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### ***Through Schumpeter: Public policy, social innovation and social entrepreneurship***

In the context of the complex or 'wicked' social and environmental problems that are challenging global sustainability into and beyond the 21<sup>st</sup> Century, this paper explores Schumpeter's view that capitalism would decay, bringing about a characteristically socialist civilisation. It provides a specific reading of those aspects of Schumpeter's work that focus on the entrepreneur, innovation and creative destruction and their roles in economic development. It argues that to address complex sustainability issues, it will be critical that the public sector proactively takes on an enabling role, a role specifically focused on creating the conditions in which social innovation and social entrepreneurship will flourish.

#### *Introduction*

We are at a critical point in history, where the impact of humans on the planet can no longer be ignored. This impact has become so extensive and the impact so irreversible that the start of a new global epoch has been formally recognised. Chakrabarty (2009) summarises it thus:

Now that humans – thanks to our numbers, the burning of fossil fuel, and other related activities – have become geological agents on the planet, some scientists have proposed that we recognize the beginning of a new geological era, one in which humans act as a main determinant of the environment on our planet (p209).

The relatively stable climate history the planet has enjoyed for the past twelve thousand years, during the Holocene period, has allowed human civilisation to flourish (Dumanoski, 2009). Notions of 'human civilisation' are inextricably linked to the living conditions and choice options that are enjoyed by some and aspired to by many. Living conditions and choice have become synonymous with consumption, which is at the core of the neoclassical economic model.

Along with environmental impacts, seemingly intractable social issues that neither the market nor the public sectors have been able to solve are placing increasing demands on already stretched systems. These include (for example): a growing divide between rich and poor, inability to stamp out poverty-related diseases, a growing obesity epidemic in the developed world, alienation between generations, sharp increases in mental health-related issues, tensions in diverse communities, undervaluing and mistreatment of migrant workers, refugee crises, human trafficking, and much else besides. With the global financial crisis continuing to send shock waves through national economies, analysts and policymakers turn to the history books for lessons on how to redirect spiralling economic chaos. A key message in lessons from the past calls for short-term economic stimulation, at least partly through the development of market-based innovations and increased consumption.

Over the past few years hasty stimulus policies and programs have been established all over the world. There is increasing recognition, however, that there is a fundamental disconnect between these traditional 'stimulation-based' economic responses and the challenges posed by the wider and longer term sustainability issues we face. Murray suggests that the ". . . current crisis, like that of the 1930s, is the hinge between an old world and a new" (2009, p5), and it is likely that the resulting 'creative destruction' will see behavioural upheavals in the economy and society as we collectively unlearn the old and absorb the new (Perez, 2009, p1-2). Some analysts propose that patching up the 'business as usual' model is futile, and slowly the extent and complexity of the sustainability issues we face is seeing leading commentators and groups of 'ordinary' people beginning to articulate that a new approach to the current and looming crises is needed. There is growing interest in approaches that privilege social value creation and that go beyond just aiming . . .

. . . to restore the previous 'normality', the false prosperity created by the financial booms . . .  
. [and seek] . . . to facilitate structural change and to create new conditions for a very different sort of prosperity into the future . . .(Perez, 2009, p6).

The rapidly growing and increasingly multi-disciplinary interest in social innovation and social entrepreneurship indicates that there is now a palpable appetite for new and sustainable approaches to economic development. A cross-sectoral, multi-faceted, and above all courageous approach to policy development has the potential to greatly accelerate practice in this area.

Joseph Schumpeter was thinking and writing during a period of great change, and some of the structural elements of the economy that today we take for granted were established during his time (for example, the rise of the trustified corporation). Joseph Stiglitz suggests that one of Schumpeter's legacies was to deepen thinking about innovation systems (2010, pxiii).

In Schumpeter's schema innovation is central to the process of creative destruction (Schumpeter, 1949, p258), but history has shown that successful innovation creates losers as well as winners (Lent & Lockwood, 2010, p6). With inequality a constant and growing feature of the current system the interrelationship between the economic, social and environmental dimensions of the sustainability crisis is complex and tightly wound. Applying aspects of Schumpeter's work to the social innovation and social entrepreneurship context offers opportunities to improve our understanding of these as systems. Through this it may be possible to begin to deepen our understanding of how we might shape policy frameworks specifically designed to tackle complex sustainability issues.

The paper firstly reviews key themes drawn from Schumpeter's work and links them to current concerns about directions in economic development. The second part of the paper explores aspects of Schumpeter's work that are considered relevant to social innovation and social entrepreneurship policy and practice.

### **Part One: Schumpeter through a social innovation and social entrepreneurship lens**

#### *Economic development dependant on external factors*

Schumpeter's interest in whether there is any truly *economic* development emerges as a central theme to his work as early as his first book, published in 1908 when he was just 25. In particular, he stressed the difference between changes in economic circumstances and economic *development* (Schumpeter, 2010a, p456). In this, clear distinction is made between economic forces and those that are external to but act on the system. In Schumpeter's view external economic factors included:

not only wars, revolutions, natural catastrophes, institutional changes, but also changes in commercial policy, in banking and currency legislation and habits of payment, variations in crops as far as due to weather conditions or diseases, changes in gold production as far as due to chance discoveries, and so on (1935, p3)<sup>1</sup>.

Once the 'external factors' are removed from the analysis, it becomes evident that the economic element of social life is in itself passive, adaptive, and essentially stable (Schumpeter, 1928, p374). The conclusion that therefore no economic development is initiated from *within* the capitalist system is drawn. In essence, Schumpeter proposes that:

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<sup>1</sup> Today, climate change would be included in this list.

Capitalism . . . is by nature a form or method of economic change and not only never is but never can be stationary . . . The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates (2010b, p73).

For Schumpeter, it is this force which brings dynamism *into* the economic system, working against its otherwise inherently stable nature and allowing economic development to occur. Through the discussion of these 'new' economic factors his views on the central role of entrepreneurship and innovation emerge.

Critical to this paper, it is clear that Schumpeter identified policy (commercial policy, in the quote above) as an external factor, one that can create changes in economic circumstances but not lead to truly economic development in and of itself. As discussed below and drawing on Schumpeter's insights, for this to occur policy must harness the entrepreneur and innovation.

#### *The egalitarianism of the entrepreneurial function*

A central tenet of Schumpeter's theory on entrepreneurs is that a distinctive economic function in the production process can be identified, one that 'combines, plans, directs the transforming or combining of factors into products'. He suggests, however, that if this function simply performs these activities in the way they have always been done in the past, or even if they are just repeated and adapted in the ways that regular business practice might expect in response to ever evolving market conditions, then the function is not distinctive from other kinds of 'non-manual labor' (Schumpeter, 1949a, p253). It is when *new* actions are introduced that a distinctive function is evident, and therefore the defining characteristic of an entrepreneur is ". . . the doing of new things or the doing of things that are already being done in a new way . . ." (Schumpeter, 1947, p151).

In drawing out this unique function Schumpeter also articulated what it is not, creating a distinction between the entrepreneur and the inventor and the entrepreneur and the capitalist. "The inventor produces ideas, the entrepreneur 'gets things done', which may but need not embody anything that is scientifically new" (1947, p152). He notes that these functions are sometimes found together but that this is not a requirement in theory or practice (1949a, p261). The difference between the entrepreneur and the capitalist is illustrated through the entrepreneur's access to capital. He felt that as entrepreneurs rarely acquire this through their own 'original accumulation' (or personal saving) they are clearly distinguished from the capitalist (Schumpeter, 1949a, p261).

In Schumpeter's conception entrepreneurs are also not a class of people. Leaving aside that the 'entrepreneur' is not a person but a function, he suggests that on examination they ". . . hail from all corners of the social universe" (1949a, p263). Their entrepreneurial activities may lead them into capitalist positions as a result of success, but they do not originate there. Entrepreneurship, then, is conceived as egalitarian in source.

### *Innovation, creative destruction and the decay of capitalism*

As described, the entrepreneurial function is the driver of innovation, which for Schumpeter is synonymous with economic development. "What we, unscientifically, call economic progress means essentially putting productive resource to uses hitherto untried in practice . . . This is what we call 'innovation'" (1928, p378).

Innovation is further defined as a 'historical and irreversible change in the way of doing things', changes to production which cannot be broken down into 'infinitesimal steps' (Schumpeter, 1935, p4). This absence of identifiable process based steps, from which the innovation could be replicated, indicates a 'creative leap' as intrinsic to innovation and in recognition of this Schumpeter delineates between 'adaptive' and 'creative' responses in an economy or sector (1947, p150). Importantly, he emphasises that this is not about simply increasing the existing factors of production, but about putting them to different uses. He suggests that historically increases in capital have been the result, rather than the cause, of entrepreneurial activity (Schumpeter, 1949a, p258), hence its inherently economic nature. The creative response is evident when something outside the range of existing practice occurs. This 'creative response' is the entrepreneur's function in the economic system, to 'reform or revolutionize' and disrupt current practices (Schumpeter, 2010b, p117) through the introduction of innovations, and consequently stimulate the ongoing 'process of destruction and reconstruction' (Schumpeter, 1949a, p258).

This cyclic process gives name to one of Schumpeter's best-known concepts, that of Creative Destruction. For Schumpeter this incessant revolutionising from within is 'the essential fact about capitalism' (2010b, p73). It is this which is the source of economic change in capitalist society, leading to truly *economic* development, and it is this which pivots on the role of the entrepreneur (Schumpeter, 1947, p150). Stiglitz sums up Schumpeter's view of the interaction of innovation processes with the wider economic system:

To Schumpeter, the heart of capitalism was innovation . . . Schumpeterian competition replaces competition *in* the market with competition *for* the market . . . without innovations, economies would stagnate (Stiglitz, 2010, pix).

For Schumpeter argued that, over time, stagnation would occur through the inevitable bureaucratization of innovation and the entrepreneurial function. He proposed that by its very nature the capitalist enterprise will tend to automatize progress and that in this environment the process of improvement would become more and more automatic, and that as this occurs the vital figure of the entrepreneur could be removed from the essential innovation function (Schumpeter, 1947, p157-8). This 'hollowing-out' is at the heart of Schumpeter's predictions – the inevitable bureaucratization of the entrepreneurial function *being* the decay of capitalism (Heertje, 2006, p33).

### *Creative transformation – emergence of a 'social' economy*

Together with his prediction that the capitalist system would 'make itself superfluous' and break under the pressure of its own success (2010b, p119), Schumpeter also suggested that a 'socialist civilization' would emerge as a socialist form of life became increasingly amenable (2010b, p145). Schumpeter defines socialist society as “. . . an institutional pattern . . . in which . . . the economic affairs of society belong to the public and not to the private sphere”, whilst also being deliberately inclusive and non-prescriptive about the particular forms this can take (2010b, p150-3).

Of interest to this paper, he did not exclude decentralisation of administrative decision-making or the use of competitive mechanisms in the market (Schumpeter, 2010b, p375), characteristics that are central to social entrepreneurship and the social enterprise model, in particular. This suggests that Schumpeter had a different interpretation of the notion of 'socialism' than that long held in popular culture. In the context of stimulating social innovation, social entrepreneurship and social enterprise through policy, this provides a platform for the ideas explored below.

Further insight into Schumpeter's specific interpretation of a socialist society may be gained from his 1909 essay *On The Concept of Social Value*. In this he suggests that a notion of 'social value' had only recently (at that time) been considered theoretically and that utility theory, from which calculations of value were derived, is necessarily individualistic in nature as 'only individuals can feel wants'. He argued that:

The only wants which for the purpose of economic theory should be called strictly social are those which are consciously asserted by the whole community. The means of satisfying such wants are valued not by individuals who merely interact, but by all individuals acting as a community consciously and jointly . . . [without this] . . . no obvious or natural meaning attaches to the concept of social value . . . (p213-7).

From this it could be construed that some dimension of the identification and treatment of 'wants' is jointly conceived and agreed in his interpretation of a socialist civilisation. That is, that as a society there is agreement by some means that certain 'wants' are of value to all.

The social benefits that have been generated through the capitalist model are widely acknowledged in economic and popular literature, and in their 2010 pamphlet Lent & Lockwood note that it is innovations that have led to the advances in productivity, wealth and living standards that are the positive legacy of capitalism (2010, p17). It was the perceived capacity to satisfy these apparently universal wants, or 'social values', that promoted the primacy of capitalism in the 20<sup>th</sup> Century. From within this frame, the symbiotic relationship between economic progress and broad-scale social advancement was assumed by policy makers and commentators alike. And, no doubt, commercially focused entrepreneurs will continue to innovate, and some of these innovations will generate some socially and/or environmentally beneficial outcomes in addition to the private gain they accrue for the entrepreneurs and capital investors involved. Again, no doubt, this will always be a component of a market-based system.

But it is increasingly clear that the system creates losers as well as winners (Lent & Lockwood, 2010, p6), and inequality continues to grow at a staggering rate globally. Stiglitz argues that whilst Schumpeter appeared optimistic that all, or most, citizens would benefit from the dynamic capitalist system that this belief now appears unwarranted (2010, pxii). It is time to accept that an economy driven by innovations will not naturally lead to an equal society (Lent & Lockwood, 2010, p34), and that growing inequalities in living standards are a key contributor to many complex social sustainability issues. In a discussion on marginal utilities, Schumpeter suggested that the

. . . distribution of wealth is important for determining values and shaping production, and it can even be maintained that a country with one and the same amount of general wealth may be rich or poor according to the manner in which that wealth is distributed (1909, p214-5).

The current capitalocentric system has also created what Stiglitz describes as 'distortions' in the focus of innovation and entrepreneurial activity. In what he terms the 'innovation economy', where the pace of change is faster than Schumpeter could have imagined, he suggests, for example, that many large firms (Schumpeter's bureaucracies) have become adept at innovating to protect their market interests. In the process innovation aligns solely with private returns at the expense of social returns and becomes a distorting influence on economic progress<sup>2</sup> (Stiglitz, 2010, pxi).

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<sup>2</sup> Financial services firms and the Global Financial Crisis, for example.

It is the increasing evidence that a system designed to protect private returns will not naturally lead to economic development for all, or to economic development of a type that protects the common wealth of our planet, that is drawing attention to the limitations within the current system.

### *Social innovation and social entrepreneurship*

In response to growing concern about the broad range of, and complex relationship between, sustainability issues interest in a proactive direction in innovation is emerging – one that operates from within the capitalist system and merges its processes with social goals (or ‘wants’), but that works across sectors and seeks positive social outcomes more purposefully than just as a by-product of market processes. This is, of course, not new but what does appear to be new is the considerable momentum and interest gathering around it. This could be construed as a social value in Schumpeter’s terms – an emerging conscious assertion by the community of a ‘joint want’. Interestingly, in discussing his concept of Creative Destruction, Schumpeter suggested that he should perhaps have chosen ‘Creative Transformation’ to capture his meaning (2010b, p145), and perhaps it is a type of transitional process which is emerging.

A ‘creative transformation’ process has potential to act as the catalyst that could propel us towards an economic system in which Schumpeter’s concept of ‘social value’ (ie. jointly conceived and committed) is central. In this, the potential of the capitalist system – driven by innovation and the entrepreneur – is recognised and retained, while a critical ‘socialist’ question - ‘what kind of innovation do we want’ - underpins the direction of its development. In this way, Schumpeter’s prediction that “[c]apitalism . . . will be changed . . . into an order of things which it will be merely matter of taste and terminology to call Socialism or not” (Schumpeter, 1928, p385-6), could potentially be realised. In effect, a ‘social economy’ era could be in the making.

It is in the space around ‘social value’ that the social innovation and social entrepreneurship field is gaining traction. The focus is on returns that will generate social benefit, rather than solely individual value.

Social entrepreneurs take workable models and adapt them for the benefit of people, communities, nations and the planet. . . They believe that any individual has the potential to make positive changes not just in our communities, but in society as a whole. And they put that belief into action, in creative ways . . . social entrepreneurship borrows from an eclectic mix of business, charity, and social movement models to reconfigure solutions to community problems and deliver sustainable new social value (Nicholls, 2008, p ix & 2).



Note the core elements of Schumpeter's definition of an entrepreneur evident here: the 'do-er'; reconfiguring the allocation of existing resources; generating new value; and the egalitarian source. These characteristics demonstrate the link between the emerging social entrepreneurship field and Schumpeter's analysis of commercial entrepreneurship, and indicate how further analysis of his work may assist to stimulate developments in this area.

Whilst champions of mainstream capitalism often reference Schumpeter, this brief exploration of his work - applying a social innovation and social entrepreneurship lens – shows that there is much to be explored that is relevant to reimagining our economic futures. Schumpeter's analysis shows us that the creative initiative that drives truly economic development comes from the actions of entrepreneurs; that entrepreneurship is inherently egalitarian in nature; and that due to its very nature capitalism will naturally come to give way to a more social form of economy.

## **Part 2: Economic stimulus through 'social boom'**

### *Public policy opportunities*

As discussed, a form of consensus - that there is more need than ever to harness the power of innovation and the entrepreneurial function - is emerging. It is argued that there is a critical role for the public sector in stimulating and enabling a socially beneficial focus within this - rather than enabling private and individual interests to capture the opportunities that will emerge, and consequently to continue to chart the direction of economic development. The role is conceived as facilitative, focusing on assisting agents to maximise the social benefits of the 'creative transformation' process, whilst also championing balance between socially, environmentally and economically productive ends.

While public sector agencies are stretched for resources and the 'salami slicing' of budgets continues apace around the world, the suggestion here is that steps towards implementing proactive policy tools could, in some areas, be taken without requiring new and additional resources. It could also potentially lead to a 'social boom' that could play a major role in stimulating struggling economies, but in ways that prioritise and privilege innovations that have positive social, environmental and cultural impacts. It is suggested that opportunities exist to identify potentially mobile resources that could be reallocated from existing budgets to stimulate socially innovative and socially entrepreneurial responses to sustainability challenges. The creative use of mobile resources is a core entrepreneurial behaviour that public sector agencies could themselves seek to adopt.

'Mobile resources' are not necessarily the result of previous saving, just as economic progress is not primarily the result of an increase in factors of production, but the result of applying the quantities of them already existing to ever new ends and by ever changing methods (Schumpeter, 1927, p305).

The discussion below is predicated on a shift away from government as the deliverer of services to passive beneficiaries, to a focus on enabling and activating cross-sector organisational and individual citizen involvement in jointly tackling complex issues. This will require rethinking the role of the public sector and realigning resources accordingly.

If society continues to move towards a social economy, a period of economic upheaval could occur as social innovations are introduced and, potentially, become normalised in the market. This process has possibly significant implications not just for the public sector but also for existing firms, industry sectors and whole economies that are built upon the old form of 'un-social' capitalism, and on which our current economic system is based.

In Schumpeter's terms a shift such as this would represent a major injection of 'new ways of doing things' into the system. His work analysing business cycles shows that economic development does not proceed in 'unbroken continuity' even during quiet times (Schumpeter, 1949b, p216-7). The 'swarm-like appearance of entrepreneurs' emerging in response to new opportunities - in this case, social entrepreneurs responding to new market opportunities created through policy positioning - would further create a 'jerky disturbance' to the equilibrium as the system attempted to settle into a new cycle (Schumpeter, 1949b, p231). Through Schumpeter's analysis the creative transformation that this pathway would instigate could be conceived as no different to cycles generated by other major innovations. Admittedly it would potentially occur over an extended time frame, but as Schumpeter (1935) notes:

. . . it stands to reason that some processes covered by our concept of innovation must take a much longer time than others to have full effect. The railroadization or electrification of a country, for instance, may take between one-half and the whole of a century and involve fundamental transformations of its economic and cultural patterns, changing everything in the lives of its people up to their spiritual ambitions . . . (p7).

*i) Structuring for impact*

Contributing to research and development into particular industry sectors that could catalyse business growth cycles is already part of the role of many public sector agencies. A conscious policy

direction allocating a portion of the existing resources to opportunities that could generate significant social value would assist with generating informed impetus, and potentially accelerate activity in these areas. The capacity for innovation to spread from one branch of industry to others is identified by Schumpeter (1949b):

. . . the pioneers remove the obstacles for the others not only in the branch of production in which they first appear, but . . . in other branches too. . . Hence the first leaders are effective beyond their immediate sphere of action and so the group of entrepreneurs increases still further and the economic system is drawn more rapidly and more completely . . . into the process of technological and commercial reorganisation which constitutes the meaning of periods of boom (p229).

Prior to and during Schumpeter's time the rise of firms that were no longer managed by owners was changing market dynamics. In 'trustified' capitalism the risk of innovation is not borne by individual owners, but by the corporation (Schumpeter, 1928, p384). At the time this innovation spurred market activity in new directions. Schumpeter's analysis recognised that without access to personal sources of financing, entrepreneurs generally seek out 'capital partners' who 'back' attempts to realise the entrepreneurial vision. In commercial entrepreneurship, this relationship is evidenced in the venture capital sector.

Social entrepreneurs too generally seek financing partners to back their attempts to affect social change and to drive a focus on positive social impact new forms of organisation, such as social enterprises, are emerging. Initially, these hybrid organisations (purpose driven, but working through market-based strategies) have largely been established using existing organisational forms and structures.

Whilst in many areas the focus of financing efforts remains on grant funding (philanthropic and public sector), a social investment market<sup>3</sup> is also emerging alongside the growing interest in developing innovative responses to sustainability issues. In this context it is increasingly being recognised that existing nonprofit and commercial structures are limiting. To increase capital flows into socially entrepreneurial ventures tailored organisational structures which mitigate the risks for both social investors and social entrepreneurs, whilst at the same time protecting the public and social value, are required. For example, in the UK the Community Interest Company (CIC), with its own Regulator<sup>4</sup>, has been created; and in the USA the L3C has been adopted in some States<sup>5</sup>. These

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<sup>3</sup> For example, see: Impact Investment Exchange Asia - <http://www.asiaiiix.com/>; Nexii - <http://nexii.com/>; Bolsa de Valores Sociais - <http://www.bvs.org.ptBig>; Big Society Capital - <http://www.bigsocietycapital.com/>

<sup>4</sup> See: <http://www.bis.gov.uk/cicregulator/>

developments are indicative of structural shifts currently taking place and echo developments during Schumpeter's time<sup>6</sup>. They are one part of the policy response needed to identify and address barriers to investment in socially entrepreneurial activity and social innovation.

Dominant economic thinking perceives the primary returns generated by social investment as a 'positive externality' (Lent & Lockwood, 2010, p28) rather than a core return, which limits investment activity. The public sector has a role to play in changing this perception, and in incentivising the pursuit of social returns by both specialist social investment and mainstream investment markets. An early example is the current piloting of the Social Impact Bond in NSW, Australia and in the UK<sup>7</sup>. The long term issue is whether and how the public and social value can be embedded and protected within commercial instruments. It will also be important that issues experienced across the full life cycle (from concept to market – including through the critical 'valley of death' stage) are considered.

Schumpeter's work on credit and the financing of entrepreneurial activity is considered highly relevant in this context and warrants further exploration. Schumpeter argued that the profits that accrue from entrepreneurial ventures are always to a degree 'monopoly gains', as competitors 'follow at a distance' (1949a, p255), and that without the opportunity for this type of return investment in such ventures would not occur. A result of this was his advocacy of imperfect market competition. It was his interest in innovation that this stemmed from, and he argued that perfectly free competition meant entry into new fields would be prohibitively costly (inhibiting innovation), and that in practice perfect competition is 'temporarily suspended' whenever something new is introduced into the market (Schumpeter, 2010b, p90). Innovation is now thought to flourish in 'goldilocks conditions' - where there is a critical balance between monopoly and competition and between risk and rewards (Lent & Lockwood, 2010, p27).

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<sup>5</sup> For a discussion on the L3C model see: <http://www.socialearth.org/how-to-an-insider%E2%80%99s-look-at-the-l3c-and-what-it-could-mean-for-you-and-your-social-enterprise>

<sup>6</sup> In further refining specific organisational forms, attention should be paid to designing intellectual property rights that facilitate and encourage social innovation, or the current trends are in danger of inhibiting development in this direction (Stiglitz, 2010, pxiii).

<sup>7</sup> Social Impact Bonds: a bond-issuing organisation raises capital from investors based on a contract with government to deliver improved social outcomes that generate future government costs savings. These savings are used to pay investors a reward in addition to the repayment of the principal, if the agreed outcomes are achieved. For example, The Centre for Social Impact's Feb 2011 report for NSW Government's at [http://www.csi.edu.au/assets/document/NSWSIB\\_ExecutiveSummary.pdf](http://www.csi.edu.au/assets/document/NSWSIB_ExecutiveSummary.pdf); or the work of Social Finance in the UK at [http://www.socialfinance.org.uk/sites/default/files/Towards\\_A\\_New\\_Social\\_Economy\\_web.pdf](http://www.socialfinance.org.uk/sites/default/files/Towards_A_New_Social_Economy_web.pdf)

Focusing policy tools on the creation of the 'balance of conditions' that will foster investment into innovation for a social purpose is needed. It is early days in these areas, and further consideration of the differences between social innovation and entrepreneurship and commercial innovation and entrepreneurship<sup>8</sup> and how these relate to investment markets is needed to inform directions. Even in his time, Schumpeter recognised that in practice, if not in name "... we have travelled far indeed from the principles of laissez-faire capitalism" (2010b, p378), and to direct incentives towards the creation of social innovation markets the myth of perfect competition will also need to be addressed in policy development.

*ii) Supporting the social entrepreneur function*

Schumpeter highlights the unique attributes of the entrepreneur, suggesting that only a small proportion of the population has the required aptitude to act beyond the familiar, the confidence and the ability to overcome resistance (2010b, p117). Dees similarly identifies the capabilities and temperament of social entrepreneurs as exceptional (2001, p5). Social entrepreneurs also generally work within significant and complexly related resource constraints (Austin et al, 2006, p12), 'making do' with what can be assembled from amongst their own connections<sup>9</sup>. This indicates some of the unique challenges that make practicing social entrepreneurship so difficult. To achieve their goals, social entrepreneurs also draw on highly developed network building and relationship management skills (Austin et al, 2006, p13). Identification of these traits has led to increasing recognition of the value of networked forms of social entrepreneurship (Leadbeater, 2006, p240), taking the entrepreneurial function out of the domain of just the individual.

To accelerate activity, a more purposeful and systematic approach to identifying and developing social entrepreneurs is needed. In the UK, for example, the School for Social Entrepreneurs and UnLtd have been supported through a number of government programs over the years; and in Scotland the Social Enterprise Academy delivers a Social Enterprise in Schools program<sup>10</sup>. The public sector could also promote a focus on network-based approaches to achieving social value goals, and assist social entrepreneurs to establish and maintain relationships that will hone a focus on social

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<sup>8</sup> See Austin et al, 2006, for useful discussion on this

<sup>9</sup> See Domenico et al, 2010, p689-699 for a discussion on 'social bricolage'

<sup>10</sup> See: School for Social Entrepreneurs - <http://www.the-sse.org/>; UnLtd - <http://www.unltd.org.uk/>; The Social Enterprise Academy's Schools Program - <http://www.theacademy-ssea.org/schools>

impact beyond just their own organisation's boundaries (Austin et al, 2006, p18), for example through supporting the piloting of approaches like the Constellation Model<sup>11</sup>. Many governments include agencies and programs with a remit to support and develop commercial entrepreneurs. There is an opportunity to effectively resource the social entrepreneur function through re-positioning portions of existing budgets.

*iii) Purchasing power*

Schumpeter identified the powerful role of the consumer in shaping market directions, noting that it is the consumer who is the real leader of the production process (1949b, p21-2). The entrepreneurial process disrupts on a periodic basis, but in affect the social entrepreneur is as dependent on the consumer market to purchase his or her goods or services as any other business<sup>12</sup>. In recognition of the power that resides in the individual consumer, when aggregated together, there is an important role the public sector can take in stimulating the consumer market to seek products and services that generate socially beneficial outcomes, and to normalise the selection of these from amongst a range of choices (for example, implementing policy tools that incentivise the purchasing of Fair Trade goods).

Governments all over the world - whether at local, regional or national level – are important purchasers in their economies and there are also significant opportunities for the public sector to harness its own purchasing power to drive socially, environmentally and culturally beneficial impact. Guidance to assist with integrating social procurement is being developed in Australia<sup>13</sup>, but perhaps the most significant current example of this approach is the Public Services (Social Value) Act, recently passed in the UK<sup>14</sup>. Providing practical resources to assist procurement staff explore and

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11 Developed in Canada to support a cross-sectoral multi-organisation approach to developing innovative approaches to children's health, see <http://socialinnovation.ca/constellationmodel>

12 But also worth noting that for social enterprises that focus on low income end-users that the market has different characteristics than for those that may be competing in commercially attractive markets – see Austin et al, 2006.

13 The Victorian Guide is available here: [http://www.dpcd.vic.gov.au/\\_\\_data/assets/pdf\\_file/0014/61313/Social-Procurement-A-Guide-For-Victorian-Local-Government.pdf](http://www.dpcd.vic.gov.au/__data/assets/pdf_file/0014/61313/Social-Procurement-A-Guide-For-Victorian-Local-Government.pdf); and a NSW Guide focusing on both State and Local Government is currently in development.

14 See [http://www.socialenterprise.org.uk/uploads/files/2012/02/public\\_services\\_act\\_2012\\_a\\_brief\\_guide\\_web.pdf](http://www.socialenterprise.org.uk/uploads/files/2012/02/public_services_act_2012_a_brief_guide_web.pdf) for commentary and guidance on the new Act, prepared by Social Enterprise UK.

integrate innovation outcomes into tendering and other purchasing processes will be critical to the success of these initiatives.

In social service contracting there is emerging activity around participatory innovation and 'prosumption'<sup>15</sup>, which involves service users and consumers in the design, development and implementation of socially innovative responses to identified issues. Social service contracts currently tend to be strongly focused on program delivery and output (activity) level reporting. Repositioning contracting and reporting processes to create opportunities to pilot participatory innovation and collaborative service design is within the power of many public service agencies. For example, The Australian Centre for Social Innovation's (TACSI) 'Family by Family' program, or in the UK NESTA's 'People Powered Health' program<sup>16</sup>. These approaches also have the potential to contribute to changing perceptions of 'returns' as being solely monetary, with evidence mounting that participants reap a range of 'rewards' from their involvement (Lent & Lockwood, 2010, p8 &39). Who innovation involves and what type of benefits they receive is critical to understanding the social value it creates.

*iv) Demonstrating value*

For social entrepreneurs and social innovators, a key difficulty in developing the evidence base for investing in their work is that methods of understanding and communicating 'value' are currently deeply rooted in the discursive capitalist system. Within this system the market is the mechanism for determining the value of investment into any particular activity. As noted by Dees (2001), despite not being perfect, this works reasonably well as 'a test of private value creation' but

Markets do not work as well for social entrepreneurs. In particular, markets do not do a good job of valuing social improvements, public goods and harms, and benefits for people who cannot afford to pay. . . As a result, it is much harder to determine whether a social entrepreneur is creating sufficient social value to justify the resources used in creating that value (p3).

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15 Prosumption: blurs the boundaries between consumption and production, with individual agents performing both functions, often simultaneously

16 For more information: TACSI's 'Family by Family' program at <http://www.tacsi.org.au/our-projects/family-by-family>; or NESTA's 'People Powered Health' at [http://www.nesta.org.uk/areas\\_of\\_work/public\\_services\\_lab/people\\_powered\\_health](http://www.nesta.org.uk/areas_of_work/public_services_lab/people_powered_health)

This is a complex area of debate, and one highlighted by Schumpeter in 1947 (albeit in relation to commercial entrepreneurship):

. . . the question of appraisal of social gains from entrepreneurship, absolute and relative to the entrepreneurial shares in them, and of the social costs involved in a system that relies on business interests to carry out its innovations, is so complex and perhaps even hopeless that I beg to excuse myself from entering into it (footnote, p155).

Today, we no longer have the luxury of shying away from the difficulty of this task, and if we are to accelerate practice that assists with tackling complex sustainability issues, then a more systematic approach needs to be taken to understanding and communicating value. The public sector is, arguably, best-placed to invest in furthering this work as its remit is to service the public<sup>17</sup>. Understanding what the social value concerns of its citizens are – the jointly conceived ‘wants’ – is core to developing policy tools that will drive a focus on the type of innovation that will assist with tackling sustainability challenges .

### *Conclusion*

Schumpeter was interested in exploring the schema of innovation, and in establishing the validity of its role in economic development, but he also stressed that causal chains are difficult to establish and that instead attention may be better directed towards identifying how distinguishable factors mutually interact (Schumpeter, 1949a, p257). In this vein, empirical research into social innovation and social entrepreneurship may benefit from approaching the issues through exploration of the mutual interaction between identifiable factors, rather than pursuing a narrow focus on attempting to isolate causal relationships between factors or characteristics.

Many of the potential research agendas in this area offer opportunities for the research community to also take an entrepreneurial approach to its contribution to enabling social innovation and social entrepreneurship – through reworking and rethinking approaches to available materials, bringing a social lens to the work of theorists and to existing sources.

During his time Schumpeter suggested that the processes and impacts of entrepreneurship and innovation could be better understood through exploration of a range of existing data sources “. . .

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<sup>17</sup> For example, the UK and Scottish Governments invested in the establishment of the UK’s Social Return on Investment (SROI) Network. SROI is an evolving methodology that is perhaps most useful in scenarios where an activity is likely to result in savings to the public purse. See [www.thesroinetwork.org](http://www.thesroinetwork.org)



from general economic histories and biographies of businessmen, and from local histories to studies of technological change . . ." (1949a, p266). A similar exercise that examined practice-based source materials through the social lens could uncover much that may be useful in improving our understanding of the processes and impacts of social innovation and social entrepreneurship. Similarly, re-examining other key economics authors, rethinking and combining their core concepts in new ways, may also prove fertile ground.

The focus of this concept paper has been on exploring aspects of Schumpeter's work that could assist with accelerating the type of social innovation and social entrepreneurship activity that has the potential to impact complex sustainability issues. In particular it has suggested areas where policy could play an enabling role through mobilising and re-aligning existing resources<sup>18</sup>.

Far more research is required in all the areas touched on to ensure truly informed policy and practice can emerge. This will necessarily be an iterative process, informing and reforming as we unlearn the old and learn the new. The major question is whether the social value potential is sufficient to drive the policy development and investment that will carve out a pathway. Local level explorations and attempts will help to build a critical mass, and also to strengthen the evidence base needed to drive this agenda at a more macro level. And the clock is ticking.

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<sup>18</sup> The paper has not attempted to demonstrate or evaluate how socially entrepreneurial activity and social innovation may address complex social and environmental issues. It has also not treated in any depth the multiple, complex and structural barriers that stand in the way of progressing a social form of economic development. This is in no way intended to simplify or downplay the importance of these and other matters the social innovation and social entrepreneurship field is grappling with.

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