviewee worked with University academics on some research questions but became frustrated as he felt academic research works at too slow a pace to really be able to help spur their R&D and business development. The interviewee also worked with a semi-public research centre to develop the production installations, but this cooperation stalled after a series of long and ‘fuzzy’ discussions about the distribution of Intellectual Property (IP).

Finally, an area that SEs consider critical is the need to support the commercialisation phase of innovation. BESE11 makes the case in a very articulate way, “it’s clear that innovation journeys can go as far as ideation and development internally (or with a coach), but there is a strong demand for external support when it comes to commercialisation. Government could intervene with intense and tailor made support programmes in marketing, communication and sales.”

## 2.6.2 Risks and problems of seeking and receiving support resources

Seeking financial support for the SE has many advantages but can also include a number of unexpected problems and risks. The first major hurdle to clear is managing the process of applying for, and developing a relationship with the supporting entity. From

identifying the right programme of support, understanding the priorities of the support programme, familiarisation with the application process and finally working with and reporting to the support agency etc. BESE20 admits that “there are still several subsidies, grants, funds, awards and even business ‘angels’ willing to invest in (social) innovation” but to their experience “it has been a precarious road so far”. Furthermore, “it is a challenge to find your way through the maze of support agencies for the first time, knowing the right tactics and people who can open doors”. This certainly calls for a simplified procedure, such as user-friendly communication of the priorities of the programme, simple applications forms, quick response to submitted applications etc.

Another risk in chasing support is the possible ‘contamination’ of the strategic priorities of the SE. There is always the temptation to chase support resources and neglect or sideline the main purposes of social or environmental impact the SE has set out to serve. In fact, a SE which relies on too many grants and subsidies can foster dependency on government money, the very thing that a SE is supposed to avoid. BESE20 is clear that “government subsidies ... give means to jump on opportunities (although limited in amount and time), but [they] can also take you off track.”

### 2.6.3 Soft resources required for innovation management

Some SEs pointed to the need to access ‘soft’ resources, namely training, coaching, mentoring etc. A first requirement identified is the provision of training (or coaching) for developing partnership strategies. The main concerns are: to develop partnerships that are functional (i.e. they delivered whatever they set to deliver); the benefits exceed the cost of the efforts; and the partnerships help the SE to develop. According to BESE03, partnerships with SEs prove to be difficult, because they each have the tendency to compete in the same sectors and innovate in the same niches. Partnerships with ‘regular’ enterprises can prove interesting but only if there is equality - something not always possible, especially when working with larger companies.

Some SEs found themselves in the demanding position of having to develop several active partnerships at the same time. For instance, BESE23 has developed a new housing solution that addresses several societal issues (increasing the supply of family homes on the market for younger people while elderly residents living together and supporting one another, helping to elevate loneliness etc.). This model required the development of different kinds of partnerships such as potential customers (elderly people to join the co-housing scheme), local governments to provide funding, service providers to serve the co-housing establishment etc. BESE23 is actively working with all of these diverse partnerships through seven different projects and has agreements with a number of local authorities which want to help develop co-housing.

A second need identified is being able to access coaches who specialise in innovation issues and innovation management. This is a call for people who do not only provide input to the SE innovation activities but also empower them to deal with similar challenges in the future. For instance, a coach supported BESE11 and made the social enterprise more aware of the importance of innovation. In the words of the interviewee, “The coach helped us keep a helicopter view and gave us the fuel to keep going.”

A third need is the provision of training, coaching etc. for developing an effective communication strategy. The use and leverage of social media is central to this theme, where a lot of SEs feel that they do not have the resources or the time to develop a sufficient strategy for social media. For instance, BESE11 “would welcome support from government, in the form of a specialist to design and set up a tailor made strategy to train social enterprises, so they communicate better.”

Finally, the need to support SEs in more peripheral issues such as the management of Human Resources (HR) and employment was also raised. BESE15, for instance, had to recruit private consultants to develop its thinking in issues including the management of HR and compensation policy.

#### **2.6.4 Potential pitfalls for the government when they manage subsidies programmes**

The participants pointed out a number of potential pitfalls that SEs can fall into when participating in (local or national) government support programmes.

The primary concern is that, in some cases, the actual reality of these programmes cancels out or dilute the declared aims of the programme, failing to provide a “lasting impact” on SEs. There are two main ways that the participants have seen this happening.

Firstly, some support programmes succumb to the pressure to spread the programme resources too thinly across several projects. According to this approach, it is important for all support resources to be distributed to as many players as possible, pushing as secondary priority, the evaluation of the proposed action or the assessment of the potential of the beneficiary SE. Although there is no doubt that a more egalitarian distribution of resources is a positive thing, this becomes counterproductive when the programme ends up providing packages of support that are too small to be effective. In the words of the interviewee in BESE03 there is “a tendency with governments to scatter project subsidies, while at the same time sneakily cutting other structural subsidies”.

Secondly the primary objectives of some support programmes are hijacked by government officials to primarily serve their purpose rather than adding value to SEs. BESE03 made this case in a very eloquent way: “Innovation seems to ... result in a waste of time and finance in some cases ... when the goal of an innovation journey is to produce a flyer and organise a press moment. This is partly due to project subsidies, where the request from the government can lack ambition or impact.”

## 2.7 Framework Conditions for Innovation in SE

### 2.7.1 The need for intelligent regulations to spur innovation in the social economy and social enterprises<sup>4</sup>

Some participants express their dissatisfaction with the disjointed nature between the innovation ambitions of SEs and the regulations imposed by regional or national governments. SEs call for intelligent regulations which protect the public's interest while at the same time supporting SEs to develop ambitious innovation projects. A complaint expressed by some SEs is that some governmental regulations strain and slow down innovation. For instance, BESE20 were unhappy with “authorisation and permits for location and food production” which took time and created stress because of rigid government procedures. Similarly BESE03 complain that government does not consider SEs as part of the ‘regular’ economy and as a result they are “constraining their (growth and innovation) potential or creating extra overheads for them”. A typical example is “the normal economic circuit policy”, the government policy of demanding vulnerable employees from SEs to progress to regular enterprises. To bypass this problem BESE03 plan to establish a regular enterprise which enables them to keep those people considered valuable for their operations. This represents a significant overhead for BESE03 which takes their focus away from what should be the primary target namely innovation to support growth and the social impact.

### 2.7.2 Innovation enhancing programmes from smaller SEs with an established innovation track record

While the social economy has a lot of potential, it lacks entrepreneurial environments to enable the ambitions and the innovative ideas of people to transform into a fully-fledged SE. The story of a social entrepreneur incubating an innovation in his backyard (or garage) was highlighted in the research. The founder of BESE20 started experimenting in his backyard, fine-tuning an ‘aquaponics concept’ that did not exist in that specific form to his knowledge. He pursued the project, but was not able to find a space to accommodate his innovation and SE ambitions.

A social enterprise with an established track record in innovation can play a role in incubating new ideas for the social economy, similar to what the corporate innovation programmes do to foster an ecosystem of innovative SMEs around them. In some cases, these corporate innovation programmes receive the support of the public sector (e.g. the regional government which want to support local jobs etc.). Fieldwork found evidence that it is possible to encourage established SEs to undertake programmes to support young SEs to develop their innovation ideas. This is the case of BESE24 a “City Lab” with time and space for experiment for arts, societal engagement and reflection on the influence of technology in our society. This is also the case where BESE07 set up a ‘sister company’ to specifically identify and nurture innovation ideas.

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<sup>4</sup> We refer to the social economy and social enterprise in the wider sense, rather than the more specific reference to BESA06 that is made in Belgium and The Netherlands.



### 2.7.3 The role of public procurement as innovation leverage in the social economy

Participants pointed to the critical role of governments in fostering experiment innovation with social aims. The government can play a pivotal role in social innovation development by using procurement policy in a 'smart' way. A typical example is the case of BESE15 who were given their first boost to transform from a voluntary co-operative to a dynamic social enterprise through a public procurement opportunity. For several years BESE15 was more of a 'dormant' enterprise since the frameworks and mind-sets were not ready for BESE15 to grow at that time. At the beginning of 2000, BESE15 won a city-wide tender to develop a wind turbine through participation with citizens. This was the starting point for BESE15 to professionalise, engage the first employee and renew the board of directors. In similar lines, BESE03 argued that the government can play an important role in the development and therefore success of innovation if it takes on the role of early adopter – purchasing products or services at an early stage of development to enable the SE to fund the development but also to receive valuable customers' feedback.

### 2.7.4 The need to align but also to influence the local authorities priorities

A lot of participants pointed out the crucial role of local authorities. Local authorities have geographical proximity to SEs, so it is easier for them to realise the potential and the contribution of (especially small) SEs. BESE15 feels that local authorities should be able to make clear strategic choices in favour of renewables. To their opinion, regional and federal authorities should also play a more active role in assigning certain areas to the development of renewables and have attention for a good level playing field between enterprises.

However the relationship with local authorities is not a one-way street. Obviously SEs need to learn how to align with local political mind-sets and priorities. However, there is also clear scope for SEs to better inform and educate local authorities on the value of their plans. SEs should develop smart strategies to influence the hearts and minds of local authorities. At its foundation, BESE15 was clearly a first mover and pioneer, maybe even too early a mover. The mind-set, political and business framework was not yet mature enough for the solution that BESE15 provided prior to being given the chance to develop a strategy to interact with and convince local authorities of its value. In some cases, SEs use indirect ways to influence the hearts and minds of local authorities. For instance, BESE15 working together with local groups and other local cooperatives helped them towards building good relations with local authorities. These relations were then used to set up an open and transparent dialogue with them about the pros and cons of renewables, which was essential to influence the hearts and minds of the local authorities.

Another major challenge, specific to BESE23, was the need for political awareness of several challenges facing ageing populations and the need for innovative solutions.. Political awareness is needed in different policy areas: BESE23 is not only about housing, care and social security financing, or the elderly but also the wider community.

They are talking with a variety of political influencers and government ministers to raise awareness and goodwill but this is an intensive process.

BESE19 need different types of stakeholders as customers. They remark that local authorities, who would benefit from solutions provided by BESE19, find it hard to let go of the old “boxes” and way of doing things. It requires local authorities to recognise the citizen as an active player in society and part of the solution (a bottom up versus a top down approach)

#### **2.7.5 Shortcomings of the education system: lack of blended skills to cover both business and social or environmental impact**

Fieldwork also identified shortcomings of the education system (especially the Higher Education Institutes) to educate people with the right combination of skills to provide the workforce with “people with a business edge but also with a societal passion” (BESE12). The interviewee notices a positive tendency in society where more people become interested in social entrepreneurship but they are frustrated to see that so few of them have the chance to develop and exercise these inclinations. Given the difficulty of SEs to recruit or develop people with innovation and entrepreneurial skills, this is an area for action for the government and/or the HEI.

## 3 COUNTRY HOLLAND

### 3.1 Introduction

A range of SEs were investigated in the Netherlands. These enterprises belong to various developmental trajectories representing different strategic aims as well as different departure points.

The analysis has identified several trends which are listed in Table 2 with further elaboration on the next sections of this Chapter.



<b>The challenges and enablers for SE to develop trading activity and social/environmental aims and to what extent they manage to balance activities between these two fundamental purposes</b>
Most social entrepreneurs struggle to justify the balance between social and commercial impact.
Having a business approach can have a positive effect on social impact.
Hiring the right people can help improve the balance between commercial and social impact.
SE may find it difficult to gain trust and acceptance from their target groups.
<b>The challenges and the enablers of using innovation to support the development of trading activity and/or their social/environmental aims</b>
SEs are seen as an innovation in themselves by presenting a unique solution to a social problem.
Innovation is key for the survival and growth of SEs.
The support given to SE differs significantly at the regional level.
Local authorities may not be structured to provide support for innovative SEs.
<b>The challenges and the enablers of the actual development of innovation including the innovation process and other management processes of the SE</b>
Innovations in SEs typically emerge as a result of the founder's previous experience with target groups
Most SE approach innovation in an ad-hoc manner where outcomes are not always known.
Integrating target groups into the innovation process improves success and overcomes difficulties in the adoption of solutions.
<b>The impact of innovation especially in terms of trading activity and social/environmental aims</b>
Most SE require innovation in multiple areas in order to maximise social impact and revenue.
Product and service innovation is typically followed by marketing innovation, with SE aiming to raise awareness of their services and to work with others.
Government and local authorities may invest more on proven technologies where the wider impact can be determined.
New forms of impact assessment are beginning to emerge.
<b>The support they get through the innovation system of their region/country/EU</b>
Some sectors show a disconnect between European, National, and local governments when obtaining support.
Innovation support will be primarily based on networking and knowledge exchanges.
SEs are often judged as regular firms, making it difficult to obtain permits or finance from local governments.
Support from local authorities can also be in terms of purchasing, which can be more valuable than one-off subsidies.
<b>The framework conditions within which they try to pursue these activities</b>
Local availability of resources have an effect on how SE operate and innovate.
SE often compete with regular firms, and the local authorities need to be aware of both.
Regulations regarding target groups may also have an effect on innovation and services provided by the SE.
Local government initiatives have a significant impact in the short-term success of an SE.

**Table 2: Main points identified in Holland research**

### **3.2 The challenges and enablers for SEs to develop their trading activity and their social/environmental aims and to what extent they manage to balance activities between these two fundamental purposes.**

#### **3.2.1 Most social entrepreneurs struggle to justify the balance between social and commercial impact**

The founder of NLSE03 found it very difficult to transition from a charity to a SE, making the process last for five years and missing out on commercial opportunities as a result. Starting as a charity, NLSE03 provides music events for the deaf community, while at the same time hiring deaf people to work at these events. In the first few years, the founder felt that it would not be “fair” to make a profit or to take a wage from the services he was providing, which forced him to take on another job to make a living. As the charity grew, the founder realised that making money from the services NLSE03 provided and paying himself a living wage would allow him to devote more time to pursue the social aims. In addition, because of his initial focus on social impact, he did not think about commercialising the music events through licensing, which would have internationalised the social impact.

#### **3.2.2 Having a business approach can have a positive effect on social impact**

Enterprises need to be able to understand that having good business sense is important in relation to the impact they are making. A good example of this is NLSE18, who develop solar powered LED lamps and sold them to developing countries. NLSE18 relies on further product innovations in order to meet their social goal of providing a more sustainable and safer form of energy consumption for marginalised people in developing countries. In order to innovate and increase their portfolio, they rely on the revenue generated from the LED lamp sales, and have built a strong business model in order to maximise appropriation. With the steady flow of revenue they will now be able to develop other solar-powered household goods.

#### **3.2.3 Hiring the right people can help improve the balance between commercial and social impact**

Many social enterprises are primarily focused on the social impact and may often do so at the expense of the commercial impact. The two founders of NLSE20, for instance, acknowledge that they are more focused on social impact rather than the business side. NLSE20 aim to provide jobs for the long-term unemployed in an environmentally friendly manner. Having been established in 2015, they are scheduled to start operations in 2018 and are currently seeking investors. As a result, both founders understand that they will have to hire someone who has more experience in business management in order to make the most of the finances they receive.

### **3.2.4 SEs may find it difficult to gain trust and acceptance from their target groups**

The target group may be sceptical regarding the motives of the SE, and therefore may be reluctant to cooperate or to make use of their services. For instance, NLSE15, a SE that creates industry indexes that tell companies how they are doing in terms of their own social and environmental goals. In order to create the index, however, they require cooperation from the companies when in order to obtain the relevant data. Similarly, NLSE25, who provide support for young people in debt, found it difficult to engage with their target group due to general attitudes towards those working in the debt collection industry.

NLSE15 was able to gain the trust of their target group by providing seminars and networking events that would teach their target groups about the benefits of having industry indexes. NLSE25 was able to reach their target group by partnering with other organisations that would also deal with young people and referring them to their services.

## **3.3 The challenges and the enablers of using innovation to support the development of trading activity and/or their social/environmental aims**

### **3.3.1 Social Enterprises are seen as an innovation in themselves by presenting a unique solution to a social problem**

For instance, NLSE10 is a SE that brings together producers and consumers to promote responsible production and consumption. Their services therefore provide a meeting place between the small handcraft studios and the end-consumer, creating a location where both consumers and producers can interact in order to exchange ideas. The innovation is in the business model, where retail space is not rented in exchange of money, instead it is rented in exchange of social capital (knowledge, time, technology, etc.) and social contributions made by the producers.

Similarly, NLSE11 is a SE that seeks to help NGOs source finance from commercial firms. The main challenge was that it had become very difficult for commercial firms to understand how they can benefit from financing NGOs. Having found this gap in the market, NLSE11 developed a business model and new service that brings both groups together and has so far been successful in obtaining funding from NGOs.

### **3.3.2 Innovation is key for the survival and growth of social enterprises**

NLSE21 is a good example of how important innovation is when it comes to survival and further growth. NLSE21 provides products that are made from biomass or food waste and currently have a range of products that can be used to plant trees. What sets NLSE21 products apart from other competitors is that the plastics and materials are biodegradable and can be left on the ground, therefore lowering the cost of extraction when compared to traditional methods. The founder emphasises the importance of product innovation, stating that they need to develop as many products as possible in

order to give their buyers more choice. They compare the products they offer to a restaurant menu, where “if you can only order soup, you don’t come back.”

### **3.3.3 The support given to SEs differs significantly at the regional level**

The interviewee (Stakeholder), a Lecturer in Social Entrepreneurship, states that the amount and type of support given to SEs depends on the local government. For example, the Municipality of Haarlem provides a wide range of support for SEs while others do not. In addition, the interviewee (Stakeholder) believe that there is no policy or guidelines that directly informs civil servants on how to work with or support SEs.

There is some knowledge exchange taking place between municipalities, where civil servants sometimes discuss how they use and support SEs in their region. This knowledge exchange is not systematic, however, and may also be subject to local politics, where “not invented here” attitudes may surface (the interviewee, stakeholder).

### **3.3.4 Local authorities may not be structured to provide support for innovative social enterprises**

The organisational structure of local authorities may complicate the process of providing support for SEs that apply innovative solutions to social problems. For instance, NLSE27 run restaurants and cafes that employ people with learning difficulties and found it difficult to get all the information they needed in order to start their operations. This was mainly due to the fact that they had to deal with two different departments, one focused on restaurant activities and the second that dealt with employment laws for the less-abled. As NLSE27 expanded, they encountered the same problem in other municipalities. The interviewee (Stakeholder) notes that when dealing with local government, SEs typically have to deal with two or more departments at the same time, and that each of these departments often “...speak a different language...and need to be more flexible to help social enterprises”, something that may require local government to change its internal processes.

## **3.4 The challenges and the enablers of the actual development of innovation including the innovation process and other management processes of the SE**

### **3.4.1 Innovations in Social Enterprises typically emerge as a result of the founder’s previous experience with target groups**

A good example is that of NLSE22, an SE that provides small loans to SMEs by facilitating community funding. Its founding members worked in the finance industry for several years, and it was through their professional experience that they identified a need for developing a new model for funding SMEs which incorporated new forms of risk and value evaluation. Their experience in the industry was therefore very important in finding both the gap in the market and in developing an appropriate solution. Other cases include NLSE11, where founders had a background in sales activities for non-profit organisations, and NLSE03, where an experienced professional musician began organising music events for deaf people.

### **3.4.2 Most SEs approach innovation in ad-hoc manner where outcomes are not always known**

Most of the SEs interviewed stated that they did not have formal innovation processes in place and instead took an ad-hoc approach when developing solutions. This ad-hoc process was often adopted due to the nature of their solutions, which required flexibility and further improvement during their development. The ad-hoc approach may sometimes resemble or be similar to the lean start-up methodology, an approach that is championed by NLSE16. This methodology allows for experimental but incremental innovations for the product or service being offered, therefore systematically introducing the idea that, since outcomes are not fully known, there needs to be some flexibility in terms of how the product or service evolves gradually. In order to apply the lean start-up methodology, however, NLSE16 has had to train their staff on the principles of constant innovation and system improvement, giving key staff a day every week to work on their own innovation projects. In this example, an ad-hoc approach, with its flexibility and responsiveness to emerging conditions, is complemented by a more structured way of supporting continuous improvement.

### **3.4.3 Integrating target groups into the innovation process improves success and overcomes difficulties in the adoption of solutions**

The issue of co-creation is important for SEs in two ways; first, it is through co-creation that SEs are able to create better solutions for the target groups, and second, it can give target groups a sense of ownership over the solution. For instance, when planning rebuilding projects after a natural disaster, NLSE17 engages with local target groups and stakeholders in order to develop solutions that are not just context specific, but also make better use of local resources. Once these plans are implemented, they are more likely to succeed due to the input and the feedback provided by target groups and stakeholders. Similarly, NLSA04 (support agency), focuses on co-creation projects building SEs. The interviewee (the founder), confirms co-creation is vital for a successful project in that the process can stakeholders the solution being implemented is the optimal one for that particular context.

## **3.5 The impact of innovation especially in terms of trading activity and their social/environmental aims.**

### **3.5.1 Most SEs require innovation in multiple areas in order to maximise social impact and revenue**

A key example of this is NLSE18, whose revenue is heavily linked with their ability to further innovate the product and their marketing in order to be relevant to their target group. NLSE18 manufacture high quality solar-powered LED lights, which are then sold to low income people in developing countries. The relatively high cost of LED lights, however, has meant that NLSE18 had to modify their product and develop a new way of selling it, so that it became accessible to their target group. This required partnering

with local retail shops that can provide a credit scheme which would allow customers to buy the product through small regular payments. To support this, new technology was added to the lights to stop them working if payments had not been received. This innovation has therefore allowed NLSE18 to reach their target group and secure a revenue stream at the same time.

### **3.5.2 Product and service innovation is typically followed by marketing innovation, with SEs aiming to raise awareness of their services and to work with others**

Marketing of innovation is typically aimed at achieving two outcomes: raising awareness of the product or service, and changing attitudes towards the SE and their mission. NLSE14 for instance, is a SE that functions as knowledge brokers and maintainers of climate related data. After setting up their operations NLSE14 is not focusing on marketing their services and their knowledge platform so they can maximise the benefit from their innovation. For NLSE14, therefore, the main objective of their marketing efforts is to raise awareness of their product. On the other hand, for NLSE04, the primary objective of their marketing effort is to change the current approach to debt collecting. NLSE04 is a SE that aims to collect debt in a socially responsible manner, but have encountered resistance from their target group as a result of the industry's image. As a result, their marketing activities are directed at both target groups and stakeholders with the aim of educating and informing them about responsible debt collection.

### **3.5.3 Government and local authorities may invest more on proven technologies where the wider impact can be determined**

The impact made by the SE may only be seen in the long term. This can have an effect in terms of the support they get from local governments, who may be focused on seeing what return they will get from their investment. According to the interviewee from NLSH08 (Support agency), this means that local governments are often more likely to give money to established technologies that can provide proof of return on investment.

A way to overcome this would be to let people become more aware of the impact of the SE through the provision of seminars or workshops that will highlight the numerous benefits. Two very successful cases have been NLSE04 and the NLSE15, who have set up seminars and workshops to demonstrate the value of their services to others in the industry, which has then led to both commercial and social impact. In addition, the interviewee (stakeholder) suggests better training of civil servants so that they are better at evaluating positive long-term benefits of working with SEs.

### **3.5.4 New forms of impact assessment are beginning to emerge**

The issue of measuring impact has been addressed in different ways, but primarily this is linked to how the SE can demonstrate the outcome of their enterprise. As such, some SEs may find it difficult and expensive to measure impact adequately (the interviewee, NLSA09). There are two thoughts on this, that the current metrics being used by finance givers and by local authorities are the same ones that are being used for commercial firms. SE require different metrics to measure their economic impact, which takes account of their social impact. NLSA04 for example, use 5 metrics for determining the



impact and the outcome of the enterprise, such as the number of people being employed by the SE, the amount of media coverage they get, and the three other metrics specific to the SE.

### **3.6 The support they get through the innovation system of their region/country/EU**

#### **3.6.1 Some sectors show a disconnect between European, National, and local governments when obtaining support**

Some SEs may be addressing needs that have been highlighted at European level, such as renewable energy. This had led to investment from Brussels that has financed a number of research initiatives in the renewable energy sector in the Netherlands. At national level, however, the Netherlands does not have a government division that is specifically focused in this sector, and therefore SE are finding it difficult to get more support from the national government. In addition, at local level, permits are needed to test some of the technology being developed, and this once again presents a problem for SEs as the permits may require different departments within the local government.

#### **3.6.2 Innovation support will be primarily based on networking and knowledge exchanges**

The support given to SEs in the Netherlands comes mainly from the private sector, with initiatives such as Social Enterprise NL providing a wide range of support. Sector specific networking events, such as NLSA02 for renewable energy, not only give SE an opportunity to network, but also operate knowledge repositories. At the same time, there is some support from municipalities that are starting to provide similar networking services, particularly the municipality of NLSA09 which has started NLSA06, with the aim of facilitating knowledge exchange between social entrepreneurs.

#### **3.6.3 Social enterprises are often judged as regular firms, making it difficult to obtain permits or finance from local governments**

NLSE22, an SE that provides small loans to local entrepreneurs has found it challenging to apply for permits that will allow them to provide their services. A Business is required to have a special permit so that they can operate as a credit union or bank. This permit, however, is often very expensive to obtain and governments make no distinction between multinational banks or local non-profit organisations, meaning that processes and costs of applying for the permit are the same for all, which can often be costly for SE. From the perspective of governments, it is difficult to justify treating SEs differently without direct evidence they are bringing additional benefits that mainstream organisations are not able to provide.

In addition, the founder of NLSE16 stated that in some cases SEs may have to provide unknown information in order to qualify for a permit or a grant. For instance, NLSE16 have developed innovative business models around the sharing economy which have not previously existed. Due to their novelty, NLSE16 uses an iterative innovation

process, where they repeatedly implement ideas, test them, assess their impact, and modify their plan accordingly. This innovation process has the advantage of being flexible enough to respond to changes in demand and feedback from target groups. Due to the uncertainty inherent in their innovation process, however, it may be difficult to provide local governments with a clear list of expected outcomes and impact, something which may be required when seeking support. This therefore leads SEs to provide information that matches the local government's assumptions that innovation is a linear process with a clear outcome, rather than the actual practice.

#### **3.6.4 Finance from government for specific technologies or initiatives may be temporal - Support from local authorities can also be in terms of purchasing, which can be more valuable than one-off subsidies**

NLSE21, for instance, has received many awards for their bio-plastic products, but they still find it difficult to finance further innovations. The main aspect of this is that, when an SE is new, there is much interest in it while it is developing its products and its business model. This initial interest can later fade away and leave the SE with less support. NLSE21, however, has recently benefited from the city of Rotterdam which will start using their bio-plastics to plant new trees. This will provide the SE a steady flow of revenue rather than a one off payment.

### **3.7 The framework conditions within which they try to pursue these activities**

#### **3.7.1 Local availability of resources have an effect on how SE operate and innovate**

Geographical location can play an important part in the services and the innovations that SEs are able to pursue. For instance, the interviewee (stakeholder), a researcher in public administration, states that there are two factors that can affect SEs - the expertise and attitude of local civil servants and the resources available at those locations. With the first, whether or not local municipalities engage with SEs will be based on whether the relevant civil servants and politicians understand their true value. In addition, the range of solutions and the resources required to develop them vary greatly depending on location, where places like Amsterdam, with a diverse population, are more conducive to innovation when compared to rural areas.

In addition, SEs that require resources such as land for their impact may have additional difficulties in obtaining permits. For instance, NLSE09 is a SE with the aim of popularising city farming in order to help with sustainable production and consumption. Because of its mission, however, the SE requires access to land in and around a specific area they can farm, which is something the local municipality has difficulty in providing.

#### **3.7.2 SE often compete with regular firms, and the local authorities need to be aware of both**

There needs to be a balance from the perspective of the council in making sure they can provide support for SEs but not at the expense of the regular firms (the interviewee, Stakeholder NLSH10). For instance, a SE in the agriculture sector received help from the



local government by allowing them to hire unemployed people for a relatively low pay rate. As a result, the SE was able to supply their service much cheaper than their commercial competitors. This led to the regular firms complaining to the local government that the support given to the SE gave it an unfair advantage over its competitors (the interviewee, stakeholder NLSH07).

### **3.7.3 Regulations regarding target groups may also have an effect on innovation and services provided by the SE**

A clear example of this is NLSE32, an SE that focuses on hiring long-term unemployed individuals in order to sell pottery tools and materials. The main problem they find is, whilst they would like to help a greater number of long-term unemployed, the government has a number of regulations (in terms of work hours, financial assistance) that restrict the SEs actions. At the same time, another SE that hires long-term unemployed individuals, stated that the process of employing them is resource intensive, meaning there are a large number of forms they have to submit to local authorities.

### **3.7.4 Local government initiatives have a significant impact in the short-term success of an SE**

The municipality of Haarlem developed an environmental policy which included the use of renewable energy. As a result of this policy, NLSE24 was founded, with the aim of developing local initiatives for the use of solar panel roofing solutions. By focusing on the local government's initiative, the SE has received significant funding from the local government. Similarly, NLSE31 also benefited from Haarlem's local government, which aimed to re-develop an area of the city and develop a 3D printing hub at the same time. NLSE31 was therefore established and developed alongside local government to deliver this, and Haarlem has provided NLSE31 financial assistance for ten years.

## 4 COUNTRY UK

### 4.1 Introduction

A range of SEs were investigated in the UK. These enterprises belong to various developmental trajectories representing different strategic aims as well as different departure points.

The analysis has identified several trends which are listed in Table 3 with further elaboration on the next sections of this Chapter.

<b>The challenges and enablers for SE to develop trading activity and social/environmental aims and to what extent they manage to balance activities between these two fundamental purposes.</b>
Many SEs experience difficulties in managing the balance between trading activity and social/environmental aims
Challenges in making the business sustainable require flexibility in exploring a range of income sources without becoming too dependent on any one
The social and/or environmental activities of SEs seem to come more naturally, whereas active efforts are needed for some to develop business skills
<b>The challenges and the enablers of using innovation to support the development of trading activity and/or their social/environmental aims</b>
Using the language of innovation – does it matter?
The demands of day-to-day operations limit innovation unless purposeful efforts are made to create space for innovation activities
SE is an innovation in itself, but this is not enough on its own
Different stages in the growth of SEs influence the types of innovation challenges they face
<b>The challenges and the enablers of the actual development of innovation including the innovation process and other management processes of the SE</b>
There needs to be a suitable balance between structured and unstructured approaches to innovation
Identifying opportunities and new ideas for innovations
Networks and other sources of expertise are important for developing innovations
<b>The impact of innovation especially in terms of trading activity and social/environmental aims</b>
Innovation helps to make SEs more sustainable as businesses.
Evidence for impact
<b>The support they get through the innovation system of their region/country/EU</b>
A range of support programmes are available for SEs, but few are specifically focused on innovation
SEs are often very proactive in finding their own support.
There is geographical variation in support, with SEs in some areas being much better served than in others
SEs are well placed to make the most of support available, but do not always take up the opportunities available
<b>The framework conditions within which they try to pursue these activities</b>
Economic and political conditions shape the SE agenda, but it has arguably declined in recent years as a policy priority
The definition and perception of SEs still create problems, especially in relationships with stakeholders
Multiple legal structures for social enterprise contribute to the confusion about how they are perceived, but do offer different options for appropriately structuring the business providing informed choices are made
The ability of social enterprises to address social and/or environmental needs

**Table 3: Main points identified in UK research**

## **4.2 The challenges and enablers for SEs to develop their trading activity and their social/environmental aims and to what extent they manage to balance activities between these two fundamental purposes.**

### **4.2.1 Many social enterprises experience difficulties in managing the balance between trading activity and social/environmental aims**

In almost all cases, the SEs interviewed placed their primary emphasis on the chosen social and/or environmental purpose of the organisation. This is what they are passionate about and ultimately drives what they do. The director of UKSE03 is typical here in explaining how they are “not in it for the money”, while recognising that the company needs to generate income to be sustainable and continue delivering its social purpose. The company provides support and therapeutic interventions for low income families with children affected by autism, the directors having experienced financial hardship themselves in seeking specialist support for their autistic son. They are in the process of building a client base of paying customers for their services so that they can continue to provide support free of charge to those who need it.

Some SEs experience difficulties in striking the right balance, tending to find it easier to focus on their social and/or environmental aims rather than business-focused activities. One of the founders of UKSE08 described this challenge in the following terms:

When you're trying to run any sort of business and you don't have funding behind you to subsidise costs and everything ... then you have to charge people a rate to cover your costs and I sort of struggled a bit with that really... At the beginning you want to be able to offer it to everybody, and then realising that actually we weren't able to do that because we didn't have the money.

Many of the interviewees had made personal sacrifices in pursuit of their chosen cause. In one extreme case, the founder of UKSE35, a group of alternative therapists offering affordable therapies for vulnerable people, has foregone any income for their role in managing the delivery of their services. These are value-driven organisations, which make them extremely determined in their pursuit of their central purpose. Most of them were very explicit about the guiding influence of their vision and values. They are clear that the social and/or environmental purpose is primary and they are not about putting profit first. Respondents frequently described how they make business decisions on the basis of whether or not they are consistent with the guiding ethos of the organisation, even if this may sometimes limit what they are able to do. For example, UKSE33 decided not to accept funding from a large supermarket because its practices were not considered to be in line with the values of the SE. In the case of UKSE18, its core values are an integral part of everything the company does. According to the CEO, “We're also innovative in our business model – we embed fairness in everything we do: in our hiring policies, how we treat our employees, and in our flexibilities as a company by looking at what is in the best interest of our members to make sure that we safeguard their investment.”

#### **4.2.2 Challenges in making the business sustainable require flexibility in exploring a range of income sources without becoming too dependent on any one**

While many struggled with balancing their trading activities and social/environmental purpose, the majority of SE interviewees nevertheless aspired to increasing their trading income. This was seen as allowing them to be less dependent on other sources of funding and being able to determine their own destiny. However, not all of them have been equally able to develop such opportunities and remain reliant on grants, donations, and other non-trading income. For example, UKSE09, a women's centre offering a range of services to disadvantaged and vulnerable women, attempted to develop a commercial trading venture in the form of a shop selling upcycled clothing. However, this project was shelved because it did not generate sufficient income and absorbed considerable time and resources for very little return. The founding director explained how they had underestimated the day-to-day demands of managing this venture. As a result, they purposefully switched their focus back to winning grants and local government funding, for which they had already established strong capabilities and a good track record of success. This is largely due to the director's experience of fundraising having worked for many years for a number of high profile charities. The risk, however, is that the organisation is heavily dependent on the fundraising skills of a single person, without whom this source of income may not be sustainable.

For other SEs, generating income from trading is a necessity precisely because of reductions in grant funding and the risk of being reliant on income streams that can quickly dry up as policy priorities change. As the co-founder of UKSE38 explained:

Across social services, health sector and education is where we sell to as well as privately to parents... so having the broad thing has helped as we're not too reliant on the health sector, but we have seen massive cutbacks particularly from education and social care ... which makes it really difficult and that money is not coming back ... So I think the main challenge is when you only deal with the public sector. It's not a good idea at the moment or for the foreseeable future. You need a private part of your market or another product in your business that is not social enterprise focused ... you know it's not focused for disadvantaged people. They don't have any money themselves and the people who are supposed to be paying for them do not have money anymore because charities are collapsing all over the place in the UK.

This suggests that the more resilient organisations are likely to be the ones that have a portfolio of alternative income sources. Another good example is UKSE13, which has been able to weather the ups and downs of the economic cycle by switching emphasis between its two main target markets in construction and manufacturing depending on the relative performance of these sectors. Fortunately for the company, recent economic downturns have not affected both sectors to the same extent simultaneously and so they were able to compensate for decreased sales in one sector with increased activity in the other. Being able to identify opportunities for different income sources, and actively managing the priorities between them, are key capabilities for allowing SEs to survive in an environment of uncertainty.

#### **4.2.3 The social and/or environmental activities of social enterprises seem to come more naturally, whereas active efforts are needed for some to develop business skills**

One stakeholder at UKSH13 reported how SEs participating in the Profitnet learning network programme focused their discussions during action learning on the business challenges they faced rather than their social/environmental goals. They commented, “When we got social enterprises together, they didn’t talk about their social mission. They were clear on this.” This is where their expertise lies, but important skills gaps were identified on the business side and in growing the enterprise focus of the organisation. Of course, not all SEs face the same shortages of business skills. The previous experience of those involved is an important influence here. Several of the SE respondents have corporate backgrounds and use the skills they acquired in that environment for running their SEs. For example, the director of UKSE13 had previously worked for large organisations, with experience of managing teams spread across the UK. This background meant that they already had a strong grasp of skills needed to run the business, such as managing employees and volunteers, working with clients, and meeting the various financial and legal requirements that an organisation needs to comply with. Another good example is the CEO of UKSE18, which delivers community energy saving and renewable energy projects, whose background in finance and experience of working as an energy consultant gives them a suitable mix of skills to manage a company operating in this sector.

Other SE interviewees were aware of their lack of business experience and took steps to remedy this. The CEO of UKSE36, has a background as a nurse specialising in care for children with learning disabilities, which is invaluable given that this is the area in which the company operates. However, as they admit, “I knew how to support people with learning disabilities but didn’t know how to run a business.” They sought to address this lack of experience by taking advantage of a course provided by the School for Social Entrepreneurs in Hampshire, supported by UKSA03. They report that they found this very helpful, but even so still finds it challenging to improve their business skills. As well as seeking to develop themselves individually, many of the interviewees relied on others, such as co-workers, trustees, and volunteers, to contribute skills and experience that they themselves do not have. Whether this is done formally or otherwise, it is important for SEs to have an awareness of gaps in their skills so that they can take appropriate action.

### **4.3 The challenges and the enablers of using innovation to support the development of trading activity and/or their social/environmental aims**

#### **4.3.1 Using the language of innovation – does it matter?**

From the interviews, there is a roughly 50-50 split between those SEs that explicitly describe what they do in the language of innovation and those that do not. There is also variation in how the respondents defined innovation. Some have a fairly traditional view, regarding it as involving new products, processes, and technologies, but overall



most assume a wide definition that also includes new business models, organisational arrangements, and marketing approaches. This is perhaps a reflection of the number of enterprises interviewed that are involved in the delivery of services rather than products. The implications of whether or not SEs explicitly describe what they do in terms of innovation are not straightforward. Most of the SEs that did not have an explicit innovation vocabulary nevertheless engage in activities that help support innovation in their business and social/environmental purpose. The language and the practice of innovation are not the same thing. However, there is an argument that those SEs that have a clear understanding of innovation are able to be more strategic and systematic in their development of innovations. In this sense, using the language of innovation does matter. Those more likely to talk in terms of innovation either have a corporate background, or had participated in support programmes, such as those provided by the School of Social Entrepreneurs. The respondent from UKSH14, in particular, emphasised the importance for SEs having a clear definition and understanding of innovation.

#### **4.3.2 The demands of day-to-day operations limit innovation unless purposeful efforts are made to create space for innovation activities**

A real challenge, especially for smaller SEs with limited resources, is creating the time and space for innovation. More immediate demands of day-to-day activities divert attention from longer term strategic development. This is well illustrated by the following comment from the CEO of UKSE36:

The challenge has been ... trying to find the time to put it into operation while struggling with everything else. If you're director of a million pound large organisation you'll have all of the managers that you need to support you. For me I do everything, I go out to see the people we support if the support workers don't turn up, I'm here in the morning vacuuming the office, all the way up to writing the business strategy and all the rest of it. There is not a job in the business I wouldn't do.

This demonstrates an incredible level of commitment, not uncommon for the SEs interviewed, but it does place a lot of pressure on individuals and therefore means that strategic activities can be neglected. Although this is difficult, the key is to create space to allow innovations to emerge. The founder of UKSE33 recognised that the company was not doing enough strategically and that their workload and commitments were not personally sustainable. However, they are hoping the newly appointed centre manager will help to ease the strain. Furthermore, there is a new chairman of the voluntary advisory board who has a stronger business focus than their predecessor. They have been working with the founding director to establish priorities and use active business planning to ensure that progress is made on these priorities. Several of the other SEs interviewed also attempted to create space for new ideas to be developed by purposefully building such activities into regular planning meetings. For example, UKSE11 use meetings of the board of trustees as an opportunity for discussing new ideas and monitoring the development of those where there is agreement to take them forwards.

#### **4.3.3 Social enterprise is an innovation in itself, but this is not enough on its own.**

Many respondents thought that SE itself is innovative in its attempt to deliver both economic and social/environmental value. According to the interviewee from UKSA06, “Sometimes we try to look at where the innovation is happening in social enterprises rather than recognising that social enterprise itself is an innovation”. The respondent from UKST67 agreed, explaining that it is the inclusion of a social or environmental purpose into the provision of an otherwise familiar service, such as a café, that is innovative, not the service per se. From this perspective, the SE itself can also be considered an innovation, as well as the social vision providing a stimulus for finding new ways of doing things. An example of this is UKSE25, a supermarket with an emphasis on fair, sustainable, and ethical trading. The founders of the company “were fed up with the way supermarkets do business and thought there must be a better way that supermarkets can treat employees fairly, promote good food, try to make good food more affordable, support fair-trade ... and doesn’t just exist to make money for its shareholders.” The founders make every effort to ensure these guiding values run through everything that the organisation does, influencing how it relates to its employees, customers, and suppliers. Nevertheless, having a clear social or environmental aim does not guarantee that innovation will be successful, nor is it the only part of the business that innovation efforts should be focused on. In the case of the previous example, the founders also put a lot of effort into ensuring the right processes were in place, such as stock selection and management, to allow the supermarket to operate profitably at the same time as maintaining its values.

#### **4.3.4 Different stages in the growth of social enterprises influence the types of innovation challenges they face.**

The growth trajectory of the SE has an important influence on the types and patterns of innovations being pursued. Three scenarios came across as particularly challenging. Firstly, the early stage SEs who are innovating to get the business off the ground. Key issues here are funding to enable the innovation to be developed, ensuring that a realistic business plan is in place to guide the business, and adapting this and the direction of the business by testing, monitoring, and evaluating the progress of the innovation.

Secondly, there are those SEs that have got past the early growth stages and are keen to scale-up their activities. Several respondents found that their ability to expand is limited by their own personal resources. Often they themselves are involved in the delivery of services, such as the customised training offered by UKSE34, and are effectively limited by their own capacity. A number of interviewees described the challenges of taking on staff and volunteers, with the paperwork and people management issues that arise from this. In some cases, SEs were seeking to develop low overhead approaches to expand their markets, in particular exploring the potential for internet-based delivery of their services, e.g. UKSE03, which is in the process of developing web-based advice and training packages that would be able to reach a wider client-base.

Thirdly, there are examples of more established businesses that are attempting to innovate to sustain their business in the face of changing conditions. For example, UKSE06, a long-established organisation providing support for the vision impaired, has experienced a major decline in turnover in recent years, with the disappearance of traditional funding streams, and is attempting to make up a portion of the funding gap by expanding its retail activities.

## **4.4 Issues and challenges in developing and implementing innovations**

### **4.4.1 There needs to be a suitable balance between structured and unstructured approaches to innovation.**

The majority of SEs interviewed had not put in place formal or systematic innovation routines and procedures. The co-founder of UKSE14, a SE that offers horticulture therapy for older people with dementia and other support needs, recognises that their approach to innovation has been quite ad hoc and unsystematic. As a result, they are attempting to introduce a more formal way of identifying opportunities and unmet needs, and reviewing how their existing activities can be improved.

The lack of formal innovation routines is not necessarily a bad thing. Many of the respondents emphasised how they are very responsive in developing new products and services and improving existing ones according to the evolving needs of their client groups, even if this happens more informally through their close engagement with clients, especially in the context of service delivery. For example, the co-founder of UKSE07 described the process as an organic one, where the responses of participants to existing courses help them identify new opportunities and where there is scope for improvement in existing offerings.

In the case of UKSE17, the CEO positively embraces an unstructured and organic approach to exploring new opportunities. They commented, “Sometimes we wish we had a more structured plan, but often we just chase the moment. A lot of people struggle with that.” This flexibility and openness is good for allowing a lot of new ideas to emerge, but is less suited for making decisions about which ideas to select and how to execute them. The CEO recognises this and has surrounded themselves with people who are better able to turn these ideas into reality. Although it is informal, there is a procedure to do this: “I have the thought and write it down and then share it initially with two people and then go to the leadership team. They will ask me the right questions and get me to justify it. They could decide to chuck it out. Through that process we can see what makes sense and which bits to take on.”

These informal and less structured approaches to innovation can be very effective in responding quickly to opportunities as they arise and creating a fertile environment for generating new ideas. However, there is the risk that promising ideas are not developed further or implemented. This was an acknowledged matter of concern for the director of UKSE10. They admitted they were much stronger at creating innovative concepts than they were at monitoring and assessing which ideas work, which do not work, and which could be modified to make them work better. A few of the SEs interviewed had

more structured processes for assessing needs, identifying opportunities, testing and developing concepts, and monitoring and evaluating their implementation. At UKSE02, for example, they use their annual business planning process to assess their existing services, identify if there are new areas that can be developed, and then put in place mechanisms to plan and review their development. UKSE05 also use quite formalised and structured routines to assess what they are currently doing and identify potential funding and project opportunities. They plan in advance, assess what they are currently doing, conduct market research to determine what is already provided and where they can diversify their services, looking at what fits with their current range of activities, and setting targets for the implementation of agreed new projects.

#### **4.4.2 Identifying opportunities and new ideas for innovations.**

The interviews show that identification of opportunities and new ideas come from a number of sources. The personal background and experiences of the social entrepreneur are usually integral to the social and/or environmental needs targeted by the business. This provides the energy and impetus for driving the innovation forwards and in a number of cases allows for the 'leap of faith' needed to pursue a new idea in the face of an uncertain outcome and potential difficulties ahead. The interviewee at UKSE11 commented that they might not have suggested the project being undertaken by the business if they had known how complex it was going to be. Other sources of ideas were from collaborators, trustees, volunteers, and employees, as well as the wider social networks of the social entrepreneurs. Many respondents described an element of serendipity in the interactions that ultimately lead to new opportunities.

Others take a more systematic approach in scanning the environment for new ideas and technologies. One example is UKSE18. As the CEO explained:

We have structures in place ... We are flexible, as the priority is to try and work as efficiently as possible. Innovation is embedded in our culture – we look at technologies and make sure that we're using the more innovative technologies that are available and also deliver economic value. We look at all the new developments in renewable energy and energy efficiency, and make sure we're at the forefront of what we can offer to our customers.

Even if it is not always formalised, many social entrepreneurs have individual routines for identifying opportunities, assessing whether they are feasible, and researching how they can be developed. The director of UKSE13 regularly conducts internet-based research to explore potential new areas for the business. UKSE27 sets aside one day a month to search the internet for new developments in sustainable technologies, approaches, and legislation to ensure they are aware of the latest trends, which can result in the identification of opportunities. Some interviewees described extensive and time-consuming processes of research, testing, and development when their companies were in their start-up phase. For example, UKSE09 spent seven months developing the concept for their women's centre, visiting other women's centres in the UK, conducting a survey of 150 women, reviewing policy and consultation reports, and developing policies, handbooks, case sheets, and procedures. This was time-consuming, but

essential for ensuring the viability of the concept and to ensure the company meets extremely complex funding and safeguarding requirements.

#### **4.4.3 Networks and other sources of expertise are important for developing innovations**

Most SEs leveraged their informal networks to access the necessary resources and expertise to develop and implement innovations. The role of trustees and non-executive directors was frequently mentioned as an important support, providing advice on how to develop the business. The founder of UKSE32 commented that the business would not be where it is today without invaluable input from the board of trustees. However, this very much depends on the composition of the board and their mix of skills. Several respondents made active efforts to assemble a range of complementary skills, although because of the voluntary nature of this input it is not always easy to get the right people. UKSE09, for example, has taken a planned approach in seeking to attract the right combination of people for their board, including an HR specialist, an accountant, an expert on managing volunteers, and a head teacher providing useful links into the school system. However, an interviewee from UKSH13 commented that problems arise when trustees do not have the appropriate range of skills and where SEs are inexperienced at managing trustees, with the danger that a lot of time is consumed in reporting and there is a tendency for management by committee. The general manager at UKSE04 said that trustees can act as a brake on innovation if they become too involved in day-to-day management issues or have fixed views about what charitably focused organisations should and should not be doing.

Most interviewees recognised the importance of wider networks for developing opportunities, with several having mentors and participating in peer-based learning. As the manager at UKSE12 suggested:

When thinking of starting something that is new and innovative, you have to have a passion for it, research extensively, network with as many people as possible who have done similar things, and be as public as you can to make sure what you are doing is visible to identify links easier.

However, time was identified as a major constraint on networking activities. For example, the manager at UKSE11 was keen to engage in additional networking activities, but said that “time is our worst enemy.” It is also about finding the right sort of network, appropriate for the needs and experiences of the SE. . As the co-founder of UKSE14 recounted:

We take part in a local network that is for support to the voluntary sector but some of it applies to us but we are always a little bit ... because we are trying to make a business, it doesn't always apply to us and we don't quite fit into the chamber of commerce and those kind of business networking things ... because we're not a commercial business we kind of fall between the two things and any kind of support for social enterprises would be very useful.



## 4.5 The impact of innovation

### 4.5.1 Innovation helps to make social enterprises more sustainable as businesses

Several of the interviewees reported how innovations have major implications for the existence of the SEs concerned, without which the long-term sustainability of the organisation is in question. The significance of innovation for securing the future of SEs was recognised by many of the stakeholders interviewed. For example, one respondent from UKSH22 talked about the importance of innovation for assessing how likely organisations will survive for an extended period when considering contract bids. In other cases, innovations are about moving the organisation in new directions and consolidating its position. This is still about survival, but in less immediate terms.

### 4.5.2 Evidence for impact

There is an increasing emphasis on measuring the impact of SEs, not only in economic terms, but also in their benefits for society. This is partly driven by the requirements of funding bodies, but can also be used as a marketing tool and basis for competition in winning contracts and attracting customers. For example, UKSE09 has started capturing data on the additionality of their services, i.e. the impact beyond the immediate benefit to the vulnerable women helped by the centre through wider effects on families and the community. They have been able to use this evidence to write into funding bids and they are aiming to develop this further by exploring tools for calculating social return on investment.

Demonstrating impact is important. According to the interviewee at the UKSH02, SEs have an important contribution to make, but equally have to justify their position based on the quality of what they deliver. They go on to argue that if a SE is providing a service to the public sector they cannot expect to win a contract just because they call themselves a SE. They have to demonstrate the additional benefit they are delivering, either by providing it more cost-effectively or providing a greater impact.

## 4.6 Support for innovation

### 4.6.1 A range of support programmes are available for social enterprises, but few are specifically focused on innovation

There are few support programmes directly targeted at SEs and even fewer concerned with SE innovation. Whether or not respondents thought this was a problem depended on their perspectives about how different SEs are to mainstream businesses. For a lot of people, it was evident that SEs share many of the same issues facing SMEs, which is unsurprising given that most fall within the same size range. Typical issues include accessing and developing the necessary business skills, securing funding and investment, business planning, working with limited resources, and managing the difficult balance between strategic and operational priorities, which often tends



towards the default position of 'working in the business instead of on the business'. For those who see the challenges of SE and SMEs as essentially similar, the range of available support programmes is already considered to be satisfactory as the former can access the same support as the latter. The respondent from UKSH33 talked about similarities in challenges between SEs and SMEs, especially having to be able to manage many competing priorities with limited resources. They said the main focus of UKSH33 is on the enterprise side of the agenda and helping to support that, although they are aware of the social agenda.

However, while SEs and SMEs do share similar business challenges, others considered them to have distinctive issues of their own, especially with regard to the dual focus of such organisations on both trading activity and social/environmental purpose. Some SEs find themselves to be in an ambiguous position, as neither charities nor mainstream businesses, falling between the support available, as described by the co-founder of UKSE14 above. As such, there is demand for advice, support, and networking specifically targeted at the needs of social enterprises.

#### **4.6.2 Social enterprises are often very proactive in finding their own support.**

Although many of the SEs interviewed had accessed formal support programmes, there are also numerous examples of people developing informal support networks. As mentioned above, a board of trustees or non-executive directors with an appropriate mix of skills and experience was often seen as crucial to the successful development of the organisation. Several interviewees had also taken it upon themselves to find suitable mentors. In at least two cases, the decision to do this was based on the positive experience of the mentoring offered within the programmes provided by UKSA03. As well as mentoring, many respondents participated in peer-based learning networks and action learning, regarding this as an extremely valuable activity.

#### **4.6.3 There is geographical variation in support, with social enterprises in some areas being much better served than in others**

The support available to SEs varies significantly between different locations. Some local authorities and Local Enterprise Partnerships (LEPs) are very attuned to the SE agenda and tailor their support accordingly. In other areas, SE is much lower on the agenda. The ability to access support also varied between different SEs. Some had the resources to travel to where the support is available, e.g. those taking part in the courses offered by UKSA03 in London. Others, especially those on low incomes, were limited to what is available locally.

#### **4.6.4 Social enterprises are well placed to make the most of support available, but do not always take up the opportunities available**

Several respondents described their SEs as lean or frugal, making the most of the limited resources available to them. This is partly because of necessity, but also seems to be a common value shared by SEs. One consequence of this is that they are often able to make the most of the support available. In the case of funding for innovation and business support, this has the benefit that quite small amounts, strategically applied, can have important returns. Having said that, some stakeholders suggested that there

was an unwillingness among SEs to take up the support available to them. To some extent this was seen as a matter of awareness. However, some mentioned a silo effect whereby SEs are reticent to take up mainstream business support because they do not see it as relevant to them. One respondent from UKSA23 commented:

Sometimes, a large number of social enterprises can be hard to reach because they fail to network within conventional business support methods. And they tend to remain quite isolated. This is a hard one to overcome. But if they do hear of a service, my own experience is, they come out like magnets.

The respondent from UKSH14 agreed, saying that there is a lot of support available for businesses, but SEs do not necessarily take advantage of it.

## **4.7 Framework conditions for social enterprise and innovation**

### **4.7.1 Economic and political conditions shape the social enterprise agenda, but it has arguably declined in recent years as a policy priority**

Several interviewees suggested that SE is not a new phenomenon, but has taken on a new significance in the last ten years in the context of the financial crises and the politics of austerity. With dramatic reductions in public spending, funding for many services has been cut and SEs have stepped in to fill the gap. This has helped to raise the profile of SE and its recognition by policy-makers. However, a number of the stakeholders and support agencies interviewed believe that this interest has not been sustained and that the SE agenda has declined in popularity in recent years. According to one respondent from UKSH04:

So, when [interest in] social enterprise first started it was new and exciting and was seen as solution to many problems. Now, it is maybe seen as a little bit old-fashioned and a little bit from the past ... It may need a refresh or it may need to be re-launched in some way to revive interest in the concept.

Respondents from UKSH67 and UKSA04 both commented on the lack of ministerial responsibility for SE at the national level, with representation at the regional level being geographically varied. Altogether, the current policy landscape for SE is considered to be fragmented and in need of greater coherence.

### **4.7.2 The definition and perception of social enterprises still creates problems, especially in relationships with stakeholders**

Almost all interviewees raised issues about the definition of SEs. For many, there is uncertainty about exactly what a SE is. This applies as much to SEs themselves, as well as customers, suppliers, and other stakeholders. There is an element of self-attribution involved and in some cases companies that can justifiably be defined as SEs do not recognise themselves as such. Others are very clear about their status as SEs and

actively use this identity to shape their activities and how they represent themselves to the outside world.

An interviewee from UKSH26 argued that there is a language gap, where many mainstream policy and support agencies do not understand what SE is. They understand charities and community groups, he suggests, but are confused by SEs.

There is an important issue about authenticity, with some concerned about whether companies are genuine in their pursuit of social and/or environmental goals (respectively referred to as 'whitewashing' and 'greenwashing'). For some, however, the motivation is less important than the outcomes. Even if companies attempt to define themselves as SEs for PR purposes, if this results in contributions to social and/or environmentally beneficial outcomes, then that is still better than the alternative. Indeed, from a policy perspective, there are disadvantages to being too exclusive and purist about SE, as this is likely to consign them to a peripheral position. As a result, several respondents talked about the importance of 'mainstreaming' SE and incorporating its values and practices into the activities of all companies.

The respondent from UKSH68 commented that SEs are adversely affected by how people perceive them. For example, they find it difficult to access traditional sources of investment capital to establish and grow their businesses. Mainstream investors and financial institutions are unwilling to invest because they "see social enterprises as a bit risky and not completely focused on making profit." The director of UKSE10 described how they had problems starting a bank account because of their status as a Community Interest Company: "The banks aren't aware of how CICs work and don't know the processes in order to be accepted as a CIC." The lack of support from traditional financial institutions also affected UKSE18, although this is a wider issue facing small businesses that typically have to operate at a loss while setting up the company. However, SEs can experience additional challenges because of what they do. For example, UKSE09 encountered difficulties setting up a bank account because some of the members of the board had poor credit ratings – these are women who had come from underprivileged backgrounds who had an important contribution to make to the direction and social benefit of the SE, but they had to be removed before the bank would accept the application. Alternative investment sources, such as those provided by UKSH02, a funding agency for SMEs attuned to the needs of SEs, can play an important role in helping SEs secure finance that is usually not available to them.

#### **4.7.3 Multiple legal structures for social enterprise contribute to the confusion about how they are perceived, but do offer different options for appropriately structuring the business providing informed choices are made**

There were a range of perspectives about whether the legal status of SEs enabled or constrained their activities. This is well expressed by one of the interviewees from UKSA04 who commented that, "The fact that the UK has a legal form for social enterprises is both helpful and unhelpful. The water is muddy because you don't have to be that legal form. You can be any legal form. It's about intentions more than the legal structure. People want it to be really clear. It's confusing and people find it hard to grapple with." This exacerbates the challenges of perception outlined above. On the

positive side, it gives SEs the option to choose a structure appropriate for their needs, which is important given that they have different priorities and preferences concerning legal and governance requirements and how they are intending to generate income. In a number of cases, SEs were quite strategic about their choice of legal form. They conducted research and took advice before deciding which structure was right for them. For example, UKSE33 started out as a charity and, after considering the alternatives, decided on the recently introduced Charitable Incorporated Organisation status. The CEO explained that they chose this route rather than becoming a CIC because they wanted the benefit of expertise from a board of trustees, the opportunities for grant funding, and tax benefits. Others prefer not to take on the reporting and other constraints of being either a charity or CIC. For example, the director of UKSE13 was clear that they should be independent in generating income from trading and confident that this can be a sustainable source of revenue compared with chasing grant funding.

There were a few instances where SEs adopted a legal form without considering the implications. For example, the director UKSE03 said they decided to become a CIC without being aware of the tax implications and were surprised when they received their first tax bill. Given the choice of legal form has important repercussions for SEs, clear and timely advice on the best route is important.

#### **4.7.4 The ability of social enterprises to address social and/or environmental needs**

The majority of stakeholders and support agencies interviewed see SEs as playing an important role in meeting unmet social and/or environmental needs. However, some identified a mismatch between the strength of the SE economy and the geographical areas where they are most needed. This suggests that the relationship between demand and supply is not a straightforward one and implies the importance of targeted policy interventions. There was also evidence that most SEs seek to address local needs. This is obviously important, but it can limit the scope and impact of such companies. Any attempt at targeted policies for encouraging SE growth and innovation in areas of need would need to be based on a clear and comprehensive mapping of these needs and how far they are currently met by SE.

## 5 CONCLUSIONS AND RECOMMENDATIONS

From the research conducted, it is clear there are common patterns emerging in the innovation activities of SE in the three regions that are the focus of this study – Flanders (Belgium), North Holland (The Netherlands), and East and West Sussex (UK). The challenges that SEs face are broadly similar across the regions, as summarised below. The main differences appear to be related to the sectors within which SEs operate, with a particular distinction between product- and service-focused companies. There are also specific differences in the framework conditions between (as well as within) the three regions: attitudes to social enterprise vary among different stakeholders; there are variations in legal status, government regulations, procurement rules, and the type of support programmes available.

Even so, there is a lot of common ground in the issues raised by interviewees about the conditions supporting SE innovation across the three regions. The main themes from the research are identified below, with an emphasis on possible policy implications and recommendations. These are intended to provide material for reflection and discussion rather than definitive answers, which is especially important given the need to adapt policy responses in a way that is appropriate to the specific characteristics of the different regions. Following the pattern used throughout this report, the main issues are structured along the lines of the six thematic areas.

### 5.1 The challenges and enablers for SE to develop their trading activity and their social/environmental aims and to what extent they manage to balance activities between these two fundamental purposes

Managing the balance between trading and social/environmental priorities can be difficult for some SEs, presenting competing pressures that can pull them in different directions. An excessive commercial orientation can dilute the social/environmental mission, while focusing too much on the latter can lead to problems of dependency on grant funding, donations, and volunteering. Nevertheless, compared to mainstream firms, SEs have the potential to leverage different income sources and innovate around their core business models. The more successful innovators are those that have a clear vision about the relationship between these priorities and recognise them as a tension that needs to be actively managed.

This challenge is exacerbated by the lack of commonly accepted definition across Europe of what constitutes a SE and what does not. Having said that, the European Commission has been very active recently with country specific reports on the issue of SE, providing an overview of the ‘state-of-things’ on this issue. However, this tension goes far beyond the definition issue. SEs need to recognise the challenges of balancing the two strategic objectives (or trading and social/environmental impact) and to develop alternative business models to promote long-term sustainability. Many SEs start from their social/environmental aim rather than their business agenda and they fail to develop a business model that can sustain them financially in the long-run. The



research has identified innovation projects in SEs which although they served a social (or environmental) aim they failed to raise income sufficient to cover the full cost of their project (i.e. developing, producing and delivering their products and services). Equally the research has identified some SEs at a very strong financial state but with a very weak social or environmental aim.

Achieving the right balance between the two strategic objectives provides a huge impetus to the direction and guiding values of the organisation, but there are often skills gaps that need to be filled in terms of business and innovation. Support is available, although this is mostly rather generic. Policy-makers, the support system and the wider ecosystem of SE need to recognise this need and focus their resources and their actions to help SE to address this challenging situation and develop the under-developed skills.

This is a call for a number of potential actions such as e-learning solutions promoting business skills in the context of SE, tools and techniques to help SEs to develop their combined skills (i.e. business skills together with skills in social/environmental impact), (written or video) show cases of SEs that have managed to strike a good balance between the two objectives etc. This is also an action for public procurement organisations which have to ensure that the entrepreneurial dimension of SE is addressed explicitly when they advertise a call for the provision of new services or when a funding grant (of any kind) is given to a SE.

## **5.2 The challenges and the enablers of using innovation to support the development of trading activity and/or their social/environmental aims**

The majority of SEs experience a paradox. Although they are innovative enterprises (in the sense of trying to develop alternative business models or creative combinations of services and products or ‘unconventional’ production processes), their familiarity with innovation methods, innovation techniques or (explicit) innovation skills is rather low. In other words it sounds like innovation is an unaware or ‘unconscious’ activity for SE. As a result SEs are unable to plan their innovation activities in such a way to make it directly relevant or useful for the development of the enterprise.

A vital element of innovation activity is to be able to connect innovation with the strategic priorities of the SE. A thorough analysis of the current strategic position of the SE and the articulation of the future strategic plan (or more precisely an articulation of possible future strategic scenarios) is a very important requirement for planning innovation activities in a SE.

The primary objective of innovation activity is either to sustain and preserve the main value proposition of a SE or to enable the growth of its trading activity and/or the expansion and extension of its social/environmental impact. Innovation triggers a ‘bumpy’ road with several obstacles, unexpected turns and surprises, which however needs to be managed.

Transition pressures can occur as the result of sudden changes in the external environment, such as market shifts and funding reductions. Some SE need to renew



themselves including the renewal of offerings, processes, clients, beneficiaries etc. Their model is tied up to conditions that are no longer valid. Innovation can then be used towards renewing the main value proposition of the SE

Innovation is equally important when a SE grows its trading activity or expands or extends its social/environmental impact. In general success in growth and development comes with a requirement for change. When a SE manages to grow, its management approach needs to change (e.g. allowing more delegation), its supply chains need to professionalise, its marketing strategy needs to adjust, the distribution channels need to upgrade etc. Unless SE can manage innovation, they will find difficult to manage these transitions and need extra support to help them through these periods.

Most SEs support activities appear to be directed at early stage companies and would benefit from a more extended lifecycle approach which needs to become an integral element of the support system of SE. Policy-makers need also to distinguish between SE of different sizes – for instance procurement of a large scale is perhaps more amenable to SE of larger size while more innovative or creative offerings can be accommodated better by smaller SE.

### **5.3 The challenges and the enablers of the actual development of innovation including the innovation process and other management processes of the SE**

Innovation in SE is in general ad hoc and often opportunistic. This can make SE very flexible and responsive in responding to opportunities and coming up with new ideas, but without a more planned approach they can also miss opportunities and fail to push innovation projects to completion.

Many SE are very good at coming up with new ideas, but find it harder to select, develop, and implement the most promising ones. Some recognise this and attempt to counter this tendency by purposefully assembling a range of suitable expertise, either internally or externally. Overall, SE innovation is very open and networked - it is about creating and leveraging connections with other people and organisations to assemble different skills, knowledge, and expertise. While many SE are active in developing their own networks, this can be time-consuming and help in providing appropriate networking opportunities can be extremely beneficial.

The lack of a planned approach also increases the cost of innovation activities. This is important because most of the SE are small enterprises, having to innovate with limited resources. For some, this can constrain innovation because they do not have the time and space to explore new directions since they are too focused on day-to-day operations. Identifying external expertise or knowhow can moderate the cost of innovation but it requires from SE to develop the skills to identify the right partners, to negotiate terms and conditions that are beneficial to them and to carry out the joint project.

Space for innovation needs to be purposefully created by setting aside time and resources for exploring and developing new ideas and giving individuals or teams

responsibility for pursuing innovation activities. This is not easy to achieve, but can be helped through encouraging systematic routines for innovation, networking opportunities and reflective learning.

#### **5.4 The impact of innovation especially in terms of trading activity and their social/environmental aims**

When effectively managed, innovation has an important impact on the sustainability of SEs and helps them to meet their social/environmental mission. However, capturing evidence of this impact is a significant element of the process – there is little scope for the development of a SE without (valid and reliable) evidence for the impact of the innovation activity. Proving the impact of innovation is important for sustaining the funding from public authorities but also for convincing beneficiaries and finding other players to collaborate with (e.g. suppliers or SE providing complementary offerings).

Demonstrating and communicating this impact to the outside world can be difficult. SE benefit from assistance in marketing their vision and demonstrating additional value, both economic and social, to consumers and other stakeholders. As such, there is scope for training and support in robust and user-friendly impact assessment and evaluation techniques.

Achieving real impact may be a case of several streams of innovation – for instance in products and services as well in marketing and delivery channels. Impact should also have a comprehensive character: impact on the social (or environmental) situation of a target group without the financial payback can become a big pitfall that does not guarantee the continuation of the impact for long-time.

#### **5.5 The support they get through the innovation system of their region/country/EU**

Most support is not specifically designed for SE. It is either standard support for enterprise and business, or focused on voluntary sector activities. SE do not necessarily take advantage of what is offered because they do not see it as relevant. SE specific programmes can help to address this issue. Greater awareness of SE needs among mainstream business support would be beneficial.

Support measures generally tend to be focused on the skills needed to start a business rather than helping more established companies grow and develop. A greater recognition of the challenges of SE at different stages of their lifecycle would allow for more targeted and appropriate support.

The available support for SE is not specifically designed to address innovation. Supporting innovation in a SE can be about providing direct financial contributions toward innovation projects. For instance, the most innovative (or the most promising from the growth point of view) SE projects can be selected for pecuniary support. Equally innovation can be supported within a SE by providing a regular market,

provided that the requirements of the buyer accept and encourage innovative solutions. Typical example is the case of NHS which can specifies its needs (or its requirements) and then provide a development grant to a SE to develop an innovative solution, playing the role of the pilot customer.

Support is also about soft resources such as the reduction of overheads, the facilitation of linkages with academia and the connections with the wider innovation ecosystem of a SE. For instance the support of a technology transfer office to connect with a relevant technology or a university research group can be more important than supporting directly an innovation project. In fact several SEs are calling for support that makes the connections with other strategic innovation players easier and more effective.

There is clear scope for innovation training, mentoring, and support to enable a more planned and structured approach in managing innovation, without destroying the benefits of flexibility and commitment that often accompany the SE ethos.

Finally the provided support must attain a minimum threshold level since spreading support resources too thinly across several priorities (or several SEs) can have a detrimental effect on innovation. In any case the support should be provided via a user-friendly way, avoiding bureaucratic, complex or time consuming procedures.

## **5.6 The framework conditions within which they try to pursue these activities.**

Multiple legal structures for SEs may lead to confusion, unless sufficient information is provided. Regulations also affect the target groups SEs are trying to help, making it difficult for SEs to realise their potential. This suggests the need for intelligent regulations appropriate for the conditions faced by SEs to help them perform their work and spur innovation.

Regional innovation systems for SE innovation are quite varied and do not always match supply and demand. Regional SE champions help to energise and integrate SE innovation systems, encouraging the attraction of resources and interlinked support measures. Public procurement has a significant role to play here, although changing policy conditions make this difficult.

Most importantly, regional authorities have a critical role to play. They need to establish an integrated system by which, the society is convinced of the role of SE, the market is prepared to accept the role of SE, the public procurement is geared to support innovation within SE (rather than just SE) and an ecosystem of partners is set up for SE to connect and develop new innovative solutions. This integrated system is probably the most challenging target but also the most valuable asset for promoting innovation within social enterprises.