

Innovation in European Social Enterprises

Preliminary Findings from the  Survey

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EUROPEAN COMMISSION
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Goals of SELUSI

Establish a **high-quality, large-scale panel database**
on social enterprises in Europe

Conduct **action-research projects**, which experiment how social
entrepreneurs can be engaged in processes of service innovation led by
for-profit businesses.

SAMPLE

Who did we survey?

SELUSI's working definition of a social enterprise (SE):

- ventures that are primarily in the business of **creating significant social value**, and
- they do so in an **entrepreneurial way**: income generating (and innovative)

Sample screening criteria:

- Minimum of **1FTE** employee (apart from the owners)
- Minimum of **5% self-generated revenues** ('entrepreneurial')
- **Social mission** (mission scored via elaborate scoring grid for various aspects and overall social/societal concern, double-checked)

How did we survey?

Lack of sampling frame, social enterprises = "hidden population"

Respondent driven sampling (RDS)

- Pioneered by sociologists at Cornell and Columbia University (e.g. Heckathorn, 1997 and 2002; Salganik and Heckathorn, 2004)
- Taps into entrepreneurs' networks, resulting sample closely approximated population-representative sample

Phone interviews with **directors of SEs** and online survey module to be filled-in before the phone interview

- Data accuracy: "double blind" strategy; 30% of all interviews were double-scored; careful & continuous training of analysts.

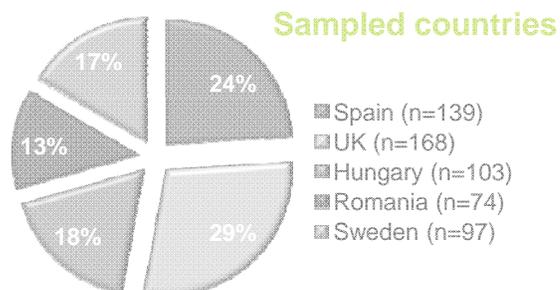
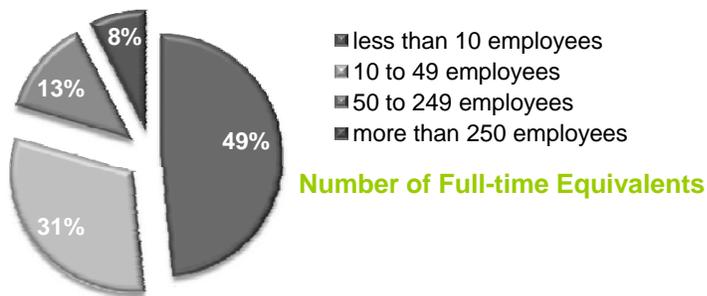
Multiple survey **topics**: interdisciplinary approach drawing on economics, psychology and management science

Sample

N=579 social enterprises (SE)

(wave 1 of SELUSI survey, winter 2009-spring 2010)

- Average of **60%** self-generated revenue (SD 36.5, 5%-100%)
- Median revenue **279.055 Euro** (SD 73 Mio)
- Average of **75%** of revenue is spend on delivering social impact (SD 36.6)
- 63% of social entrepreneurs indicate **close alignment of revenue generating activities and social impact creation** (i.e. if they would only run their revenue generating activities they would to a large extent generate social impact)
- Average **age** of the SE: 14.5 years (SD 14.2 years)
- Median 10 **FTE** (SD 325) and 5 **volunteers** (SD 274.7)
- Entrepreneurs 43% female



What do they do?

Based on classification of dominant activity

Most common **operational models** (Alter, 2008):

- Fee for service/product 36%
- Fee for service/product: Low-income client 7%
- Employment model 13%
- Service subsidization 12%

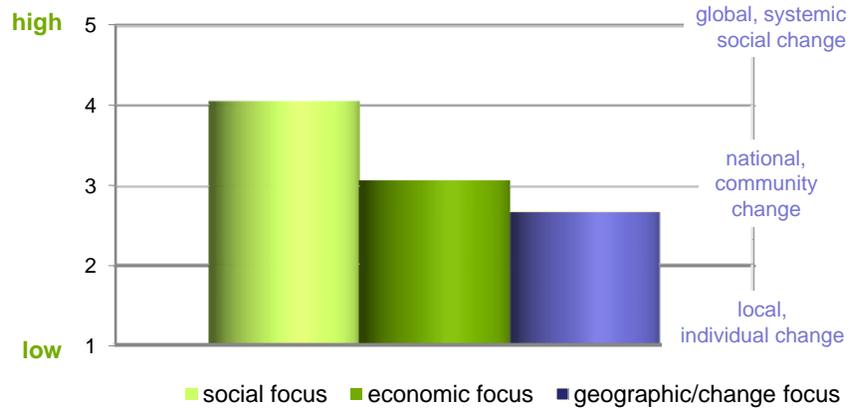
Industry composition	NACE*	% of sample (N=579)
Agriculture, forestry, fishing	a, b	2
Industry, energy, construction	c,d,e,f	7
Wholesale, retail, gastronomy, telecommunications	g,h,i	12
Finance, real estate, business-related services	j,k	22
Education and related services	l,m	17
Health & social work services	n	14
Community, social and related services	o,p,q	20
Other		5

*Statistical classification of economic activities in the European Community

A FEW MORE WORDS ON THE SOCIAL COMPONENT ...

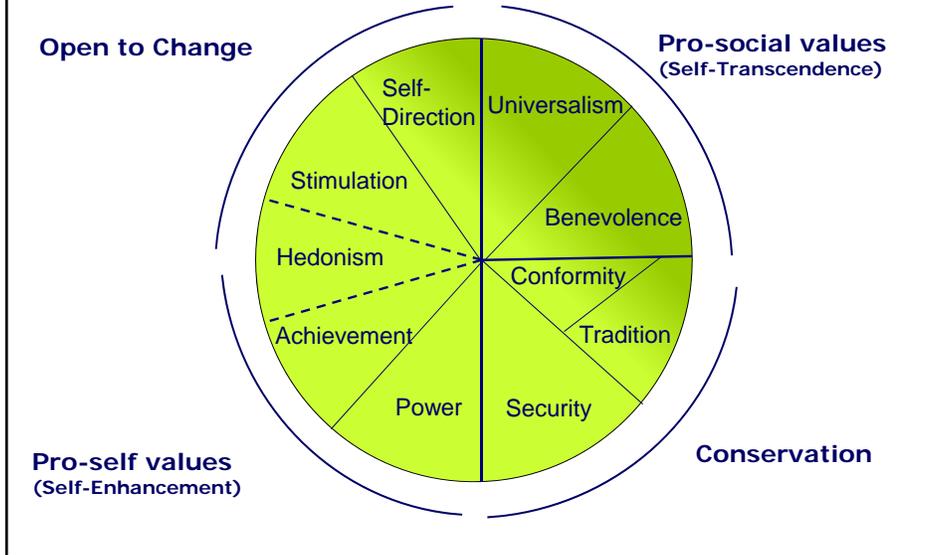
Organizational Goals

(based on factor analyses of interviewer-rated mission & vision scores)

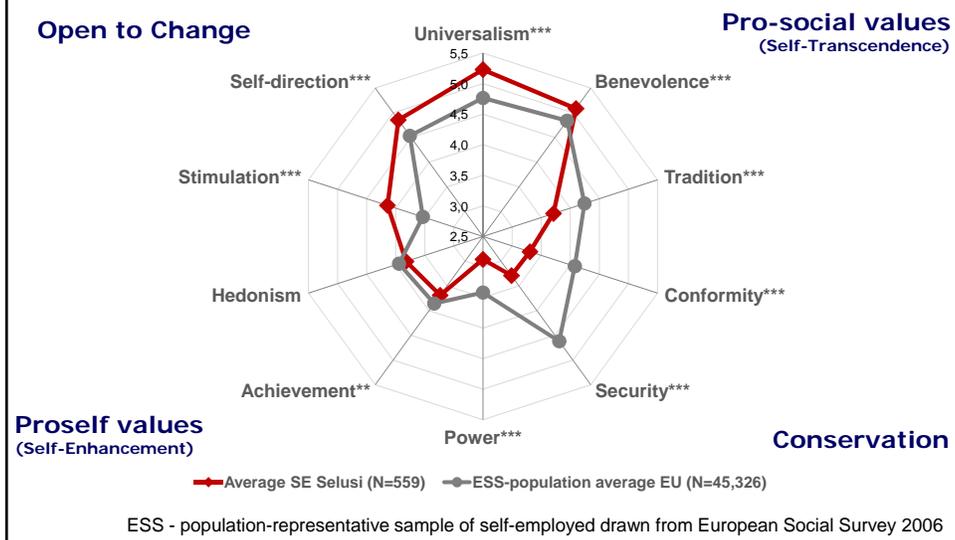


'SPECIAL' PEOPLE?

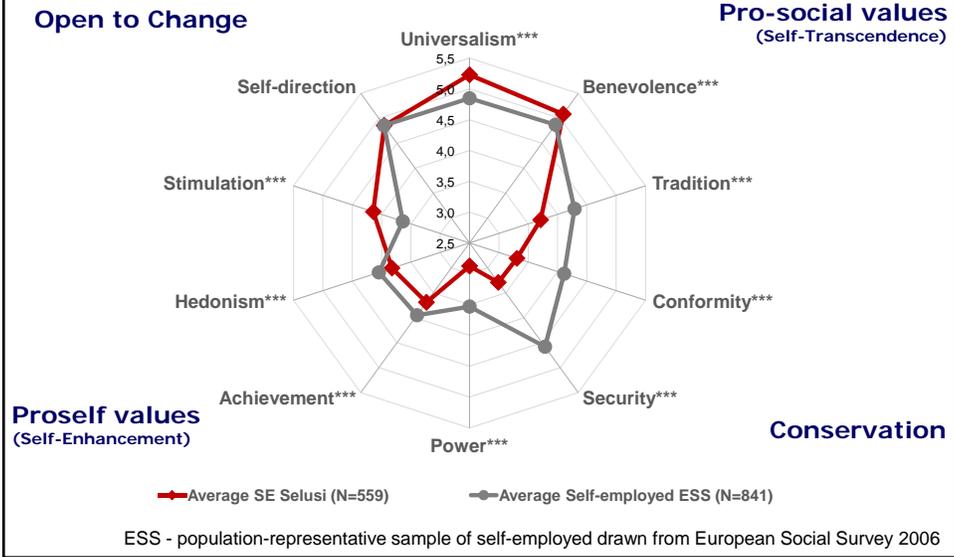
Schwartz Theory of Values (Schwartz, e.g., 1992, 1996, 2005)



Value Profile: Social Entrepreneurs vs. EU Population Average



**Value Profile:
Social Entrepreneurs vs. Entrepreneurs**



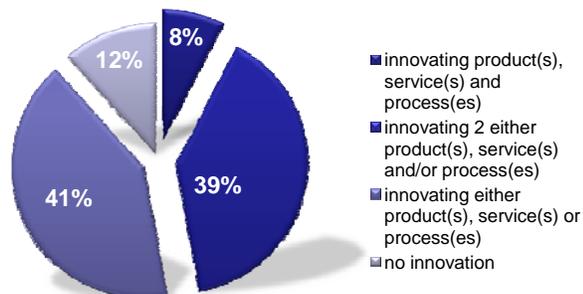
INNOVATION

Background

- Innovation as core characteristic of (the Schumpeterian) entrepreneur in general, and particularly of Social Enterprises to achieve large-scale societal change
(celebrated cases, Ashoka, SELUSI - Social Entrepreneurs as Lead Users for Service Innovation)
- *An innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations. (Oslo Manual, OECD, 2005, p.46)*
→ At a minimum **new to /significantly improved for the organization**
- First results of the SELUSI survey in response to questions modelled on the **Community Innovation Surveys (CIS)** which measure innovation based on the recommendations of the OSLO Manual (OECD, 2005) and provide a **useful comparison standard** to enhance our understanding how social enterprises might differ (and perhaps even be distinctive) wrt to their innovation activities

How Common Is Innovation In Social Enterprises?

- The large majority of Social Enterprises – **84%** (n=575) – innovate, i.e. they introduced **at least one new or significantly improved product, service or process** to their organization within the past 12 months
- 62% innovate services, 60% processes and 27% products, often jointly:



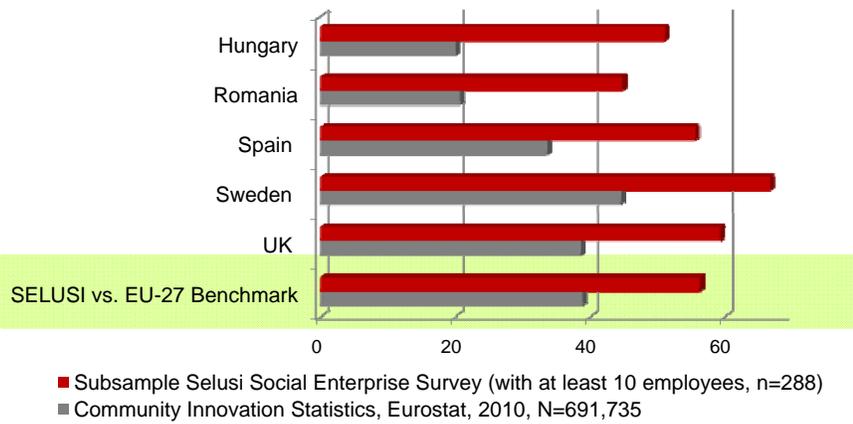
Overall **54%** of SE in the SELUSI sample have introduced at least one 'new-to-the-market' innovation over the past 12 months.



i.e. the majority (**63%** n=310) of innovating SEs are 'radical' innovators.

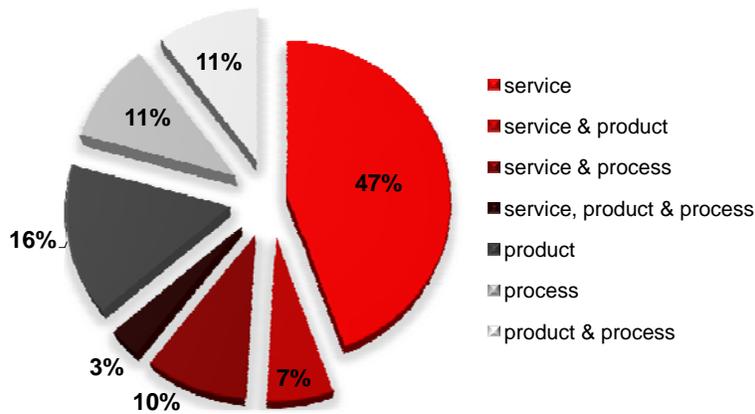


% enterprises introducing "New-to-the-Market" Innovations in goods, services or processes (relative to total surveyed population), comparing SELUSI social enterprises with traditional for-profit firms (drawn from EU Community Innovation Survey CIS, 2006).



67% of 'radical' innovators innovate services

(That is, 209 of 310 organizations introduced at least one new/significantly improved **service** within the past 12 months that was new to the market – and not 'just' new to their organization.)



Why do SE innovate?

responding to regulatory change/requirements (8%)

process improvements:
flexibility, capacity, cost reduction (14%)

pressure from competitors and financing organizations (15%)

financial sustainability & market expansion (43%)

Main driver of innovation for for-profit firms
(CIS 2006, Parvan, 2009)

increase range/quality of products and services (44%)

social and environmental effect (62%)

(increasing quality/spreading social impact, reducing environmental impact)

Why do SE NOT innovate?

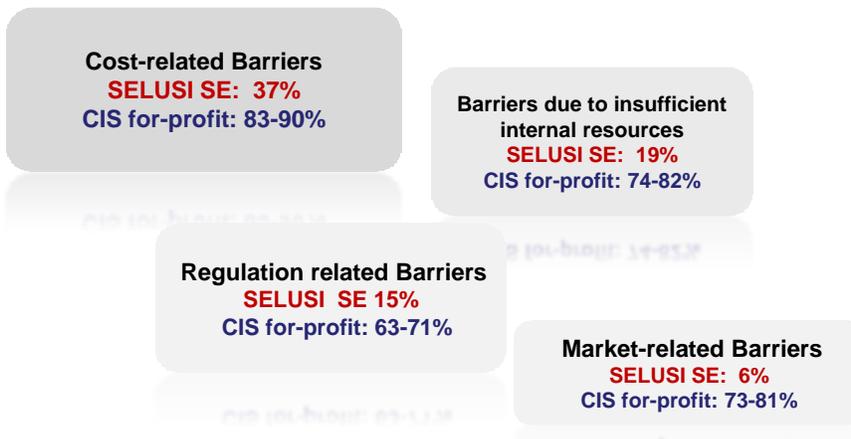
- 65% of SE experienced problems with getting started with innovation activities (over past 12 months) and
- **55%** mentioned at least one specific **barrier to innovation**:



Why do SE NOT innovate?

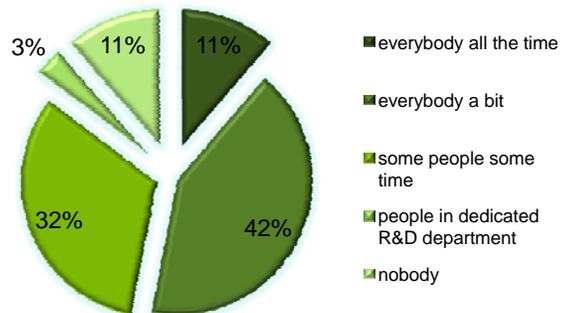
Preliminary comparison with for-profit firms

- SE experience seemingly **fewer barriers** than for-profit firms
(Data for-profit firms from CIS 2004, D'Este, Iammarino, Savona & von Tunzelmann, 2008)



Resources devoted to innovation: Employees

- **Mean of 2.4 people (SD 10)/ Median of 0** employees work **exclusively** on innovation in social enterprises (n=522)
- SE seem to **involve employees throughout their organization in innovation**, dedicated R&D departments are virtually non-existing (3%, of n=424)



Resources devoted to innovation: Finance

- Financial resources devoted to innovation over past year **vary widely**

- **Median 11.162 EUR** spent on developing **products & services** (0 – 25 Mio EUR, n=352)

Significant country differences (Mann-Whitney U-test 31.77, df=4, p<.001)

Hungary	Romania	Spain	Sweden	UK
3.678 €	1.162 €	40.000 €	5.955 €	16.743 €

- **Median 4.573 EUR** spent on developing **processes** (0 – 3.7 Mio EUR, n=256)

Significant country differences (Mann-Whitney U-test 37.31, df=4, p<.001)

Hungary	Romania	Spain	Sweden	UK
1.103 €	581 €	10.000 €	1.906 €	11.162 €

Innovation Outcomes

Change in **revenue** due to past innovations in

	N	Mean	Mdn	SD	Min.	Max.
Products/Services	332	20	10.0	29.0	-5	100
Processes	176	16	5.0	32.6	0	300

Change in **social impact** due to past innovations in

	N	Mean	Mdn	SD	Min.	Max.
Products/Services	242	32	15.0	57.6	0	700
Processes	144	26	6.5	74.9	-10	700

Product and service (vs. process) **innovations** seem to generate both **higher economic return** (increase in revenue) and **higher social return** (increase in social impact) - at least in the short run (1year)

The **effects of innovation on revenues** seem of similar size to those reported by for-profit companies, i.e. 10-15% (for the countries including in the SELUSI survey) (CIS 2006, Parvan, 2009; OECD 2010)

Are SE's particularly "social" in the way they innovate, i.e. more likely to collaborate with other organizations?

- Propensity of SE to collaborate often emphasized (e.g. with reference to social movement literature)
- Prosocial motivation associated with more collaborative stance and consensus seeking in negotiation (cf. Bersma & DeDreu, 1999)
- Almost all social enterprises – **90%** – have already contributed to another organization's innovation (independently of whether or not they themselves innovate).
- The innovating social enterprises typically collaborate in their innovation processes (**79%**).
- By comparison, **for-profit** companies report less cooperation in their innovation processes, e.g. overall **EU-27 benchmark 25%** respective country-figures between 17% to 40% (Parvan, 2009)

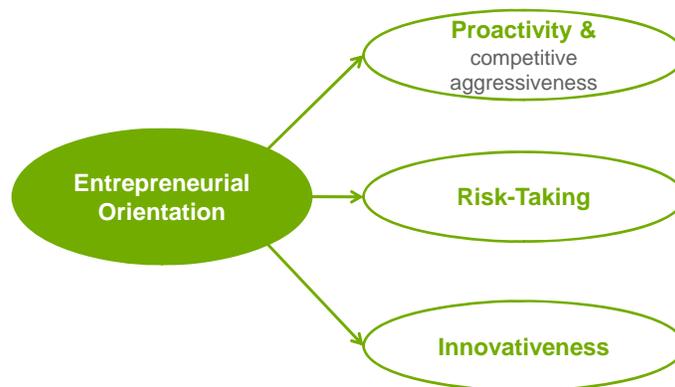
With whom do SE collaborate for innovation?



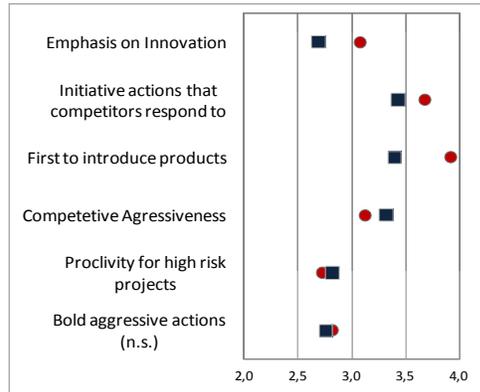
Absolute and relative frequency of collaboration partners the SE mentioned when recounting how he/she innovated one specific product, service or process within the past 12 months.

Strategic orientation of SE's towards Entrepreneurship & Innovation

(Covin & Slevin, 1989; Lumpkin & Dess, 1996)



Strategic orientation of SE's towards Entrepreneurship & Innovation



Social entrepreneurs
(SELUSI, N=576)

Commercial enterprises (5 -
500 employees N=1067)
in six countries (Kreiser
et al, 2002)

Significantly **higher** emphasis of SE's on innovation and proactivity, significantly **lower** emphasis on competitive aggressiveness, and somewhat less risk-taking

Strategic orientation of SE's towards Entrepreneurship (Covin & Slevin, 1989; Lumpkin & Dess, 1996)

	Risk-Taking	Pro-activity	Inno-vation	Experi-mentation	Comp. Aggressiveness	h2
organ. responds to competitors actions vs. initiates actions that competitors respond to		.71		-.11		.53
organ. seldom first to introduce new products/services/processes vs. very often first	.17	.75	.16			.63
organ. follows the leaders vs. ahead of competitors in introducing novel ideas or practices	.21	.73				.58
dealing with competition live-and-let-live posture vs. undo-the-competitors				-.14	.83	.71
organ. is very aggressive and intensively competitive vs. no special effort to take business from competition				-.11	-.84	.72
explore environment careful and gradually vs. bold, wide-ranging acts	.64	.12	.16			.44
proclivity for low vs. high-risk projects	.77	.14	.17			.64
decisions under uncertainty wait-and-see vs. bold-aggressive	.82	.10			.13	.71
organization favors a strong emphasis on the marketing of tried and trued service/products vs. R&D and innovation	.11	.26	.52	-.12	-.13	.38
no new lines of products or services vs. very many new lines of products or services introduced in past 12 months			.80			.65
changes in product or service lines have been mostly of a minor nature vs. usually quite dramatic	.11		.83			.71
organization favors experimentation and original approaches to problem-problem solving	-.10	-.13		.82		.71
organization prefers to design its own unique new processes and methods			-.10	.83		.71
Percent variance explained	22,9	11,7	1,3	9,3	8,2	
Cronbach's alpha	.64	.63	.61	.58	.60	

Structure of EO differs in Social Enterprises

	Proactivity	Competitive Aggressiveness	Risk Taking	Innovation
Competitive Aggressiveness	.01			
Risk Taking	.34***	-.03		
Innovation	.26***	-.04	.28***	
Experimentation	.24***	.08 ^t	.12**	.17***

- most notable, **aggressive competitiveness** is not part of an Entrepreneurial Strategic posture, as evidenced in non-significant correlations with other components
- **Proactivity, Risk-Taking, Innovation** are 'confirmed' as part of EO also within SE – with the Innovation component subdivided into **innovation results** and **experimentation**

Summary of Preliminary Insights I

- SE are **innovative**, i.e. the vast majority of SE's innovates and these innovations are mostly **new-to-the market** (not merely replicate)

Notably, SE in the SELUSI sample are in each country more likely to innovate compared to commercial firms as captured in the Community Innovation Survey (cf. Parvan, 2009), despite a much shorter reference period for reporting of innovations in the SELUSI vs. CIS surveys (1 vs. 3 years).

- SE primarily innovate **services**

...

Summary of Preliminary Insights II

- **Innovation pays off** both economically and in terms of social impact despite the **relatively few resources devoted** to it (in terms of personnel and finance)
- SE's seem indeed to be **prone to collaboration** as suggested in the literature. The main collaboration partners are **non-profits** and **public sector organizations** (but variation across countries).
- SE's innovation activities are primarily **motivated** by a desire to **create social impact** and reduce negative impacts on the environment (with the exception of SE in Romania, whose innovation is driven by concerns over financial sustainability and market expansion)
- The major **barrier** to innovation are **costs** including economic uncertainties (- similar to commercial firms, overall fewer barriers encountered compared to commercial firms, e.g. Mohnen et al., 2008; D'Este et al., 2008)

Outlook

- Discern **characteristics of highly innovate social enterprises** (vs. less innovative one's) including SE's social features
- Explore further **HOW** social enterprises innovate, i.e. with whom they collaborate, decision-making logic etc.
- Explore (longitudinal) **consequences of innovation** – e.g., relative to social and economic impact

THANK YOU

For more information

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