

**The dynamics of innovation and social capital in social enterprises:
a relational sense-making perspective**

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Abstract

We develop a relational sense-making framework in order to understand the ways in which knowledge and information, when transferred across social networks, enable or inhibit the innovation process and its sustainability within social enterprises. Our model comprises four main elements: (i) Social capital, (ii) the Innovation, (iii) the Process, and (iv) Adoption and ongoing support (SIPA). Collective understanding through sense-making and sense-giving is fundamental to the successful management and sustainability of innovation projects. The social capital which emerges and develops may incorporate formal and/or informal group(s) linked by particular interests, common goals and/or shared agenda(s). Broadly speaking, the innovation may be directed towards either a problem or an opportunity for the collective. The 'black box' process through which different views and interests are presented, interpreted and collective sense-making occurs in the further development and uptake of innovation is by its nature: multifaceted, complex and non-linear. The temporal fragility of certain innovations necessitates ongoing support and acceptance in order to achieve longer-term sustainability. The iterative relations between these elements of social capital, innovation, process and adoption occur within a social, political and economic context in which sense-making and sense-giving of individuals and groups often compete. A key objective of our research is, therefore, to tease out the extent to which and the ways in which social relationships and networks, innovation intentions and technology development are influenced by social capital dynamics within organizations, social enterprises in particular.

1. Introduction

The paper aims to conceptualise the process of innovation¹ and the potential influence of social capital² in social enterprises³. As such, it is timely and apposite to do so given the 'emergence', and growth, of social enterprises globally (Borzaga and Defourny, 2001; Kerlin, 2009); and also in the specific context of the 'Big Society' in the UK, and policy manoeuvres to engage social enterprises

¹ Innovation is "a process of turning opportunity into new ideas and putting these into widely used practice" (Tidd and Bessant 2009: 16).

² Social capital describes the connections within and between social networks, and is both the resources that personal contacts hold, and is the structure of contacts within a personal network (Burt, 1992). Social capital plays a key role in innovation, for example in 'open innovation' (Chesbrough, 2003), but this relationship has not yet been explored in social enterprises.

³ Defined by the UK's Department of Trade and Industry (2002) as "a business with primarily social objectives".

more centrally in the delivery of public services in an era of reduced public sector expenditure. Social enterprise research tends to focus upon sustainability, and the whole philosophy of what is a social enterprise and why is it different from a commercial enterprise (i.e. social versus commercial objectives). However, despite the symbiotic and inextricable link between innovation and the (social) entrepreneurial process, there has been relatively little written on innovation in social enterprises, though there is a growing literature on social innovation (e.g. McElroy, 2002; Dawson and Daniel, 2010; Marcy and Mumford, 2010; Mulgan, 2006; Mulgan et al, 2007; Taylor, 1970). Prior research evidence shows that social capital, i.e. the ties and relationships between people in and outwith organizations, is critical to what they do and how successful they are (Anderson and Jack, 2002; Cope et al, 2007). For innovation, social capital is vital too (Daniel and Dawson, 2011) and represents a significant gap in the literature that is also topical and policy relevant.

We aim to critically examine the generation of new ideas and their application within social enterprises in order to identify and examine processes of innovation. The question of what constitutes an innovative and non-innovative enterprise is not easily resolved and raises theoretical and conceptual concerns that will be addressed in this paper. Although it may be possible to identify ‘ideal types’, we assume that many organizations will comprise a combination of different elements that require in-depth analysis in order to gain purchase and insight into the nature of their operations or, indeed, activities. Social innovation is even less clearly conceptualised within the literature and, given the commercial driver behind mainstream 'commercial' entrepreneurial activity, – which is clearly different in many ways (Austin et al, 2006; Spear, 2006) – we do not make normative assumptions that an innovative social enterprise sector is some sort of “magic bullet”. Rather, we aim to critically evaluate the influence of social capital, as well as the process and outcomes of innovative activities among the social enterprises studied.

From a policy perspective, with the vision of the Big Society in the UK (the new Decentralisation and Localism Bill) and public service reform (creating market opportunities for social enterprises), then innovations could address those needs. The rationale behind the Big Society is that the, ‘size, scope and role of government has reached a point where it is now inhibiting, not advancing the progressive aims of reducing poverty, fighting inequality, and increasing general well-being’ (Conservative Party, 2010). This vision includes reforming public services so that they can be delivered by social enterprises. Government wishes to stimulate this activity by, amongst other things, establishing a Big Society Bank. One of the key debates over the Big Society has centred on whether it is possible to introduce substantial innovations to the way in which public services are delivered, especially via organizations such as social enterprises, without drawing upon substantial financial resources to facilitate these innovations. Clearly, philanthropy can play a key role in the Big Society (Shaw, 2011).

We seek to evaluate the extent to which intrinsic interactions of social relationships, innovation intentions and technology development are influenced by the social capital dynamics of participating stakeholders. It is not enough to generate a new idea; there is also a need to gain collective acceptance and support to facilitate the integration of the idea into the social corpus of knowledge that may lead to adoption. These processes of innovation sanction and integration through shared sense-making is an area in need of further research and we present a provisional relational model that seeks to reveal the ways in which knowledge and information is transferred across social networks in enabling or constraining the innovation process and its sustainability.

2. Conceptual development and theoretical concerns

Whilst there is a growing interest in the role of social entrepreneurs and the importance of social capital in developing sustainable solution to modern problems, the innovation process in social enterprises remains under-theorised. Conflicting definitions, ambiguity and confusion over what constitutes a social enterprise and whether they represent short-term projects that by their nature can never be fully sustained has stimulated concern and debate. In this section we re-examine the notion of social enterprise and social entrepreneurship as well as what we mean by innovation and social capital prior to a discussion on innovation and social capital in social enterprises.

2.1 Social enterprise and social entrepreneurship

Notwithstanding the long acknowledged role of innovation in the entrepreneurial process (Drucker, 2006; Kanter, 1984; Schumpeter, 1939) and specifically in relation to one of the defining characteristics, activities, and future research directions of social enterprise and social entrepreneurship (Borzaga and Santuari, 2001; Haugh, 2005; Kanter, 1999; Mort et al, 2003; Robinson et al, 1998 ;Shaw and Carter, 2007), relatively little has been written on innovation in social enterprises and this theme represents a significant gap in the literature and one that is also topical and policy relevant. A social enterprise is: “a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners” (DTI, 2002). However, despite an apparent clear-cut understanding of what social enterprises are, definitions and terminology are, arguably, ‘ambiguous’, with ‘confusion’ (Jones and Keogh, 2006), and “debates involving definitional and conceptual clarity, boundaries of the field” persist (Dacin et al, forthcoming). Indeed, Birch and Whittam (2008) provide a useful distinction that social enterprises are within the social economy, the social economy belongs to the Third Sector and these are distinct

from voluntary organizations⁴ and have linkages with the public sector.

Theory and concepts related to the field have been examined critically. Meanwhile, various studies have profiled case examples of social enterprises (Thompson, 2002, 2008; Thompson and Doherty, 2006; Thompson et al, 2000) These debates relate, for example, to performance (Bull, 2007), as well as wider conceptual discussions, particularly concerning the tension between ‘social’ values and ‘enterprise’. An early study provided a map of social enterprises across the UK in which their prevalence and spread were much wider than initially thought (IFF Research, 2005). However, this study was more of a descriptive account of the where and what of social enterprises, while a later report on social entrepreneurship by Ramsden (2005) provided more fundamental evidence of challenges in relation to the Phoenix Development Fund, in that: “there is no true sustainability for most of these projects.” Ramsden points out that if savings to welfare could be reinvested in social enterprise then this could go some way to ensure longer-term sustainability. In other words, that that social enterprises could be funded by ‘savings to welfare’ if a ‘social return on investment’ was established. This is perhaps one of the greatest challenges on a wider policy perspective – a failure of Government departments to link together and share information to enact policy as part of a ‘big picture’, as examined in the realm of wider enterprise policy (Thompson et al, 2010). In short, social enterprises face problems of sustainability, as identified by Ramsden but also by Darby and Jenkins (2006) and others, in which one of the major measures of the performance of social enterprises is social impact (Barratt, 2007). Various commentators have also raised the issue of governance and how the problems of structuring social enterprises has created their own problems (see, Low, 2006; Mason et al, 2007; Ridley-Duff, 2008; Spear et al, 2007). Finally, there is literature that explains the reasons for the failure of previous social enterprises, such as Aspire (Tracey and Jarvis, 2006, 2007) whose franchising business model and thus the enterprise itself failed. These studies highlight the various challenges that face social enterprises especially if the intention is to sustain their activities over a prolonged period of time.

2.2 Innovation and social capital

Innovation is “a process of turning opportunity into new ideas and putting these into widely used practice” (Tidd and Bessant 2009, p. 16). Innovation can be further characterised or categorised in terms of products, processes, market positions or paradigms, i.e., business models (Utterback, 2004) and along the lines of radical or incremental innovations (Rothwell and Gardiner, 1985) and at systems or components levels. A distinction must also be made between invention, something new which is conceived or created, and innovation, which is about application, about putting new ideas into practice, and their wider diffusion (Link, 2008; Nelson, 1959; Rosenberg, 1972; Schumpeter,

⁴ Though see Bussell and Forbes (2003, 2006),

1939).

What, therefore, constitutes and innovative versus non-innovative social enterprise is perhaps less of an issue than in, for example, SMEs where the innovative, fast growth, high-technology, Birchian 'Gazelle' is contrasted with the low-growth, low innovation 'lifestyle' or 'family' business. Relatively low levels of sectoral differences between social enterprises might suggest that it is not about radical versus incremental innovation, as such, but about any sort of innovation occurs at all in the organization. Social capital, which is explored in a later sub-section, is clearly critical to the process of innovation and, indeed, to the diffusion of innovations. Although like Fleck (1993), we would contend that there is often no clear division between innovation and diffusion (he uses the concept of *innofusion*). Forming links between different innovation players within and without organizations is often critical to these processes and an essential element of social capital. This is spotlight in Rothwell's fifth generation innovation model (Rothwell, 1992, 1994), in the exchange of inter-organizational knowledge and the ability to observe external knowledge, i.e. absorptive capacity (Cohen and Levinthal, 1990), as well as the 'open innovation' paradigm (Chesbrough, 2003). The prevalence of social capital, or inter-organizational links, within the innovation literature has been a relatively recent phenomenon, which we will explore and conceptualize further in a later section of this paper.

Social capital describes the connections within and between social networks, and is both the 'resources that personal contacts hold', and the 'structure of contacts within a personal network' (Burt, 1992). Social capital plays a key role in innovation, for example in 'open innovation' (Chesbrough, 2003), as well as in entrepreneurship (Anderson and Jack, 2002; Cope et al, 2007), but this relationship has been inadequately explored in social enterprises (apart, for example, from Taatila et al, 2006). Bourdieu (1983) distinguishes between three types of capital - economic (cash and other tangible assets), cultural (education, knowledge and skills), and social (networks of relationships). For Putnam (2000), the networks that constitute social capital serve as conduits for the flow of knowledge. He distinguishes two kinds of social capital: bridging and bonding - the latter referring to social networks made up of homogeneous groups, the former to networks of heterogeneous groups. Social connections enable people to work together to achieve things they could not do on their own or only with great difficulty and/or at a prohibitive cost (Nahapiet and Ghoshal, 1998). These connections facilitate new forms of association and innovation. Trust is a key condition for knowledge sharing (Scarborough et al, 1999), and a core element of social capital (Granovetter, 1985; Fukuyama, 1995; Putnam, 2000). The social capital residing in the wider community can impact an organization's innovative capability, but this will only happen if it can absorb, assimilate, transform, and exploit the knowledge that is generated (Roxas, 2008).

2.2.1 Social capital and innovation in social enterprises

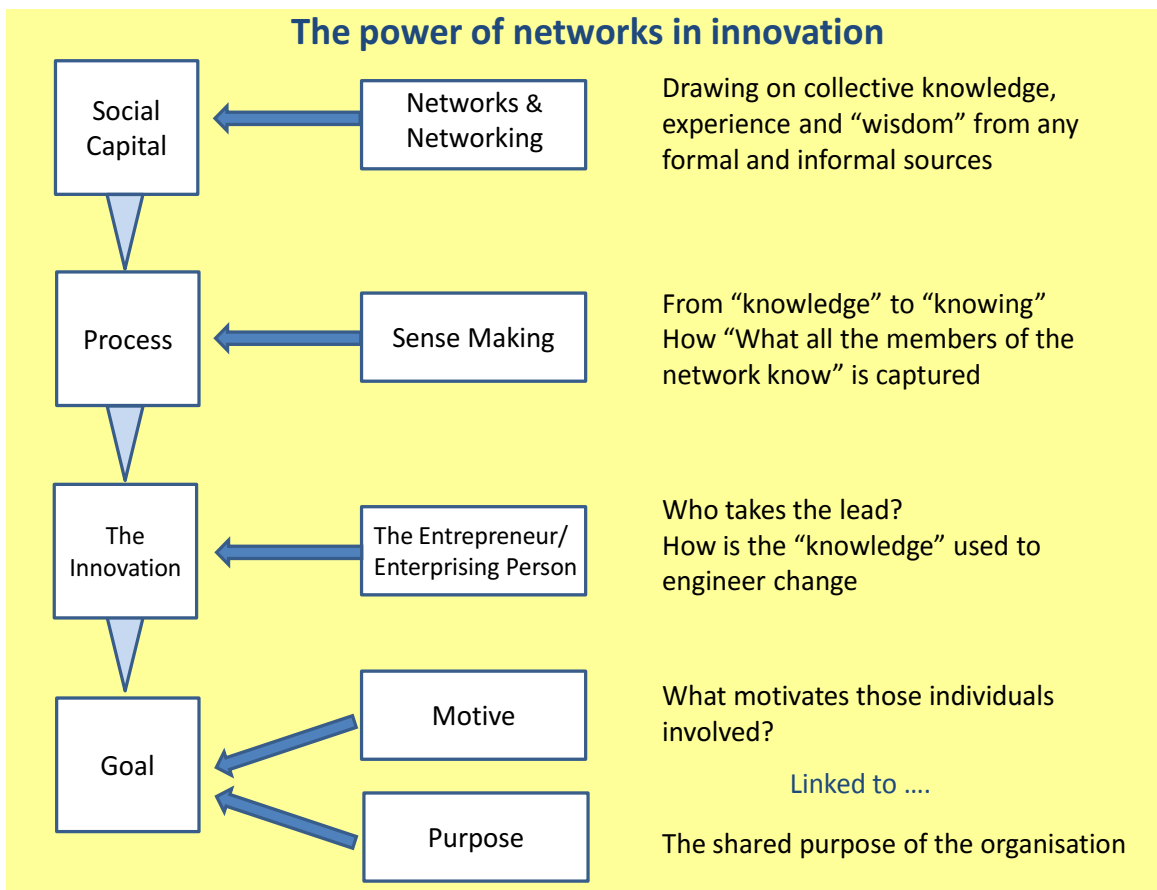
It is abundantly clear that, as with innovation, social capital plays an important role within social enterprises (Chell, 2007; Evers, 2001; Kay, 2006; Peredo and Chrisman, 2006; Smallbone et al, 2001; Spear and Hulgård, 2006), but the linkage between these three concepts and processes remain conceptually under-developed. The essential focus of Figure 1 concerns how the power of networks and networking might be harnessed for innovation in social enterprises through making effective use of the generated social capital – but only if someone we might describe as ‘socially enterprising’ acts as a champion to use the generated knowledge and insight effectively. We opt not to use the term ‘social entrepreneur’ for describing everyone who behaves in an entrepreneurial manner in a social or community context to innovate and create new value. As is the case with preferred definitions of the term ‘entrepreneur’, we acknowledge there is a narrow as well as a tight definition but also accept that some of the people involved will be true social entrepreneurs.

It has been shown how those involved in social enterprises are consummate networkers (Thompson and Doherty, 2006). Many attend meetings all the time. Networking is an important characteristic of entrepreneurs - but for true entrepreneurs it is definitely networking with a purpose. It is not simply socialising and sharing problems. So the question is - how effectively do those involved use the insights and sense-making of the network? They are committed to causes and to doing good; and they typically (willingly) share their ideas with others they would see as like-minded. The members of the various formal and informal network groups are all given an opportunity to share their collective knowledge, experience and ‘wisdom’ from a wide variety of both formal and informal interactions and experiences. Some of this will have already been organized by each of them into coherent messages - but not all. Some will be much more unstructured – thus providing a challenge for the group. The operation of networks - how social capital is generated from exchanges, how these stimulate new ideas and perspectives, fresh thinking, reframing of problems and issues – will help determine the ultimate value of the networks.

This value has two themes. First, do the members, individually and collectively, make a genuine progression from ‘knowledge’ to ‘knowing’? In other words, what sense do they make of all the knowledge and information to which they are introduced and exposed – and do they appreciate how it might be used? Second, is either an individual or a group from within the network or even the whole network committed to using the new insight to innovate? It is important to stress that, whilst all members have the same opportunities and presumably the same access to the shared information and knowledge, they will not all see the world in the same way. They will reach different conclusions about both meaning and significance. Their shared insights can undoubtedly help each other but we are interested in the person who either is in a position to act or the person who chooses to do something.

It is important, therefore, to consider the person as well as the process. First, the process. Innovation will need to be goal-directed and this requires (amongst other things that might be listed) purpose, motive and a champion. Purpose and motive affect whether the socially enterprising champion might look to apply the fresh insights. Sustainability for some defined period is seen as a key desired outcome and one that is unlikely to be achieved without progression and innovation in a changing environment. At the same time, the more specific purpose of any social enterprise is likely to be directed at some defined issue, need or cause. It would be unusual for any social enterprise not to be competing for funding, whatever the source. Resources are scarce and must be secured, sometimes through more creative ways of resource acquisition, such as bootstrapping or 'bricolage' (Di Domenico et al, 2010). The relevant innovation can and often will, therefore, concern how the targeted need might be satisfied more innovatively, more imaginatively or more economically. The innovation might also be directed at how to secure the necessary resources more effectively. Innovation can focus on either or both outputs or inputs. The motive for innovation is certainly affected by this purpose of the enterprise but it is also linked to the person acting as the innovation champion and his/her motivation. This personal motivation will affect how committed someone is and also how committed to change they might be – as distinct from being blinkered.

Figure 1 The power of networks in innovation



Motivation to helping the cause and to securing the best possible outcomes can be a critical spur to innovation and the search for improvement. But, at the same time, personal motives can inhibit. The person in the best position to do something with the new knowledge and insight might well be minded not to act – because it conflicts with his/her existing view. In other words, social capital might have been generated within the network, with many members having shared insights and thoughts and developed fresh perspectives. But this would effectively be lost or wasted if the person in the best position to act disagreed and either chose not to change or seek to change in directions not shared by the group as a whole.

3. Towards a relational sense-making model

Building on previous work on social innovation (Dawson and Daniel, 2010), innovation in the biotechnology industry (Daniel and Dawson, 2011), and ongoing research on the sustainability of public houses as a means of preserving community and public facilities, employment and meeting places in rural areas (McLoughlin and Preece, 2010; Preece, 2008; Preece et al, 1999), we aim to develop a conceptual framework for understanding the dynamics of innovation and social capital in social enterprises. On the basis of their study of an initiative to stimulate innovation by putting rural public houses in the UK ‘on-line’ as one element of making the pub ‘the hub’ of service delivery in UK rural communities, McLoughlin and Preece (2010: 75) comment:

Research findings are presented which show that the initiative did not develop as intended and ultimately – even in pilot form - became difficult to sustain. This abortive attempt to appropriate computer and Internet technology is explained as a failure of social learning. In particular, whilst aiming with some success to assist in the configuration of the technology to the specific context and setting of the rural pub, the initiative failed to focus on developing the means and mechanisms that might have supported the development of a stronger learning culture. This could have provided the basis for the kind of social innovation required to develop and sustain a model of the rural ‘cyber pub’ that might then have been more widely appropriable.

The failure of social learning also draws attention to the importance of collective sense-making and for the need for people to be motivated to innovate and to engage in goal-directed action in tackling social challenges. Drawing on the work of Gioia and Chittipeddi (1991), we are interested in not only how collective sense-making occurs within formal and informal networks, but also how individual champions of change give sense to their goal-directed activities. In other words, at the interplay between individual and collective sense-making and sense-giving, and how the latter may

be used to further shape the sense-making of others. For example, sensegiving is defined as a 'process of attempting to influence sensemaking and meaning construction of others towards a preferred redefinition of organisational reality' (Gioia and Chittipeddi, 1991: 442). As such, we are not solely interested in the dynamics of social capital but also in the way in which this knowledge is drawn upon in putting innovation into practice.

The interplay between the development of knowledge and knowing through networks of relations, in coming to a collective sense of what is the problem or challenge and how it might most usefully be accommodated, as well as an understanding of the processes involved in implementing new ideas or ways of doing things in directing activities that not only facilitate adoption but also provide ongoing support for sustainability, has led us to develop a working framework. This provisional consists of four fundamental elements: (i) *Social Capital* (the building and sharing of knowledge through networks), (ii) the *Innovation* (the translation of new understanding/knowing to tackle a problem or to identify possible actions in response to an opportunity), (iii) the *Process* (by which that innovation is negotiated and understood), (iv) *Adoption* and ongoing support (goal-directed activities that support sustainability). Under this SPIA model, the process by which individuals make sense of problems and give sense to innovations is part of the dynamics of innovation and social capital in social enterprises. Social capital provides a network of shared understanding and knowledge that can facilitate collective sense-making through the support of common goals and shared agendas. It is inherent in the interactions, relationships and networks of members of a particular social collective; this may be a group or community, organization or industry, region or even as an attribute of an individual (Daniel and Dawson, 2011: 3). But even with shared goals, there may be competing interpretations of the nature of the problem or the ways of tackling the issue at hand. As such, the need for collective understanding through processes of sense-making and sense-giving are essential to the acceptance, adoption and support of sustainable innovation projects. It will require iterative negotiations to re-evaluate resolutions and outcomes for fit with the community of practice and the continuous inclusion of shared knowledge, evolving perspectives and interactive experiences.

The innovation may be directed towards, for example, either a longstanding social issue, an intractable concern that has proven difficult to resolve, a wicked problem or reflect opportunities that arise and/or a collective sense of options and possibilities for translating ideas into practical sustainable solutions. In situations where the resolution to the challenge is ambiguous then new strategies, concepts or tools may be required to aid clarification, negotiation, and prioritisation. The innovation process will necessarily be complex, contingent on context, culture and politics, and further confounded by functional and relational interests. It may be spontaneous, radical, fragmented or emergent but ultimately, it will be unique. In order to sustain the innovation over

time, acceptance and ongoing support is required. Further processes of sense-making in response to the innovation, changing circumstances, prospective aims and unexpected events may in turn influence innovation in steering the direction of various refinements, modifications and adjustments. Moreover, the goal of innovation in the social enterprise is unlikely to centre on delivering breakthrough technologies or novel scientific advances but, rather, achieving sustainable outcomes that will also service social well-being.

This provisional model, which in future empirical research will be used as a guide for data collection and analysis rather than a definitive end product, enables examination of relationships, communication, interaction and networking to fully understand the import and dynamics of social capital on innovative processes within social enterprises – studied to gain a fuller appreciation of factors that shape decision-making and steer the process (as well as sense-making and sense-giving among key change agents and stakeholders, which direct our attention to wider networks beyond the enterprise under study). Essentially, the SIPA models aims to identify and analyse the iterative relations between these elements in context and over time in order to further our understanding of the dynamics of innovation and social capital in social enterprises. New and unexpected data will also service theory development (inductive method) to refine or replace our provisional model with a more robust conceptual framework to explain the studied processes.

4. Conclusion

This paper has aimed to conceptualise the process of innovation and the potential influence of social capital in social enterprises. We have set out to tackle this significant gap in the literature through developing a relational sense-making framework that can contribute to conceptual understanding and be of relevance to policy concerns and issues. At the outset, we have aimed to address the question of what constitutes an innovative and non-innovative enterprise. In constructing a number of ideal types, the difficulties of differentiating between interlocking processes become manifest and we highlight how many organizations comprise a combination of different elements. These difficulties are complicated further when the often poorly defined concept of social innovation is introduced. We have developed a relational model that provides a means of charting the way that knowledge and information is transferred across social networks in enabling or constraining the innovation process and supporting sustainability.

The need for collective understanding through processes of sense-making and sense-giving are fundamental to the successful management of innovation projects. Innovations in social enterprises are not different in this regard, however they do represent a different domain in which social objectives rather than principally commercial objectives drive change and innovation. The notion of a social return on investment highlights how goal-directed innovations – that, for example,

seeks to take up on opportunities to do good or tackle a social problem that needs resolving - may require new strategies, new funding initiatives and consideration of appropriate governance structures. The monies saved through social enterprises that reduce welfare demands could usefully be channelled back into activities that support sustainability. Such an approach would require governmental support but could go some way in moving towards the creation of realisable social enterprise. With growing public concern and support for social issues and concern with private business greed following the ramifications of the financial crisis in Europe, the opportunity and context for such novel developments may now exist, even though public funding is tightly constrained. At the outset, there is a need to gain agreement and understanding on the nature of the problems that need to be tackled, although even when collectives agree on the need to resolve a problem, the ways of achieving that resolution can come into heated debate. Thus, a key intention is to evaluate the extent to which intrinsic interactions of social relationships, innovation intentions and technology development are influenced by the social capital dynamics within organizations. We argue that it is not enough to generate a new idea; there is also a need to gain collective acceptance and support to facilitate the integration of the idea into the social corpus of knowledge that may lead to adoption. We contend that these processes of innovation sanction and integration through shared sense-making within relational networks is an area in need of further research and development. Clearly, one of the main rationales for exploring, and theorizing, social enterprise and social entrepreneurship (and aspects such as innovation and social capital) relates to the ultimate achievement of goals, and the survival and sustainability of the organization (i.e. its performance and the role of strategy), which has been explored in previous studies (e.g. Thompson and Scott, 2012; Moizer and Tracey, 2010; Ruvio, 2011) and yet has much potential for future enquiry.

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