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## Innovation from below: dynamic capabilities of the territory as a source for new social ventures

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**Abstract:** Social innovation is a critical factor for the conception of new strategies to deal with increasingly complex social problems. Many of these initiatives are pursued at the local level and are based on the dynamic capabilities of a given territory.

Through the analysis of the Cooperative Terra Chã, we assess whether dynamic capabilities of a territory can generate opportunities for social innovation and how they can be exploited by local communities. We observe that by using a integrated strategy for the management of the capabilities of a territory, new social ventures are able to cope with severe social issues that are not being adequately addressed by other stakeholders.

**Keywords:** Social innovation; dynamic capabilities of the territory; social development.

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### 1 Problem

One of the most prominent societal challenges is the increasing unemployment that is often linked to increased crime and social exclusion, with long-lasting consequences not only for those losing their jobs, but also for their children who have fewer opportunities in society (European Communities 2011). The emergence of social actors' initiatives to satisfy social specific needs are offering solutions to different problems derives mostly from the employment crisis and the reshaping of State interventions (Bouchard 2011).

A growing number of social actors have adopted social innovation as an instrument of political action with respect to employment, to intergenerational population stability, to economic development and sustainability, and other social issues. In the policy of the

European Union the social innovation is mentioned as a strategic element of a Europe more intelligent, sustainable and inclusive and a response for the social challenges of the internal market (European Communities 2011). These new strategies are pursued at the local level not only by domestic governments and local authorities (largely supported by European funds), but also by not-for-profit and private organizations (through initiatives of corporate social responsibility) and social entrepreneurs.

## **2 Current understanding**

Traditional thinking emphasizes the capabilities and processes within organizations for creating and commercializing technology (internal factors). However, the external environment matters for success in innovative activity and is at least as important as internal factors (Porter 2001). An attractive environment for innovation, such as university-industry linkages or a large pool of highly qualified workers, depends markedly from the characteristics of a territory. Therefore, the competitiveness of a territory depends less and less on its natural resources, and increasingly on the creative and innovative ability of local economic actors (social entrepreneurs) to make the most of its existing potential (Leoncini & Montresor 2008).

A wide variety of territorial innovation models have emphasized the characteristics of the territory as a place for innovation. For the innovative milieu and the local production systems approaches, the territory is a support space where agents modify their behaviour according to the changes in the environment. On the contrary, the industrial district paradigm had a limited space view of the environment that it is seen as a source of constraints and opportunities to whom agents must react. For the regional innovation systems and the learning region theories, the inside specific relations with the environment constraints are emphasized. Finally, the new industrial spaces model underlined the dynamics of community formation and social reproduction. In this sense the dynamic capabilities of the territory are what make entrepreneurs capable to interact with their hosting environments, and running a process which depends, not only on their learning capacity, but also on their hosting environment – especially the territorial one – and their constituting resources – especially the human ones (Leoncini & Montresor 2008).

As pointed by Crevoisier (2014) the (social) innovation and development can only be triggered by an articulation between the opportunities that are opened up and formulated by the territory and the deliberate determination of social entrepreneurs.

Academic research on the link between social innovation and territorial innovation models is rare, as most of the works are practice-oriented and has been published in the form of research reports of various international organizations (e.g. European Commission) and foundations (e.g. Young Foundation) (Choi & Majundar 2015). Therefore, the analyses of paradigmatic case studies by academics at the operational level could enhance our knowledge base to better understand the mechanisms of social innovation in underdeveloped regions.

### **3 Research question**

Dynamic capabilities derive from the interaction of the firm with their hosting environments, especially the territory and the people. Therefore, what is a dynamic capability of the territory and how it can generate opportunities for social innovation?

The basic idea is that the geographical space links the “software” of the entrepreneur to their “hardware” – made up of the social community, the formal and informal institutions, and the tangible and intangible infrastructures that exists on its territory (Leoncini & Montresor 2008). Therefore, how does social entrepreneur seize the opportunity to develop a social venture?

### **4 Research design**

Case study research in some areas, such as social innovation, is a very useful method of gaining insight about well-managed initiatives known for their abilities to innovate and execute and where there is little theory available to serve as a guide (Yin 2013). We use a one single case design to observe the unique characteristics of the case and gain useful insights about the phenomenon. The data for this study were collected from two different sources: desk research; and semi-structured interviews. These sources were triangulated to improve the accuracy of judgments and strengthen the validity of the results.

Desk research was conducted based on secondary data previously obtained by the authors about Cooperative Terra Chã, as well as information displayed in the website and covered by the statutes of the selected institution. Then, to clarify some aspects of the analysis and enhance the content of the case study, two interviews were conducted with two members responsible for the management of the Cooperative.

The reasons for focusing on this case were: first, it represents a successful social venture developed in one less developed rural area with problems ranging from employment to lack of industries; second, it may serve to explore ideas about the role of small scale social initiatives on the regional development literature. Thus, this case may elucidate the main features of the activities undertaken by the Cooperative that can be used as benchmarks for other social initiatives located in less developed regions.

The two interviews started with open questions about Cooperative and other aspects related with past, present and future projects. The first interviews took place in July 2013 and the second occurred in March 2016. Both interviews lasted between 30 and 45 minutes. The data obtained in the interviews was triangulated with the data collected by desk research, which allowed us to control for memory bias.

In this approach the empirical patterns of the case was detached in order to address the main features related with the dynamic capabilities of the territory, the process of opportunity generation for social innovation and its appropriation by the social entrepreneur.

### **5 Findings**

New social ventures arise in response to severe social issues that remain unanswered in local communities. The intention to act arises from the awareness that those complex and multidisciplinary social issues will not be eliminated through social institutionalized

domestic responses, either because they do not exist or because they do not address the specific characteristics of local communities and territories.

We observe that individuals who are exposed to a social problem are usually promoters of new social ventures. The contribution of the Cooperative Terra Chã to attenuate the local unemployment problem was to develop new businesses based on ethnic products sold outside the village, helping to create employment in a small rural village of Portugal, preventing the exit of the young people and increasing the cohesion of the community.

Although each social venture focuses on a range of social issues its consequences are actually broader and have an impact in other social areas not explicitly recognized in its mission statements, such as social exclusion, civic cohesion, civil rights, promotion of human dignity and poverty. In the case of the cooperative Terra Chã, the innovative response emerges from different activities: the combination of existing local resources (natural resources) in an innovative way to protect the environment and increase tourism; the identification of new sources of revenue; and the partnerships with other institutions (public or private) that shared common cultural and social values. Then, we can say that the desire to innovate is not the result of one moment of creativity but is the *modus operandi* of the social entrepreneurs.

A particular characteristic of the Terra Chã case is that managers have a deep knowledge of the existent social problems in the community. This awareness allows the institution to adopt an integrated and holistic approach to the problems faced by the citizens. The actions taken try to maximize the resources available and improve the capabilities of the territory in order to obtain synergies and expand the process of social value creation.

The inclusion into the community of the social organization, the experience of the social issue and the strong involvement of the main stakeholders lead to the adoption of a response model that accommodates the characteristics of the target population and of the rural specificities of the territory where they live. Most of the solutions mentioned above are not radical social innovations but rather derive from the knowledge of the reality of the situation and the combination of pre-existing elements (i.e., incremental innovation).

As we can see in the Terra Chã case, understanding social problems allows for the design of pertinent strategies that address territory-based social problems. The creation of the cooperative is in line with the specificities of the territory and it is based on three cornerstones: (i) the social dimension; (ii) the economic dimension; and (iii) the cultural and/or environmental dimension. A virtuous combination of these three bottom lines, which reinforce each other, is possible due to the deep knowledge of local communities’ social problems and the powerful motivation of their social actors to find a satisfactory and lasting solution for local development. The case study illustrates how social entrepreneur’s innovation and creativity capabilities could facilitate the transformation of a social problem (triggered by the characteristics of the territory) into an opportunity to create social and economic value in a sustainable way.

## **6 Contribution**

We contribute to the growing need for qualitative research within the social innovation field, and especially on the role of the dynamic capabilities of the territory in the generation of opportunities for social innovation.

We assess the extent to which social entrepreneurs seize the opportunity for social innovation and manage to launch new social ventures that take advantage of the resources and capabilities of the territory to create sustainable businesses, create new jobs and maintain traditional local know-how.

We help to identify the specific role of social innovation originating from a small and underdeveloped region. Specifically, the characteristics of the territory (culture, landscape, know-how, social heritage, etc.) and the abilities of the local community to decide on the mix of products to be offered or the combination of tourist attractions to be implemented are the source of the dynamic capabilities of the territory that confers a competitive and sustainable advantage to the cooperative.

From a regional perspective we provide valuable information for potential social entrepreneurs on how to seize opportunities for social innovation in less developed territories. Also, we contribute to the design of an adequate public program that could trigger ventures based on social innovation that derives from the concrete problems of people identify in the territory.

## **7 Practical implications**

The project of Cooperative Terra Chã describes how a significant number of inhabitants of a mountain village located in a national park launched a social venture involving public authorities. The strategy pursued by the Cooperative is based on the stimulus to economic activities that enable local development dynamics related to traditional products and tourism. The innovation process combines the application of traditional techniques to preserve local activities that added value to products and attracted tourists to the village. All the activities are supported by the combination of local endowments that are managed in order to generate synergies. Innovation was at the heart of the integrated approach conceived to stimulate the economic, social and ecological sustainability of the local community.

The Terra Chã Cooperative case reveals how employment can be promoted and created in rural areas that have failed to attract the interest of traditional firms and have greatly suffered from the crisis of the Portuguese economy. One critical factor is to preserve and exploit the population know-how and the local resources. Older (and ancestral) activities have to be redesigned in order to attract young people and deter migration to other central or coastal locations.

The analysis of the case also shows the relevance of considering the constituting resources of a rural territory, specifically the human and natural resources, and its contribution to the dynamic capabilities of the territory. First, the territory offers a space where local agents modify their behaviour in accordance with the changes of the environment. Second, individuals' alertness, experience and prior knowledge make it possible to take advantage of a set of circumstances provided by external environment that generates social innovation. Finally, potential sources of social innovation are triggered by an articulation between the opportunities that are opened up and formulated by the territory and the deliberate determination of social entrepreneurs.

## **8 Areas for feedback and development**

What is the role of different groups of people in providing a fertile territory for social innovation?

How do entrepreneurs identify opportunities for social innovation that derive from the territory?

Taking into account the local resources, endowments and dynamic capabilities of a territory, how do we transfer innovative practices (tacit knowledge) to other geographical locations?

How do territory-based innovations mitigate social problems and support the social work of local communities?

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