

The Tiresia Handbook in Management for Sustainability and Impact



Chapter 2 The fundamentals of purpose driven economy

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This chapter introduces some background theories on which purpose driven economy is rooted.

At first, the chapter outlines Polanyi's (1944) concept of reciprocity and highlights its relation to the modern theories on social economy and social entrepreneurship. Afterwards, it introduces the theory of the commons and its relation to the development of new, socially innovative, economic paradigms. The following section gives an overview on some alternative economic paradigms, focusing particularly on the concept of inclusive economy. Finally, it introduces the concept of social innovation, illustrating its definition(s) and key features.

1. Polanyi: redistribution, market and reciprocity

In his book *The great transformation*, Karl Polanyi (1944) a Hungarian-American political economist, identified three main forms of economic relationships:

- centralized redistribution
- dispersed exchange based on market mechanisms
- transactions based on reciprocity

The typical example of redistribution is in taxation. In this case, a centralized authority (for instance, the state) collects money and redistributes it in the form of services or subsidies to the citizens. The relationship is not necessarily symmetric, since some people may contribute with a lot of money and receive little services (probably the richest in society), while others (the poorest ones) may contribute with little money and receive a lot of services. Institutional trust is very important in this type of relationship that is based on a public legal bond.

In market exchanges the relationship is symmetric, meaning that the money paid corresponds to the value of the service or product exchanged. In this regard, the relationship is regulated by a principle of equivalence and the trust is based on systemic confidence. There is not an interpersonal trust between the market players, but there is systemic confidence in the rules and regulations of the system.

The third type of relationships is based on exchanges of goods and services that heavily rely on personal relationships. It is based on interpersonal trust, loyalty, and strong ties with other people.

Polanyi presented economic life as a totality of relations that goes beyond the simple transaction of products and services and that is based on all three types of relationships. However, he noted how economists' attention has been mainly devoted to the first two dimensions, driven by market's and states' action, rather than to the third one, reciprocity. His central argument is that the rise of market economy, particularly, disrupted the balance between the three types of economic relationships and led to a society where there are markets for trading any element of society. Thus, not only products and services are exchanged through market mechanisms, but also labour, land, public goods, and money. He called this process a "fictitious commodification" (Polanyi, 1944, p. 72).

It has been noted that Polanyi approach to the economy is quite in line with the development of social innovation and particularly with new forms of organisations that act across the three logics he described.

In this regard, the link between Polanyi's theory and the movement of social entrepreneurship, third sector and the model of social economy has been highlighted by many authors (Roy and Hackett, 2017; Roy and Grant 2021)). For instance, Tsai and Kao (2008) investigated whether social enterprises can actually be framed as an attempt to contribute to a Polanyian-like countermovement against the contemporary neoliberal hegemony. Defourny and Nyssens (2006) argue that "social enterprises combine the economic principles of market, redistribution and reciprocity and hybridize these three types of economic exchange so that they work together rather than in isolation from each other" (11). Ridley-Duff (2008) noted that the view of social enterprises is "redistributive", having "strong ideological commitments against individual appropriation of wealth and an emphasis on the 'common good'" (293).

2. Theory and tragedy of the commons

What are the commons

Private goods are goods whose property right can clearly be specified. Public goods are those that can be used by many without exclusivity, meaning that if someone enjoys them, their consumption does not exclude anyone else by consuming them. The commons can be classified neither as private nor as public. Commons can be defined as resources shared by many individuals, where 'shared' means that each individual does not have any right to claim the resource for him/herself but can claim the use of a portion of it. They are not rival and are used without exclusivity.

The value of commons is bigger than the sum of the values that they have for the single individuals.

Commons do not have the characteristics linked to property rights. Instead, it is more appropriate to talk about "spread ownership": the ownership of the commons is spread since everybody has ownership rights but no one can ask for exclusive claims. The access should be equal and open, the use is shared, and the appropriation is common.

Commons can be natural, digital, cultural or social resources.

A definition provided by Rodotà (2013, p.2) states that commons are "*those goods functional to exercise fundamental rights and the free development of personality, which should be protected removing them from the destructive logic of the short term, projecting their protection in the world further away, inhabited by future generations*".

This definition highlights how the concept of commons is linked to the one of sustainability. The aim of sustainability is to leave to future generation a world in better conditions by preserving the commons from consumption and exclusive usage. In other words, for a sustainable future we have to avoid the "tragedy of the commons".

The management of commons: the tragedy of the commons

As mentioned above, at the core of the concept of commons there is not the idea of property or exclusive ownership. While in a market-driven economy one fundamental issue is defining property rights in the more accurate way to make market transactions more efficient, in the case of the commons it is not possible to specify any property right and the problem concerns the management of these goods.

An open issue about governing the commons concerns how to manage them: how to establish rules that allow the universal access to these goods while avoiding their depletion?

One interesting example of this challenge is presented by the recent **pandemic caused by Covid-19**. We can consider public health as a common, since its ownership is spread, no one have any right to claim it for themselves, but can benefit from it. Considering public health as a common, during the pandemic the issue of managing it became dramatically evident: everyone acting in their own self-interest leads to worse outcomes for the common, hindering public health, the stability of health systems and putting at risk the most vulnerable. In this perspective, 'social distancing' and use of face masks, if commonly accepted and practised, may be solutions to protect public health from being irreparably damaged.

Ostrom (1990) identified three influential theories that help to clarify the issues related to the management of the commons.

1. The tragedy of commons by Hardin

The tragedy of the commons occurs when individuals exploit a shared resource to the extent that demand overwhelms supply and the resource becomes unavailable to some or all.

Already Aristotle observed that "what is common to the greatest number has the least care bestowed upon it. Everyone thinks chiefly of his own, hardly at all of the common interest" (Politics. Book II, ch. 3).

The phrase 'tragedy of the commons' was used by Hardin (1968) in one article in which he saw the issue from a demographic perspective. He noticed that everyone is born with an equal right to the commons. However, we live in a finite world, where the continuous growth of population and a dominant tendency of thought, assuming that decisions reached individually also pursue the best for entire society, have led to the tragedy of the commons. He called it a tragedy because it represents a "remorseless working of things", an unavoidable process.

He presented the example of a shared pasture. Each herdsman, as a rational being, seeks to maximize his interest and, more or less consciously, wonders "What is the utility to me of adding one more animal to my herd?"

"The rational herdsman concludes that the only sensible course for him to pursue is to add another animal to his herd. And another; and another... But this is the conclusion reached by each and every rational herdsman sharing a commons. Therein is the tragedy. Each man is locked into a system that compels him to increase his herd without limit in a world that is limited. Ruin is the destination toward which all men rush, each pursuing his own best interest in a society that believes in the freedom of the commons. Freedom in a commons brings ruin to all." (Hardin, 1968)

Other examples of the tragedy of the commons are pollution and traffic congestion. Public roads are a common property shared by many people, each one with their own interest in mind: for instance, how to get to work as quickly and easily as possible. When everyone decides that public roads are the best

way to meet travelling needs, the roads jam up and slow down overall traffic movement, filling the air with pollutants from idling cars.

Another example comes from ocean pollution and exploitation. Given that no single authority has the power to pass laws that protect the entire ocean, each nation manages the ocean resources along its coastlines. Thus, the shared common space beyond any particular jurisdiction is vulnerable to pollution. "Maritime nations still respond automatically to the shibboleth of the 'freedom of the seas'. Professing to believe in the 'inexhaustible resources of the oceans', they bring species after species of fish and whales closer to extinction" (Hardin 1968). Garbage has begun to accumulate in the centre of circular currents and giant patches of ocean garbage occur because many different countries allow solid waste to enter the oceans from land or ships. Destruction of ocean ecosystems because of garbage, especially plastic pollutants, is likely to affect every person on the planet as these pollutants cycle through the food chain.

These examples exemplify what Hardin noted:

"The rational man finds that his share of the cost of the wastes he discharges into the commons is less than the cost of purifying his wastes before releasing them. Since this is true for everyone, we are locked into a system of 'fouling our own nest', so long as we behave only as independent, rational, free-enterprisers" (Hardin, 1968).

The solution to the tragedy, according to Hardin, rests in one of two possibilities. Either we enclose (privatize) the commons or we must allow governments to regulate them. For instance, turning public roads into private roads or toll roads creates a different scenario. With a toll to pay (especially if the toll is higher during peak-use hours such as rush hour), drivers may consider a less-direct route or choose to drive to work at a different time

However, every new enclosure of the commons involves the infringement of somebody's personal liberty and the abandonment of that resource as a common.

2. *Prisoner's dilemma game*

Ostrom (1990) noted that the tragedy of the commons can also be seen as related to the mechanism of the prisoner's dilemma game.

"Suppose we think of the players in a game as being herders using a common grazing meadow. For this meadow, there is an upper limit to the number of animals that can graze on the meadow for a season and be well fed at the end of the season. We call that number L. For a two-person game, the "cooperate" strategy can be thought of as grazing $L/2$ animals for each herder. The "defect" strategy is for each herder to graze as many animals as he thinks he can sell at a profit (given his private costs), assuming that this number is greater than $L/2$. If both herders limit their grazing to $L/2$, they will obtain 10 units of profit, whereas if they both choose the defect strategy they will obtain zero profit.

If one of them limits his number of animals to $L/2$, while the other grazes as many as he wants, the "defector" obtains 11 units of profit, and the "sucker" obtains -1. If each chooses

independently without the capacity to engage in a binding contract, each chooses his dominant strategy, which is to defect. When they both defect, they obtain zero profit." (Ostrom 1990, p.3-4)

Similarly to the tragedy of the commons as described by Hardin, also the prisoner's dilemma game shows how individually rational strategies lead to collectively irrational outcomes. Thus, noted Ostrom, it challenges the faith that rational human beings can achieve rational results when using their rationality.

3. *The logic of collective action*

Another theory that highlight the difficulty for individuals to pursue their joint welfare is the *Logic of Collective Action* by Olson (1965). Olson challenged the optimistic view expressed by group theories when they argue that individuals with common interest voluntarily and rationally act to support their common interest and, thus, groups tend to act in support of their group interest.

Olson argued that unless the number of individuals in the group is quite small or unless there is coercion forcing individuals to act in the common interest, rational and self-interested individuals would not achieve the common interest of the group.

He highlighted that if individuals are not excluded from obtaining the benefits of a collective good, once the good is produced, individuals have little incentive to contribute voluntarily to the protection and provision of that good.

Another issue concerning the management of the commons has been defined as "*tragedy of the anti commons*". It occurs when a resource is underused because it has been divided up by a number of owners that do not agree or cooperate to enhance the potential of the resource itself (Heller, 1998).

One example of the tragedy of the anticommons can be the hardware technology protected by patents. These typically are not assigned to a single owner and it may happen that the hardware is so fragmented in its property that if a company needs to develop a software it faces the issue of asking for patent royalties to the single owners. In this scenario, nobody would be able to innovate upstream because of high transaction costs.

The solution to the tragedy

Ostrom noted that at the heart of the tragedy there is a *free-rider problem*, meaning that the individuals involved do not contribute to the joint-effort but tend to free-ride the effort of others. This attitude implies that, in the case of the commons, the collective benefit cannot be achieved.

She noted that often the solution proposed to solve the tragedy goes in two directions (the ones suggested by Hardin):

- A central authority should assume responsibility and make unitary decisions for a particular common.
- A central authority should parcel out ownership rights and allow individuals to pursue their own self-interests within a set of well-defined property rights.

In both cases, centralization and privatization, it is assumed that institutional change must come from outside and be imposed on the individuals involved. Ostrom suggested a different solution.

She poses at the centre of the issue the enhancement of individuals' capabilities and the idea that many solutions exist instead of one single institutional solution viable to address the tragedy of all commons. Institutions are not either public or private, the market or the state. In the case of institutions managing the commons quite often the reality is a rich mixture of private-like and public-like solutions.

Thus, Ostrom suggested that *informal institutions* with certain characteristics can successfully manage common pool of resources (CPRs) even in the absence of a formal system of private property rights and strong regulatory authority.

These informal institutions can emerge within communities through bottom-up processes and ensure a sustainable and simultaneously efficient management of the commons.

These types of mechanism allow activating a behaviour that is different from the one of the *homo-eoconomicus*, which is driven only by rationality and self-interest.

From this perspective, she identified eight design principles common to some key example of common-pool resources institutions (Ostrom 1990, p.90):

1. Define clear boundaries.

Individuals or households who have rights to withdraw resource units from the CPR must be dearly defined, as must the boundaries of the CPR itself.

2. Match rules governing the use of common goods to local needs and conditions.

Congruence between appropriation and provision rules and local conditions appropriation rules restricting time, place, technology, and/or quantity of resource units are related to local conditions and to provision rules requiring labour, material, and/or money.

3. Ensure that those affected by the rules can participate in modifying the rules.

Collective-choice arrangements. Most individuals affected by the operational rules can participate in modifying the operational rules.

4. Develop a system, carried out by community members, for monitoring members' behaviour.

Monitoring monitors, who actively audit CPR conditions and appropriator behaviour, are accountable to the appropriators or are the appropriators

5. Use graduated sanctions for rule violations.

Appropriators who violate operational rules are likely to be assessed graduated sanctions (depending on the seriousness and context of the offence) by other appropriators, by officials accountable to these appropriators, or by both.

6. Provide accessible, low-cost means for dispute resolution.

Conflict-resolution mechanisms. Appropriators and their officials have rapid access to low-cost local arenas to resolve conflicts among appropriators or between appropriators and officials.

7. Make sure the rule-making rights of community members are respected by outside authorities.
The rights of appropriators to devise their own institutions are not challenged by external governmental authorities

8. Build responsibility for governing the common resource in nested tiers from the lowest level up to the entire interconnected system.
For CPRs that are parts of larger systems, appropriation, provision, monitoring, enforcement, conflict resolution, and governance activities are organized in multiple layers of nested enterprises.

These characteristics identified by Ostrom are becoming more and more evident in producing new innovative economic paradigms.

3. Inclusive economy

3.1 A definition of Inclusive economy

The term Inclusive Economy has recently gained more and more attention. The Rockefeller Foundation has declared as its specific goal the promotion and advancement of the model. Although it has some peculiarities compared to other models, there is not one shared definition of ‘inclusive economy’. In fact, as stated by Opola et al. 2021, “Inclusive innovation remains an under-conceptualised and ambiguous concept despite garnering political and academic interest in recent decades.” Moreover, different actors such as the state, development agencies, the private sector or universities do not fully ascribe to any of the existing theoretical narratives on inclusive innovation. Instead, they frame it based on their own contexts, mandate and interests using concepts borrowed from existing theoretical narratives. Before presenting its key characteristics, two strictly related concepts are introduced, Inclusive Innovation and Inclusive Growth. These concepts are important to understand the theoretical background and drivers that led to the emergence of the inclusive economic model.

Inclusive innovation

Despite the increased usage of the term, the concept of inclusive innovation remains an ambiguous one, with multiple interpretations from different political actors and academic disciplines (Pansera and Owen 2018). George et al. (2012) defines inclusive Innovation as: “The development and implementation of new ideas which aspire to create opportunities that enhance social and economic wellbeing for disenfranchised members of society” (p. 663). This definition incorporates several distinctions worth highlighting.

First, the definition embraces all forms of innovation, whether these relate to products, services, processes, institutions, business models, or supply chains, with only the requirement that they are novel recombination or new to the context (Prahalad, 2004; Schumpeter, 1934). Second, they focus on opportunities for certain members of society that have been structurally prevented from achieving wellbeing.

Therefore, actions that improve inclusiveness may arise from the removal of economic, geographic, social, and other structural barriers that previously blocked access to opportunity. These barriers may arise at

many levels, including employees, owners or business organizations' customers. This approach highlights a difference between those who think exclusion can be addressed simply in terms of innovation outputs (e.g. products at low price) and those who think marginalized groups must be included in the innovation processes.

A more articulated view on inclusive innovation is proposed by Heeks et al. (2013) in his model called "ladder of inclusive innovation" (Heeks et al., 2013). The article identifies 6 levels for an innovation to be inclusive, by embracing different dimensions such as the process, the outcome, the beneficiary. These dimensions are represented on what is known as the Heeks Ladder of Inclusive Innovation (figure 1):

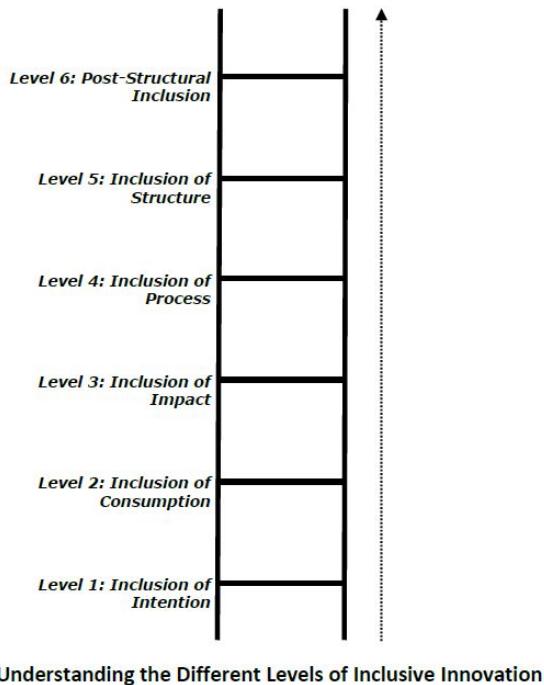


Figure 1: Heeks Ladder of Inclusive Innovation

Levels are defined by the author as following (ibid.: 4-5):

- Level 1/Intention: an innovation is inclusive if the intention of that innovation is to address the needs or wants or problems of the excluded group.
- Level 2/Consumption: an innovation is inclusive if it is adopted and used by the excluded group.
- Level 3/Impact: an innovation is inclusive if it has a positive impact on the livelihoods of the excluded group.
- Level 4/Process: an innovation is inclusive if the excluded group is involved in the development of the innovation.
- Level 5/Structure: an innovation is inclusive if it is created within a structure that is itself inclusive.
- Level 6/Post-Structure: an innovation is inclusive if it is created within a frame of knowledge and discourse that is itself inclusive.

Inclusive growth

Defining Inclusive growth can be controversial and despite the increasing attention given to the topic by the academic literature since 2009 (Heeks et al., 2012), there is not an agreement on its definition. The use of the term ‘inclusive’ in the characterization of growth can be traced back to Kakwani and Pernia (2000) who employed it to highlight the nature of what they considered to constitute a pro-poor growth model, defining pro-poor growth as “one that enables the poor to actively participate in and significantly benefit from economic activity” (Kakwani and Pernia, 2000).

Since then, the concept of pro-poorness in the literature has focused on the level and redistribution of income outcomes, for example from the perspective of a public sector redistributing resources. In turn, the notion of participation in and benefitting from growth processes identified with inclusiveness came to be seen as related to a broader concept of inclusive growth (Ranieri et al. 2013).

The debate is still open on the differences between the two concepts of **pro-poor growth** and **inclusive growth**, focusing on different aspects. Klasen (2010) focuses on the extent of the benefits of an inclusive growth by affirming that “pro-poor growth focuses on people below the poverty line, while inclusive growth is arguably more general: it wants growth to benefit all stripes of society, including the poor, the near-poor, middle-income groups, and even the rich”. Other authors are more concerned with the process dimension, and argue that growth is driven from the input of many people, including those groups that are historically disadvantaged, and thus inclusive growth involves the creation of opportunities and access to greater participation in the economy (Ali and Zhuang, 2007).

Trying to synthetize the difference between pro-poor and inclusive growth, which helps in understanding the two concepts, is that the pro-poor approach is mainly interested in the wellbeing of the most disadvantaged in society and in the redistribution of wealth, while inclusive growth is concerned with creating opportunities for the majority of the labor force, poor and middle-class alike.

Among the various definitions, the one given by the African Development Bank is particularly clear. It defines inclusive growth as the: “Economic growth that results in a wider access to sustainable socio-economic opportunities for a broader number of people, regions or countries, while protecting the vulnerable, all being done in an environment of fairness, equal justice, and political plurality” (AfDB, 2012, p. 2). This last definition highlight one relevant difference. While pro-poor growth focuses on the outcome for the poor, inclusive growth also looks at how, in terms of processes and environment, the benefits for the poor are reached, making it different whether those gains are achieved through authoritarian dictate or democratic dispensation.

Inclusive economy

Once defined the two concepts of Inclusive Innovation and Inclusive Growth, it is easier to understand the concept of Inclusive Economy. Among the various definitions, the one which gained more international consensus is the one given by the Rockefeller Foundation (2016, p. 3), that states:

“An inclusive economy is the one in which there is expanded opportunity for more broadly shared prosperity, especially for those facing the greatest barriers to advancing their well-being”.

Thus, an inclusive economy is an economic model where opportunities are identified to empower those marginalized in traditional market paradigms and enable them as consumer, employees, owners, suppliers

and members of society. This is possible by employing different forms of socially innovative initiatives aiming to achieve an economic growth that is also socially sustainable.

The Foundation defines five characteristics of inclusive economy:

3. **Participation- People can participate fully in economic life and have greater say over their future.** People can access and participate in markets as workers, consumers and business owners. Transparency and common knowledge of rules and norms allow people to start a business, find a job, or engage in markets. Technology is more widely distributed and promotes greater individual and community well-being.
4. **Equity- More opportunities are available to enable upward mobility for more people.** All segments of society, especially poor or socially disadvantaged groups, can take advantage of these opportunities. Inequality is declining rather than increasing. People have equal access to a more solid economic foundation, including equal access to adequate public goods, services and infrastructure, such as public transit, education, clean air and water.
5. **Growth- An economy is increasingly producing enough goods and services to enable broad gains in well-being and greater opportunity.** Work opportunities are growing and incomes are increasing, especially for the poor. Economic systems are transforming for the betterment of all, including and especially poor and excluded communities. Economic growth and transformation is not only captured by aggregate measures of economic output (such as GDP), but must include and be measured by other outcomes that capture overall well-being.
6. **Stability- Individuals, communities, businesses and governments have a sufficient degree of confidence in their future** and an increased ability to predict the outcome of their economic decisions. Individuals, households, communities and enterprises are secure enough to invest in their future. Economic systems are increasingly resilient to shocks and stresses, especially to disruptions with a disproportionate impact on poor or vulnerable communities.
7. **Sustainability– Economic and social wealth is sustained over time, thus maintaining inter-generational well-being.** Economic and social wealth is the social worth of the entire set of assets that contribute to human well-being, including human produced (manufactured, financial, human, social) and natural capital. In the case of natural capital, human use must preserve or restore nature's ability to produce the ecosystem of goods and services that contribute to human well-being.

3.2 Drivers and ecosystems for an inclusive economic paradigm

Over the past three decades, globalization and technological advances have reorganized the global economy along global value chains, leading to unprecedented efficiencies in terms of division of labor, productivity, and diffusion of innovations. These developments have contributed to rapid economic growth in many countries and have helped world GDP grow from around 50 trillion USD in 2000 to 75 trillion USD in 2016. Globalization and world trade, coupled with rapid technological development, have also helped to achieve rising standards of living and reducing extreme poverty. Currently, corporations' global value chains account for 80% of global trade and 1 in 5 jobs worldwide. In the U.S., the GDP generated by America's largest 100 companies rose from 33% to 46% between 1994 and 2013. However, worldwide, the 0,8 % of the world population owns the 44,8% of the world wealth (Credit Swiss Global Wealth Databook 2018) and it has become clear in the last decades that the actual economic model, driven by continuous market and capital growth, improved the wellbeing of some while neglecting the needs of many. This trend that has

been exacerbated by the COVID-19 pandemic which has pushed 120 million people into extreme poverty, caused a massive global recession while increasing the wealth of billionaires (IMF, 2021). A trend surprisingly affecting the most developed countries - like European ones - more than others.

"By improving the welfare of higher-income consumers but not that of more marginalized consumers, by improving the productivity of formal but not informal producers, and by focusing on economic development rather than social development needs, mainstream innovation and markets were and remain generators of inequalities." (Heeks et al., 2014).

In this context, the concept of Inclusive Economy aims at addressing the social needs of those excluded by traditional economic paradigms, those that have been either penalized by the globalized economy or gained from it low or no benefits.

The failure of national and international enterprises to address local needs and community concerns, may be harmful for both entrepreneurs and their societies (Zahra and Wright, 2016). Zahra and Wright argue that societal, economic, and political risks associated with inequality and working poverty are significant. Inequality leads to a decline in trust and erosion of social cohesion. Growing inequality has also been linked to the risk of rising property crime in more affluent neighborhoods and an increase in violent crimes. Inequality has also been shown to have a negative impact on economic growth. And finally, widening economic inequality contributes to partisan polarization and support for extreme political positions (Zahra and Write, 2016).

To work towards inclusive economy, states, markets and society play not only a primary role but comprise the set of actors that are in fact an imperative to the process of innovation for any country (Saha, 2016). Mazzucato (2011) draws attention to the role of the State in not only fixing markets but also in shaping and in fact creating them. Private actors often support large-scale investments that may include donor aid in cooperation with national governments to facilitate the correct channeling of resources. Non-governmental organizations (NGOs), that act independently from states or markets, are also important as agents of policy implementation to increase inclusion.

3.3 The economic nature of the inclusive paradigm

Inclusive economy is often examined together with the so-called **Base of the Pyramid (BoP) Theory**. The concept of BoP introduced by Prahalad and Hart (1999) refers to that part of the world population living with a purchasing power lower than 1,500 \$/year or 8 \$/day, a number estimated around 4 billion and half (BOP Innovation Centre Report, 2017). This condition of nearly half of the world's population is symptomatic of the unbalanced distribution of wealth which is represented in the following graph (figure 3). The blue line represents the actual world's wealth distribution in economic terms and is compared with a Gaussian distribution which represents a balanced condition.

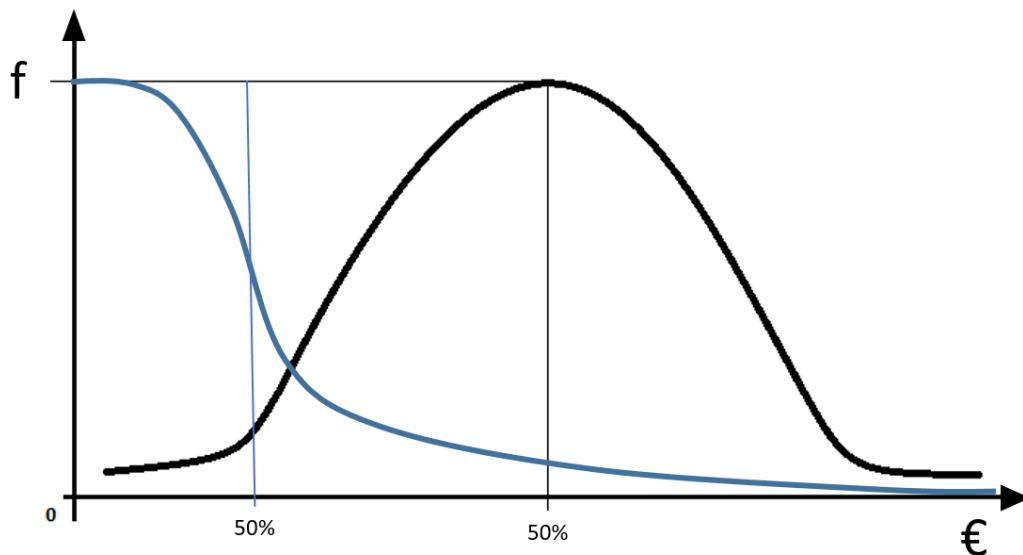


Figure 2: Unbalanced distribution of wealth

Based on the skewed distribution of wealth, the BoP theory suggests that new business opportunities lie in designing and distributing to poor communities goods and services adequate to their needs and at affordable prices. Instead of purchasing products to the right side of the curve, the BoP theory invites companies to consider the left side of the curve. This could be possible through a change of paradigm expressed by a switch from a principle of **High Margins * Low Volumes** to **High Volumes * Low Margins**.

The former combination of variables is normally achievable by the sale of technology advanced products or products which require complex production processes or long supply chains. Instead, the latter combination can be achieved by simple products in terms of technology and production process, often produced on site or using disruptive innovations and digital technologies that enables companies to sell their services and products to customers previously unreachable, with a consequent increase in selling volumes, compensating the unitarian low margins. These can satisfy the basic needs of the BOP's population, meaning not only social inclusion fostered by equal access to opportunities but also profit for the seller.

Few companies have so far addressed the opportunities in delivering goods to this group, whose purchasing power is estimated to be US \$5 trillion market (Source: The Next 4 Billion, International Finance Corporation, World Bank Group).

3.4 Inclusive business models

Enterprises operating in an inclusive business perspective are often defined Inclusive Business (IB).

IB is defined as a commercially viable business model that benefits low-income communities by including them in the company's value chain as consumers, producers, entrepreneurs, or employees (UNDP 2008). IB follows responsible environmental, social, and governance standards and is a commercially viable

business ventures that engage BoP populations, leveraging their competencies to deliver value in both the financial and social areas. Therefore, an IB goes beyond the profit motive and works towards outcomes that are in favor of social and economic well-being.

Inclusive economy can be implemented through different models, by incumbent organizations or new entrants, by new business functions or as a combination of already existing entities.

Heeks et al. (2013) identify different business models of inclusive innovation that can be implemented by small entities through different schemes.

- **Innovation platforms** are mechanisms to bring together a group of stakeholders with a focus on innovation to address a particular issue of common interest.
- **Cluster innovation** is innovation that takes place within a co-located group, in which the innovation cannot be attributed to any individual but to a process of group learning. Typically, this is a group of micro/small enterprise owners.
- **User-producer interaction** is a sub-model that focuses on the learning and innovation which occurs in the connection between producers and consumers.
- **Grassroots innovation** is innovation “from below”, generally associated with innovation emerging from low-income communities.
- **Frugal innovation** is innovation that seeks to minimize resource usage, cost and complexity in the production, constitution, and operation of new goods and services.

INNOVATION PLATFORM EXAMPLE: Datakind

Datakind brings together top data scientists with leading social change organizations to collaborate on cutting-edge analytics and advanced algorithms to maximize social impact. Our programs build upon one another and are designed to meet organizations where they are. From evening or weekend events to multi-month projects, all are designed to provide social organizations with the pro bono data science innovation team they need to tackle critical humanitarian issues in the fields of education, poverty, health, human rights, the environment and cities.

Link to the website: <https://www.datakind.org/>

A USER-PRODUCER INTERACTION EXAMPLE: The Community Wood Recycling Project

The National Community Wood Recycling Project (NCWRP) was founded in 2003 to help set up and develop a nationwide network of wood recycling social enterprises.

The aim of these enterprises is to:

- Save resources by rescuing and re-using waste timber that would otherwise be landfilled (or at very best downcycled into woodchip).
- Create sustainable jobs, as well as training and volunteering opportunities, for local people – especially those who might find it difficult to get into or back to employment.

Together, the NCWRP and its member enterprises brand themselves as Community Wood Recycling. The big challenge the NCWRP has to face is balancing the need to be financially secure with the desire to keep the community wood recycling franchise as accessible as possible. It aims to cover the day-to-day costs commercially, but it also accepts donations. The donations fund is used specifically to help meet the set-up costs of new enterprises – reducing the working capital required by start-up enterprises when they are most financially vulnerable.

Website <https://www.communitywoodrecycling.org.uk/>

A GRASSROOT INNOVATION EXAMPLE: The Food Assembly (Alveare che dice sì)

Founded in 2010 by Guilhem Chéron and Marc-David Choukroun, The Food Assembly is an online platform aiming to strengthen the relationship between local producers and consumers through organized pop-up markets, called 'Food Assemblies'.

The idea is to offer a more independent and efficient way of distributing food locally, which focuses on direct sales and fair prices, promoting interaction between consumers and producers as well as connecting the community through food. Each assembly is organized by an individual or group that signs up to be an 'Assembly Leader', who is responsible for finding a venue, contacting producers within a 150-mile radius to join the initiative and maintaining a local page connected to the startup's main website.

Also established companies could adapt their models or start new areas of business adopting an Inclusive Business perspective. In this regard, the **Inclusive Business Process**¹ (figure 4), output of a UNDP initiative defines a process which represents the journey that a company may undertake as it moves from a nonexistent program to a sustainable inclusive business.

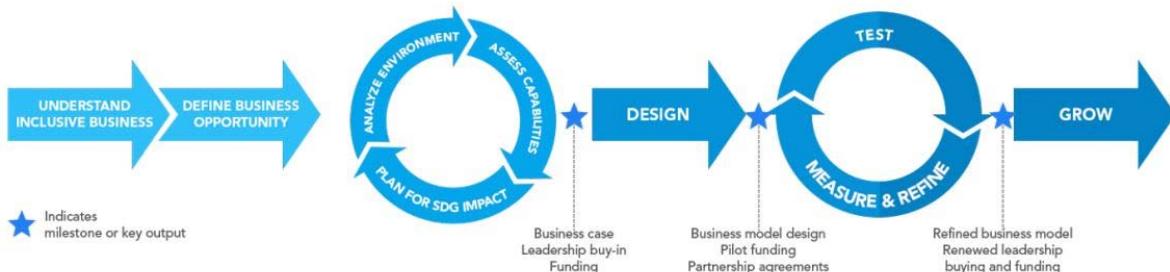


Figure 3: Inclusive business process

8. **UNDERSTAND INCLUSIVE BUSINESS** Appreciate the concept of inclusive business, the opportunities that it offers for companies, the poor, and society, and how it aligns with the global sustainable development agenda as articulated by the SDGs
9. **DEFINE BUSINESS OPPORTUNITIES** Explore how engaging in inclusive business across the company's value chain can help address existing challenges and offer unique opportunities.
10. **ANALIZE ENVIRONMENT** Evaluate opportunities to engage in inclusive business and assess potential markets including the political and economic context. Develop the program's business case.
11. **ACCESS CAPABILITIES** Consider how an inclusive business would fit with the company's strategy and evaluate the company's ability to support the program financially, operationally, and culturally. Begin educating senior leadership and aligning internal resources.
12. **PLAN FOR SDG IMPACT** Determine how the business can contribute to advancing the Sustainable Development Goals and evaluate which SDGs the business is best positioned to impact based on external and internal considerations.
13. **DESIGN** Armed with knowledge of the environment, the company's internal capabilities and the potential SDG impact, design an inclusive business that effectively meets the needs of the business as well as the target population.
14. **TEST** Select a representative market to discover how the business model will perform in real market conditions without the risk of a more expansive rollout. Ensure commercial viability through this testing phase.
15. **MEASURE AND REFINE** Develop frameworks to measure financial results and social impact against pre-set targets. Use resulting data wisely to refine the business model. Communicate the program's impact.
16. **GROW** Grow the size, scope or scale of the solution in a sustainable manner to increase benefit for both the business and society. Given many ways to grow financially and expand impact, consider which option is best for the inclusive business in the context of the larger company's priorities and capabilities.

¹ <http://toolkit.businesscalltoaction.org/inclusive-business-process>

1.5 A critical perspective on the inclusive paradigm and policy implications

Despite encountering diffused agreement, many critiques have been raised against some aspect of the inclusive economy model, highlighting its limitations, political implication and effective potential to realize inclusion.

Lee (2019) reports three major critiques to the model of inclusive growth:

- **The fuzziness of the concept makes it hard to operationalize:** Inclusive Growth is a broad concept, not defined and hard to pin down, these characteristics makes it even harder to focus resources on it. If Inclusive Growth is used too loosely, it starts to lose meaning and, eventually, usefulness. Unless it has a clear meaning, Inclusive Growth can become a policy buzzword – a label applied to policies that might have happened anyway.
- **It remains unclear what works in achieving it:** If Inclusive Growth is aimed at reducing inequality, it may distract attention from investments which increase overall welfare (Ianchovichina et al., 2009) with not homogenously distributed benefits. Growth can be socially beneficial even when it is not inclusive: China's economic success in the 1990s and 2000s reduced poverty in 500 million people, but, as inequality rose, it was not necessarily 'inclusive' (Ranieri and Ramos, 2013).
- **It reflects an overconfidence in the ability of subnational and national governments to shape their local economies.** There are always concerns that cities or regions in areas that have experienced significant growth tend to be the most unequal (Lee et al., 2016). The processes of technological change and globalization that have probably contributed to the uneven income distributions in many countries are global trends. Multinational companies are often more powerful than local governments which find themselves unable to impose their regulations. While national government can certainly mitigate against these trends, city and regional governments tend to have fewer.

Another critique is that Inclusive Growth offers little to places with low or no growth. For example, UK national growth rates was running in 2018 at 1.2%, the lowest in the G7. Research by EY highlights that "no progress has been made in rebalancing the UK economy geographically over the last three years" and their forecasting model predicts that "the weaker parts of the economy – smaller cities and towns – will fall further behind the largest cities" In this probable scenario, inclusion on the back of growth offers little to address longstanding social injustice in many areas (Burch and McInroy, 2018). By relying on inclusion 'after the fact' of growth, Inclusive Growth is condemning many areas (with no growth) to exclusion and wealth extraction - possibly for a long time to come.

Many also advocate the inadequacy of sustaining a liberalist view of the market in a period of the history in which humanity need to find solutions to the environmental challenge. Inclusive Growth and the plans which are informed by it, offer little in the way of addressing its environmental impact and the limited nature of the resources available on the planet (Burch and McInroy, 2018).

4. Alternative markets for purpose driven economy

4.1 Circular economy

The prevailing economic practice at a global level has been based for a long time on a linear ‘take, make, dispose’ model (figure 5), relying on large quantities of cheap, easily accessible materials and energy. As mentioned in Chapter 1, this model is reaching its physical limits, leading to the worsening of global social and environmental challenges.

Circular economy (CE) is considered by many as an attractive and viable alternative to the linear model that businesses are already exploring (figure 6).



Figure 4: Linear economic model vs circular economic model

According to the Ellen MacArthur Foundation (MacArthur et al., 2015), circular economy is based on a restorative and regenerative design that aims to “keep products, components, and materials at their highest utility and value at all times, distinguishing between technical and biological cycles” (p.2).

Similarly, in the circular economy action plan elaborated by the European Commission (European Commission, 2015), a circular economy is presented as an economy “where the value of products, materials and resources is maintained in the economy for as long as possible, and the generation of waste minimised” (p.1).

This model “seeks to rebuild capital, whether this is financial, manufactured, human, social or natural. This ensures enhanced flows of goods and services”. As illustrated in Figure 6, a circular economy model assures the continuous flow of technical and biological materials (raw materials) through the “value circle” (European Union, 2014). Thus, the value of products and materials is maintained for as long as possible, while waste and resource use are minimized. When a product reaches the end of its life cycle, it is used again to create further value. From this perspective, circular economy is a response to the aspiration for sustainable growth in the context of the growing pressure of production and consumption on resources. It

fosters reusing, repairing, refurbishing and recycling existing materials and products; what used to be regarded as ‘waste’ can be turned into a resource (European Commission, 2014).

It is recognised by the Ellen MacArthur Foundation that many circular economy opportunities have a sound underlying profitability. The Foundation argues that this new economic model “seeks to ultimately **decouple global economic development from finite resource consumption**” (Steiner and Glessner, 2018, p.1).

Although there is not one shared definition of circular economy, its main features have been identified by various authors and institutions. The Ellen MacArthur Foundation, SUN and McKinsey Center for Business and Environment proposed a framework, named “**ReSOLVE**” to help practitioners and policymakers towards the transition from a linear to a circular model. The framework identifies three main pillars and six key action areas.

The three main pillars are defined as follows:

1. **Principle 1:** Preserve and enhance natural capital by controlling finite stocks and balancing renewable resource flows
2. **Principle 2:** Optimise resource yields by circulating products, components and materials in use at the highest utility at all times in both technical and biological cycles
3. **Principle 3:** Foster system effectiveness by revealing and designing out negative externalities

An overview of the different flows and opportunities enhanced by the circular economy according to the ReSOLVE framework is presented in figure 7. Based on these three fundamental pillars, the framework has been articulated into six action areas:

- **REgenerate**
 - Shift to renewable energy and materials
 - Reclaim, retain, and restore health of ecosystems
 - Return recovered biological resources to the biosphere
- **Share**
 - Share assets (e.g. cars, rooms, appliances)
 - Reuse/secondhand
 - Prolong life through maintenance, design for durability, upgradability, etc.
- **Optimise**
 - Increase performance/efficiency of product
 - Remove waste in production and supply chain
 - Leverage big data, automation, remote sensing and steering
- **Loop**
 - Remanufacture products or components
 - Recycle materials
 - Digest anaerobically
 - Extract biochemicals from organic waste
- **Virtualise**
 - Dematerialise directly (e.g. books, CDs, DVDs, travel)
 - Dematerialise indirectly (e.g. online shopping)

- Exchange
 - Replace old with advanced non-renewable materials
 - Apply new technologies (e.g. 3D printing)
 - Choose new product/service (e.g. multimodal transport)

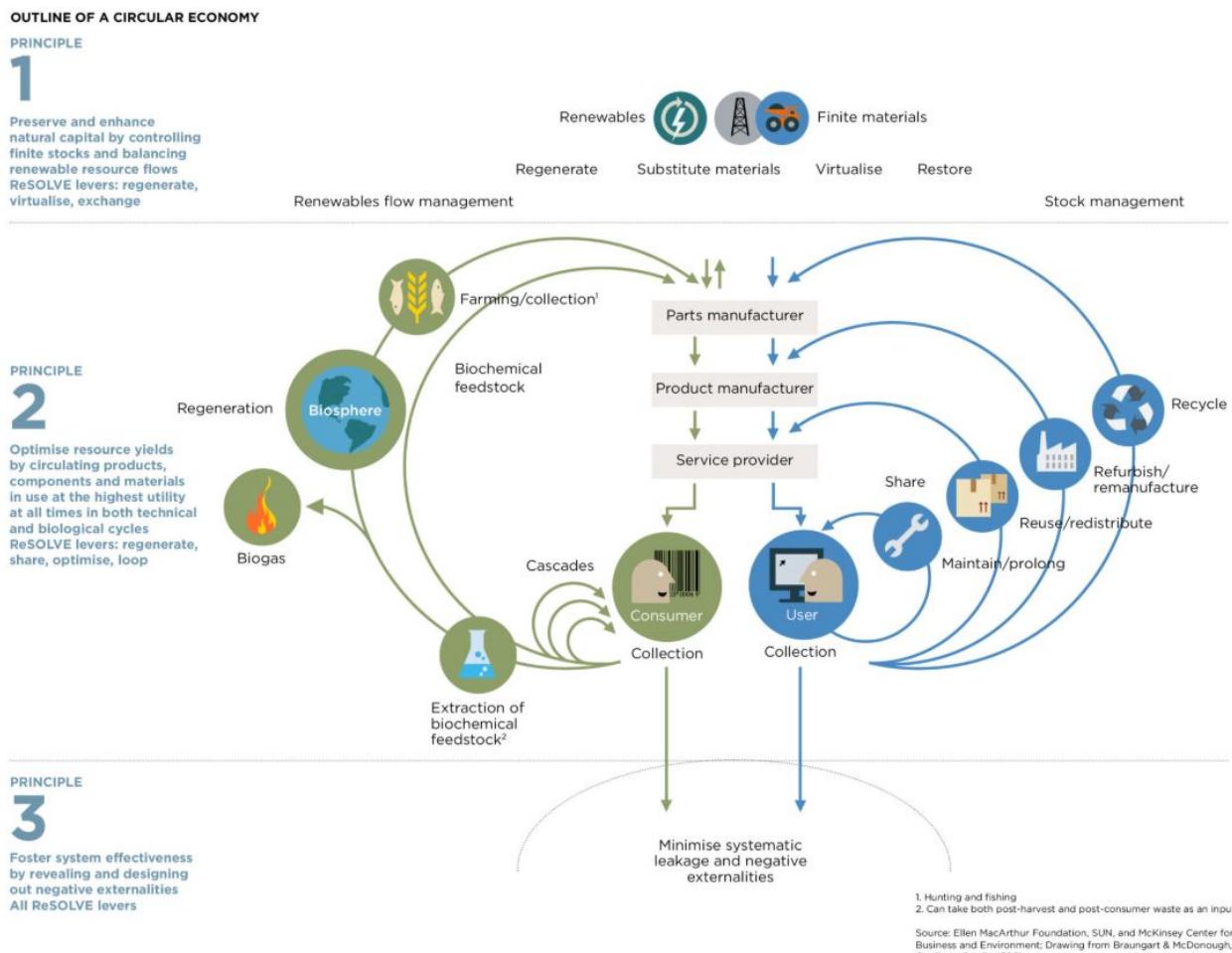


Figure 5: ReSOLVE Framework

Royal DSM

Royal DSM is one player at the forefront of adopting a circular business model to fuel. It shifted from a virgin material supplier to a company that reuses materials and provides new eco-friendly ones. DSM applies its innovations in many fields and products and it owns many patents regarding recycled materials. One of its most famous applications is the recycling of old fishing nets to obtain surf boards components. With this new product line DSM contributes to cleaning the oceans. Instead of disposing discarded fishing nets on the beach or in the sea, the fishing nets are collected for recycling purposes. The product also has an extended positive social impact in terms of job creation, along with the development of new skills and knowledge of people working in the supply chain (i.e. collecting, sorting, cleaning and processing fishing nets).

Link to the website: <https://www.dsm.com/corporate/home.html>

Caterpillar

An example is Caterpillar, which manufactures heavy machinery, and develop practices that enable greater value to be recovered during remanufacturing processes. The company has been able to increase profit margin whilst still producing components of the highest quality. Rather than aiming to use less material, consideration goes into creating a product that is intended to be remanufactured a number of times.

https://www.cat.com/it_IT.html

riCompro

riCompro Srl (www.ricompro.it) is an Italian Startup that helps the environment by purchasing broken and used smartphones and tablets and resales them after reconditioning. The company was born in 2016 from the desire to reduce electronic waste in Italy, which represents 12% of the total waste produced in Europe. riCompro withdraws the from the owners and pays them in maximum 48 hours. Smartphones and tablets are repaired by certified technicians who certify their full functioning and all end users are resold online at discounted prices that reach up to 50% of the original price with a 12-month warranty.

Link to the website: <https://www.ricompro.it/>

4.2 Sharing Economy

In recent years, the Sharing Economy has begun to transform many aspects of our everyday life. In the changing conditions of supply and demand, the approach of new economic models to promote the sharing of underutilized assets is often referred to as “access over ownership”: instead of owning things - especially items that are infrequently used or expensive – the sharing model allows to access them only when they are needed. This model applies to a range of diverse assets. We have become familiar with different forms of sharing: car sharing, bike sharing, sharing of workspaces, shared appliances and much more. Sharing solutions have been developed in every sector, giving the possibility to use them for transportation, food, accommodation, sport utilities and much more. In the figure 14, PwC (2017) imagined a day in a Sharing

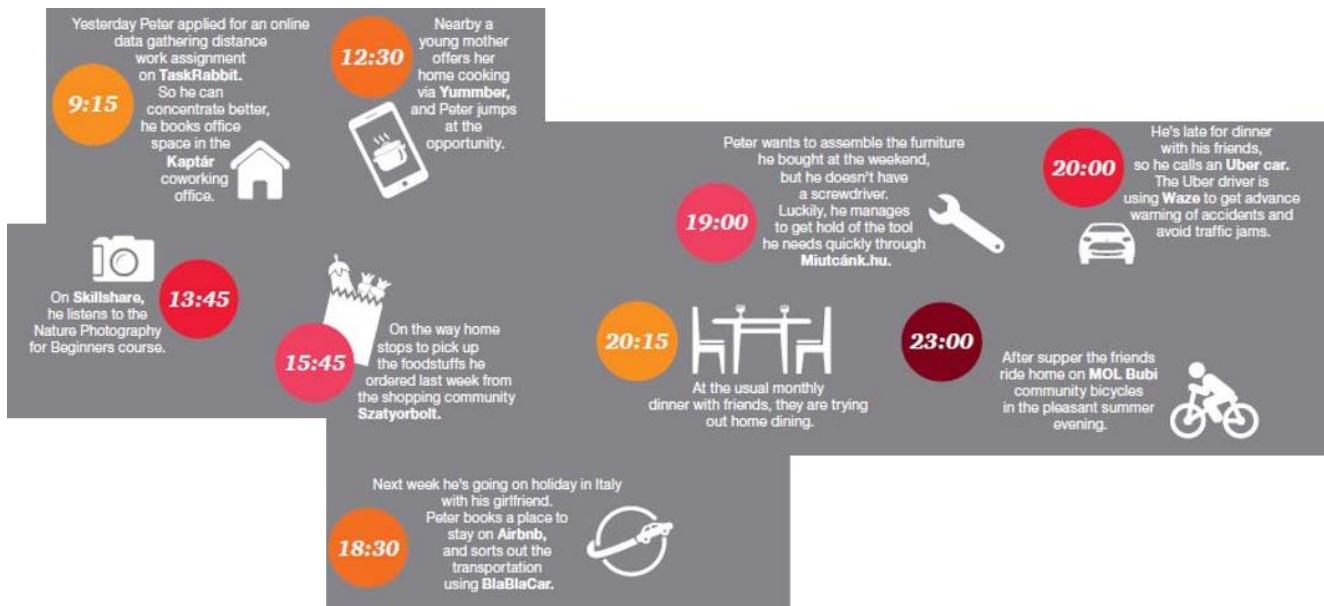


Figure 6: Adapted from PwC 2017 - Sharing or paring? Growth of the sharing economy

Economy life, giving an idea of the extension that sharing applications potentially have on everyday life.

The presence of two Sharing Economy firms in the top 3 of the Global Unicorn list (Fortune, 2017) (<https://fortune.com/unicorns/>) and the proliferation of easy renting means of transport (car, bikes, push scooters) in the main cities are simple evidences of how this new economy paradigm is entering and transforming the habits of millions of people around the world.

Despite the increasing attention to the concept of Sharing Economy and the over 700 articles published on the topic in 2014 (Martin, 2016), a shared definition is still lacking (Chandler, 2016). The difficulty in framing Sharing Economy comes from what Belk (2014) defined a “semantic confusion”, and many addressed the same phenomenon with alternative names (i.e. collaborative; gig; on-demand and crowd-sourcing economy).

Although academic literature does not reach a consensus on the definition of Sharing Economy it broadly accepts the view of Botsman and Rogers (2011) which presented the Sharing Economy as an evolution of the concept of Collaborative Consumption. In their book they define Collaborative consumption as:

“The reinvention of traditional market behaviors—renting, lending, swapping, sharing, bartering, gifting—through technology, taking place in ways and on a scale not possible before the internet” (p.2).

The Botsman and Rogers' definition of Collaborative Consumption help in understanding some important features of Sharing Economy.

First “the reinvention [...] through technology”, suggest that at the core of Collaborative Consumption and Sharing Economy there is not something completely new, but rather something (a traditional market behavior) that used to exist offline before a technology factor triggered its re-invention (sharing a car, being hosted on a sofa...). Technology allows the new behavior to take place at a scale not possible before the internet.

Another element of interest is the presence of “bartering, gifting” as means of exchange, including into the Sharing Economy also the peer to peer (P2P) exchanges not regulated by an economic transaction. This element, is also present in the definition of Hamari et al. (2015, p.1): “the Sharing Economy is the peer-to-peer-based activity of obtaining, giving, or sharing the access to goods and services, coordinated through community-based online services”.

However, this last feature of the sharing paradigm has been often overlooked. A research conducted by the PEW Research Centre 2016 highlighted how USA citizens mostly associate the term Sharing Economy to something intermediated by an economic transaction. This is also evident in the definition given by Kumar V. (2017) which defines the Sharing Economy as “the monetization of underutilized assets that are owned by service providers (firms or individuals) through short-term rental”, giving to the economic aspect a significant role.

Being the discussion still open, based on the existing literature (Belk, 2013; Hamari et al.2015; De Jonge and Sierra,2016) it can be stated that Sharing Economy might be either P2P or Business to Consumer, for a fee or for free, involving tangible assets or services.

Based on the existing literature, some recurrent themes of Sharing Economy can be identified (Menicori, 2017). These characterize the interactions between individuals and business models included in the Sharing Economy perimeter.

- **Temporary access/ Non-Ownership:** the majority of business models rely on schemes in which ownership is replaced by access. This characteristic is present both in B2C and P2P models, the latter leveraging on gifting and bartering.
- **Sustainability/ Efficiency/ Waste reduction:** Sharing Economy business models tend more efficient, regarding resource allocation and exploitation, compared to traditional ownership business models, as well as more efficient in terms of energy consumption and cheaper.
- **Peer to Peer/Business to Consumers:** Many models are based on the will of peers who own the asset to provide it to other peers in exchange of a fee, other compensation, or for free. On the other hand, as one might expect, B2C models only work through the monetary exchange.
- **Online Platforms:** As mentioned above, online platforms play a crucial role in expanding the access to sharing products and services.
- **Community/Collaborations:** This is the less cited and more controversial element since many argue that being registered on an online platform neither renting a car constitute a community. Moreover “cost savings are revealed to be the main motivation for consumers who joined sharing economy

practices such as Zipcar" (Habibi et al., 2017, p. 114). Nevertheless, when using an asset owned by someone else, being this a peer or a company, there should be a collaboration based on trust and respect of the good otherwise the service could not work. As demonstrated from Schneider (2010), the moral hazard brings lessees to take riskier behaviors in cases someone else is paying for them respect to owners. This is particularly true in case of leasing or renting to multiple users, condition that make it difficult to understand who has caused the damage (es. Bike renting companies had to leave many cities where the damages made to the bikes and the repairing costs were making it unprofitable). The cooperation aspect is also reflected in the fact that the success of P2P sharing economy services is largely dependent on the retrospective feedback provided by individual users, which helps other users decide whether to use the service or not.

Tapazz permits to share cars and spaces among many users by providing all the supporting instruments that facilitate the share. The software takes care of all the administrative hassle, from the registration of the booking by the user to the payment of the booking. The booking can be done in a fast and secure way by using fingerprint or facial recognition. To open and lock the car the mobile phone substitutes the key. At the end of the month the total amount of bookings will be debited automatically to the user's credit card connected to the account.

Link to the website: <https://tapazz.eu/en/>

Traveling Spoon connects travellers with local, vetted hosts to share a homemade meal in their home and learn about their cultural and culinary traditions. In addition, Travelling Spoons also offers in-home cooking experiences as well as market visits as an add-on to many of the meal experiences.

Link to the website: <https://www.travelingspoon.com/>

Streetbanks is a sharing platform with focus on neighbourhood, it allows to: Give things away; Share things; Share skills. Over the years, Streetbank has grown to be one of the biggest neighbourhood sharing websites in the world, presenting more than 124,000 objects to be shared or gifted. Every day, people across the world are using the site to share stuff. Apart from the environmental advantages and the cost savings, Streetbank has the purpose to be a mean through which new friendships among neighbours can start.

Link to website: <https://www.streetbank.com/>

Presso allows customers to rent a space, similar to a private house, where they can invite friends for a dinner, a party or every special occasion they desire. The houses are equipped with everything needed to cook and some of them with other facilities like cinema or sauna. Spaces can be accessed every time during the day for free or reserved exclusively for some hours by corresponding a fee, with the reservation also other services are included like the final cleaning.

Link to the website: <http://www.presso.it/>

5. Social Innovation Definition(s)

The previous sections illustrated some theories and practices introducing some important key features of what has been more recently named as “social innovation”.

Social innovation is often seen in the literature as a response to the emergence of pressing global challenges, and the so-called wicked problems (Rayner, 2006). As noted by Nicholls and Murdock (Nicholls and Murdock, 2012), many authors related the emergence of social innovation to various conditions, such as:

- the failure of modern state welfare systems (Leadbeater, 1997; Mulgan, 2006a)
- the impacts of mass urbanization (Moulaert et al., 2007)
- the failure of conventional market capitalism
- increasingly urgent global resource constraints
- the impacts of climate change
- rising life expectancy and associated health and social care costs
- growing cultural diversity within and across countries
- growing inequality
- behavioural problems associated with the ‘challenge of affluence’, difficult transitions to adulthood and endemic reductions in individual happiness and indices of well-being (Mulgan et al., 2007).

Before looking more closely into the theoretical debate on how social innovation can be defined, on which are its key features and who are the main actors driving its development, some initiatives that can be labelled as “social innovation” are presented here. These cases gives some initial insights on what social innovation is, showing how the universe of social innovation is heterogeneous and diverse.

Easy Covid

One example of innovation emerging from a failure of the conventional market and from a situation of global crisis, is the “Easy Covid – Emergency Mask for Hospital Ventilators”. This is an example of a product innovation producing a positive social impact, specifically on healthcare.

In 2020, an Italian company was contacted by a former head physician of the Gardone Valtrompia Hospital, Dr. Renato Favero, who got in touch with Isinnova through a doctor from the Chiari Hospital, the health facility for which the company was manufacturing the emergency valves with 3D printing process. Doctor Favero shared with the firm the idea to fix the possible shortage of hospital C-PAP masks for sub-intensive therapy, which is emerging as a concrete problem linked to the spread of Covid-19. He proposed the construction of an emergency ventilator mask by adjusting a snorkeling mask already available on the market.

The company analyzed the proposal together with the inventor. Isinnova contacted in little time Decathlon, as ideator, productor and supplier of the snorkeling Easybreath mask. The company was immediately willing to cooperate by providing the CAD drawing of the mask identified. The product was dismantled, studied, and the changes to be made were evaluated. A new component was then designed to guarantee the connection to the ventilator. The innovative component was called the link Charlotte valve. The valve was quickly printed using 3D printing.

The prototype has been tested directly inside the Chiari Hospital, connected to the ventilator body, and has proven to be correctly working. The hospital itself was enthusiastic about the idea and decided to test the device on a patient in need. The testing was successful.

WeHub in Kenya

In Rural Kenya Fresh water and electricity are clearly central to human well-being and socio-economic development, however for many the acquisition of these seemingly basic amenities is a daily struggle. Moreover, communities in these areas often display a low community empowerment.

WE! Hubs Kenya are independently powered, solar “energy stations” where users can recharge electrical appliances such as mobile phones. This is an example of social innovation creating socially innovative places for community empowerment.

For a small fee, visitors can also rent solar lanterns and lamps as well as batteries in order to reduce their dependence on kerosene lamps, which are harmful to both human and environmental well-being. As well as providing for their basic needs, WE! Hubs are also intended to economically integrate the local population and offer them new opportunities and sources of revenue, with the Project Handbook stating: “In addition to access to electricity and water, the project partners want to strengthen local entrepreneurship and create opportunities for income and employment.” We!Hub is also a community Hub offering cafès and leisure spaces

Furthermore, WE! Hubs also act as safe, clean water stations, with rainwater being collected and sterilized until it is fit to be used for drinking. In the future, Solar Energy for Rural Kenya hope the hubs can also provide internet and computer access.

4.1 Definitions of social innovation

Despite its recent growth in popularity, the phrase “social innovation” is not a new one. After centuries in which the concept of innovation had been seen as negatively opposed to the values of tradition and orthodoxy, the meaning of innovation gradually shifted over time and started to gain a more positive value, particularly from an economic perspective. For as long as innovation was conceived as a detrimental idea opposed to the values of tradition, both at a religious and a political level, social innovators were associated with the subversion of the established order and assimilated with a violent and sudden, uncontrolled will for change (Godin, 2012).

It was only in the second half of the twentieth century that SI was finally considered in a positive light and related to an alternative view of innovation, as focused on addressing social problems and needs, against established solutions such as market solutions and state-driven social reforms (Godin, 2012).

In the last few decades, SI has gained a renewed appeal for academics, practitioners, and policymakers and the concept had become widely used in the academic literature particularly after the turn of the twenty-first century (Ayob et al., 2016) when many scholars have attempted to find a working definition for it, as shown in figure 1.

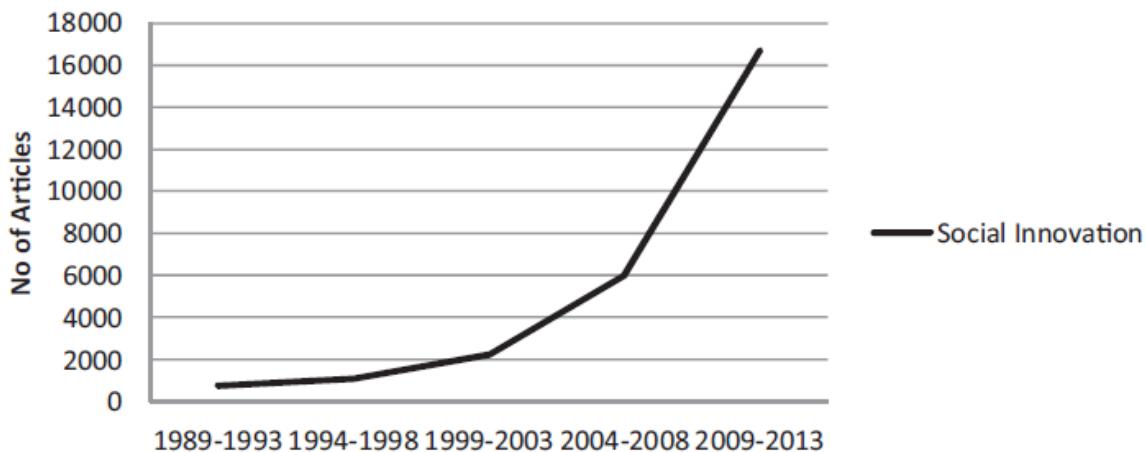


Figure 7: Growth in social innovation publications from 1989-2013 (Source: Ayob et al. 2016)

One of the first and most influential definitions of social innovation was stated by Phills et al. (Phills et al., 2008) in the Stanford Social Innovation Review (SSIR):

Social innovation is “a novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals.” (Phillis et al., 2008, p. 36).

They emphasised the importance not just of the newness of social innovations as solutions, but their impact on society and their higher efficiency and effectiveness compared to previous solutions.

A few years later, some British authors formulated one of the most quoted definitions of social innovation, that became particularly influential in the European context.

“Innovations that are social both in their ends and in their means. Specifically, we define social innovations as new ideas (products, services and models) that simultaneously meet social needs more effectively than alternatives and create new social relationships or collaborations. In other words, they are innovations that are both good for society and enhance society’s capacity” (Murray et al., 2010)

This definition highlighted the importance of the social value created by social innovation but also the relevance of the innovative process and means used to implement social innovation. Thus, social innovation

is not only related to social goals and aims, but also to a socially innovative process and model of diffusion: “developed and diffused through organisations whose primary purposes are social” and “create new social relationships or collaborations” (Mulgan et al., 2007).

the British works mentioned above. They defined SI as follows:

“Social innovations are innovations that are social both in their ends and in their means. Specifically, we define social innovations as new ideas (products, services and models) that simultaneously meet social needs (more effectively than alternatives) and create new social relationships or collaborations. In other words, they are innovations that are both good for society and enhance society’s capacity to act.” (Caulier-Grice et al., 2010, p. 18)

“Social innovation relates to the development of new forms of organisations and interactions to respond to social issues (the process dimension). It aims at addressing (the outcome dimension):

- Social demands that are traditionally not addressed by the market or existing institutions and are directed towards vulnerable groups in society.
- Societal challenges in which the boundary between ‘social’ and ‘economic’ blurs, and which are directed towards society as a whole.

The need to reform society in the direction of a more participative arena where empowerment and learning are sources and outcomes of well-being.”

(Hubert et al. 2011, p. 43)

4.2 Key features of social innovation

In focusing on the contested nature of SI and on the multiplicity of its definitions, many scholars have attempted to critically review the existing definitions and understandings of SI to identify some of the main recurring traits of the concept.

Ayob, Teasdale and Fagan (2016), reviewed academic definitions of SI from between 1989 and 2013, and noted that most definitions clustered around three key dimensions:

- social relations
- societal impact
- technological innovation

They illustrated (figure 2) how these dimensions are differently combined in the literature and how they have acquired different levels of relevance during the last decades, particularly with the growing importance acquired by the two dimensions of social relations and societal impact since the year 2000.

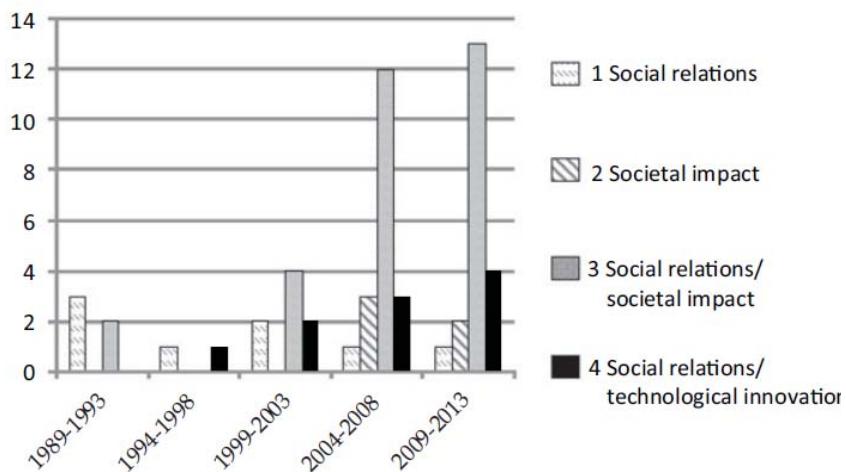


Figure 8: Evolution of the social innovation concept over time (Source: Ayob, Teasdale, Fagan 2016)

Nicholls et al. (2012) noted that most conceptualisations of SI have focused on:

- either the process dimension, namely changes in social and power relationships and in relation to social and economic inequalities,
- or on the outputs/outcomes of SI, seeing it as a means for the provision of services or products for the public good.

From the first perspective, SI refers to new ideas and practices about “how people should organize interpersonal activities, or social interactions, to meet one or more common goals” (Mumford, 2002, p. 253) and generate new processes that change routines, resources and authority flows.

Focusing on outputs and outcomes, other conceptualisations focus more on the ability of SI to “satisfy new needs or needs that are not satisfied by either market or state provision.”

Nicholls et al. (2012) also noted that SI is conceptualised in the literature on three different levels (Figure 3):

- Firstly, it can be conceived as incremental innovation, in terms of a business innovation in goods and services that efficiently and effectively address social needs.
- Secondly, it can be conceptualised as institutional innovation, aiming at an institutional structural change involving a renewal of values and outcomes. In this case, SI modifies existing market structures to increase their social value and impact.
- Thirdly, SI can be conceived as disruptive; here, it is promoted by social movements and politicised actors and groups wishing to change power relations and addressing structural inequality.

Level	Objective	Focus	Examples
Incremental	To address identified market failures more effectively	Products	Kickstart (low-cost irrigation foot pump)
Institutional	To reconfigure existing market structures and patterns	Markets	M-PESA (mobile banking)
Disruptive	To change cognitive frames of reference to alter social systems and structures	Politics	Tostan (human rights)

Figure 9: Level of social innovation (Nicholls et al 2012)

Finally, they noted that social innovation can be defined in terms of the level of its action or impact from the individual to the systems level (micro-, meso- or macrolevel) and that these levels can be mapped against the two main definitions of social innovation focused either on new social processes or on new social outcomes (Figure 4).

Dimension	Social process	Social outcome
Individual	Co-Production (Southwark Circle)	Lost-cost Healthcare (Aravind Eye Hospital)
Organisation	Wiki-Production (Wikipedia)	Work Integration Social Enterprise (Greyston Bakery)
Network/ Movement	Open Source Technology (Linux)	Non-Traditional Training and Education (Barefoot College)
System	Microfinance (Grameen Bank)	Mobile Banking (MPESA)

Figure 10: Dimensions of social innovation (Nicholls et al 2012)

4.3. Actors of SI

One characteristic of social innovation that is often mentioned in the literature is that it is not limited to one particular sector of economy or society, but to innovation and the creation of social outcomes, regardless of where they emanate. Social innovation often originates and is implemented in the overlapping spaces between sectors and involve the development of new relationships and intersectoral collaborations.

Social innovation corresponds to an important change in the role of the state, away from previous models of welfare state and public service provision, often in the direction of 'lighter' public interventions and an enhanced role for private players. Some authors have argued that this model promotes a change in the role of all the actors involved towards a progressive hybridisation of the societal spheres of state, market, and civil society (Fougère et al., 2017), or the creation of a new sector (Edwards-Schachter et al., 2012).

The role of networking and creation of public-private partnerships is important in implementing SI (Fougère et al., 2017) as well as the ability of social innovators to connect to the right network of agents and to adhere to the principles of open innovation (Chesbrough et al., 2006) to cut across existing barriers and across silos and moving towards inter-organisational strategies (Chalmers, 2013). In these dynamics all the sectors are involved (Figure 5).

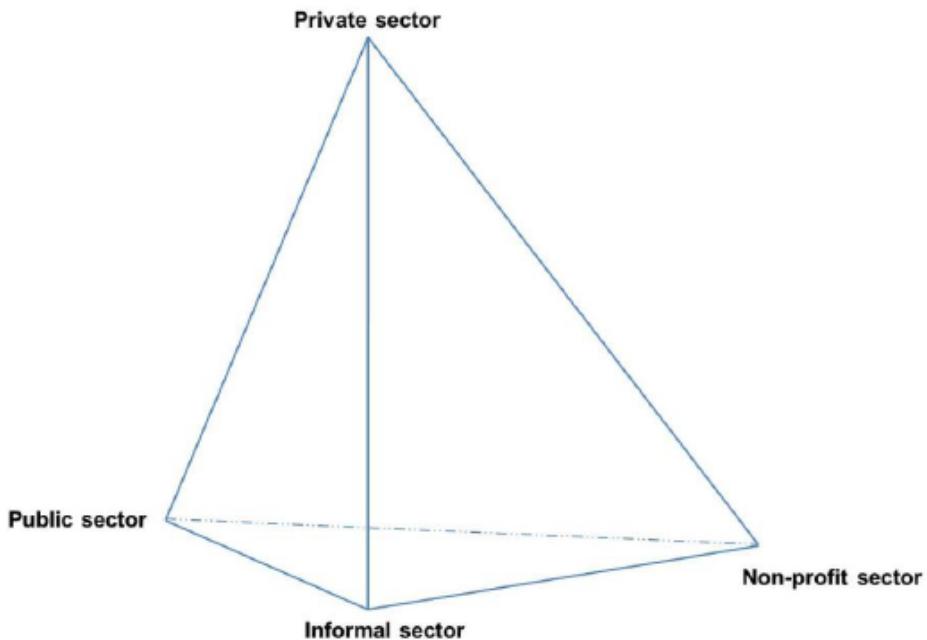


Figure 11: The four sectors (Caulier-Grice et al, 2012)

- o *Public sector*

The social role of the public sector is quite important since it often delivers services for which the market is inadequate. Thus, the public sector has a huge potential for creating a systemic change a supporting social innovation. However, some structural features often limit the risk-taking attitude of public authorities and a lack of enabling conditions – such as dedicated budget, teams and regulations – can hinder the development of social innovation promoted by the public sector (Caulier-Grice et al., 2012).

The role of the public sector is very important in enhancing social innovation since it can influence the framework conditions in which social innovation is implemented and in which the other actors operate by implementing policies, issuing regulations, promoting financial instruments.

Public authorities at different levels can play an important role in catalysing SI through public policies. They can enable interactions between different groups to create partnerships able to foster the emergence of new ideas and thus facilitate the development of SI (Moore et al., 2012; Moore and Westley, 2011). In this regard, particularly local authorities can promote new forms and instruments of public governance such as networks, partnerships, urban and local politics as well as inter-urban alliances (Ewert and Evers, 2014).

Public authorities can also promote new models of policy production and implementation, new approaches to measurement and accountability functional to social innovation, and the creation of innovative public sector organisations (Cressey et al., 2015).

- o *Private sector*

Despite the private sector being not traditionally predominantly engaged or concerned with social issues, social innovation has emerged from the private sector in different forms.

In recent years, many businesses are viewing social challenges in terms of business opportunities and there has been a proliferation of companies developing solutions to social challenges. On one hand, new forms of private sector organisations have been developed specifically to address social challenges; on the other hand, existing firms have developed programmes and sought to change their strategies and managerial models to become more sustainable and bring social purposes at the core of their corporate strategy.

The organisational features and nature of the new forms of organisations will be further described in the chapter about the entrepreneurial dimensions of social innovation, where social entrepreneurship and social ventures are introduced. Social ventures contribute in overcoming the traditional opposition between a market populated by profit-seeking organisations and the public and third sectors directed to the common good, and are often considered as key actors in developing social innovation (Borzaga and Bodini, 2014).

The characteristics of companies developing corporate social responsibility or advanced models of corporate social innovation will be further outlined in the chapter about new corporate models.

- o *Third sector*

The third sector, is often recognized as an important source of pioneering approaches to tackling social needs and to respond to various issues that are neglected both by the state and the market. The role of the third sector in fostering social innovation entails both the implementation of socially innovative initiatives and the promotion of campaigns and advocacy (Anheier et al., 2015; Eriksson et al., 2014).

Some constraints limiting the potential of the third sector in implementing social innovation concern its dependency on grants and public funding, which entail the inability to assure economic sustainability in the long term and, thus, to plan long term strategies (Caulier-Grice et al., 2012).

- o *Informal sector*

The informal sector is an important actor in addressing social needs through informal networks, associations and social movements. From this perspective, it has often been observed how the informal sector is key in the development of social innovation.

The informal sector includes activities of individuals, families and communities working to meet social needs, including: the non-monetised activities undertaken by civic, religious and other community groups; forms of mutual support and care, volunteering, membership of informal groups and associations, collective action and social movements; online activities undertaken by individuals, families and communities – this includes some strands of activity within what is termed

the ‘sharing economy’, open source projects and other forms of mass collaboration, peer-to-peer networks, social networking and so on.

Social innovation can be seen as a social action that particularly values the community as a social agent and involve the community sector as an industry, fostering the development from the informal sector of community enterprises and inter-sectoral partnerships (Adams and Hess, 2010).

Social innovation not only cuts across sectors, but also contributes in blurring boundaries between sectors and institutional logics and is often developed at the crossroads of different sectors (Caulier-Grice et al., 2012; Nicholls and Murdock, 2012).

Murray et al (2010) stated: “Social innovation doesn’t have fixed boundaries: it happens in all sectors, public, non- profit and private. Indeed, much of the most creative action is happening at the boundaries between sectors” (p.3)

In a model proposed by the Tepsie project (Caulier-Grice et al., 2012), the interrelation between the sectors give rise to six interfaces (Figure 6), each one characterized by different institutional logics.

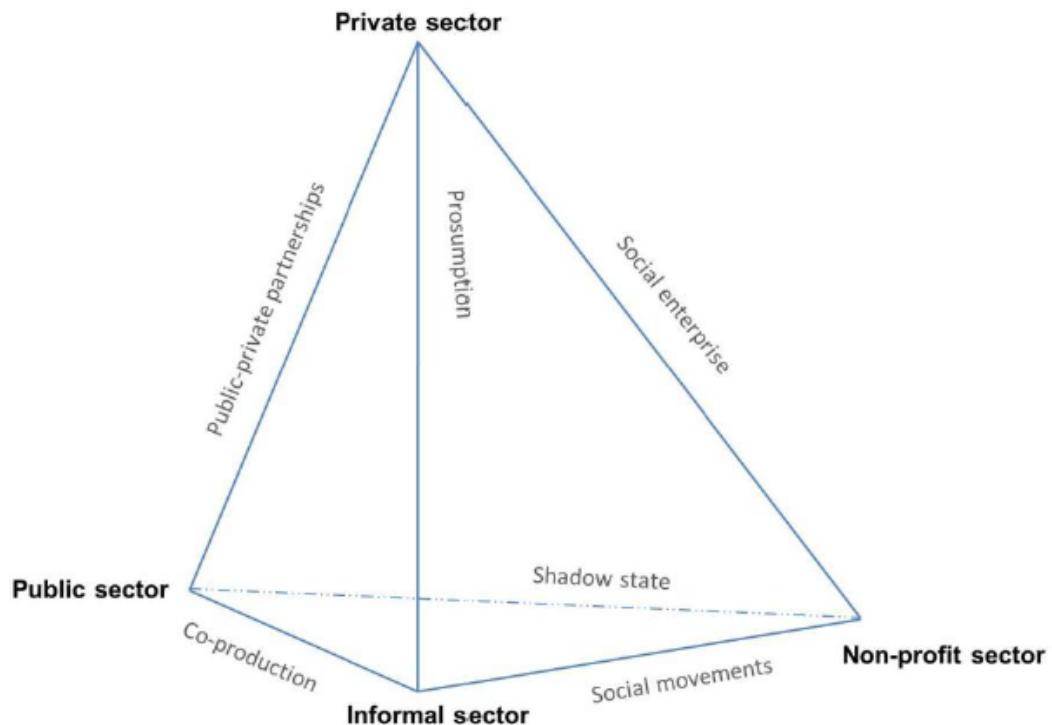


Figure 12: Blurring boundaries between sectors (Caulier-Grice et al, 2012)

Learning

- How did Polanyi characterize different forms of economic relationships?
- What are the commons?
- What is the tragedy of the commons? And how can it be solved?
- How can we define Inclusive economy? Which are its main characteristics and how it relates to inclusive innovation and inclusive growth?
- How ecosystems can be conducive to the development of inclusive economy?
- What is the Base of the Pyramid (BoP)?
- Could you describe any example inclusive business model? Why would you consider it part of inclusive economy?
- What is ‘Social Innovation’?
- Who are the key actors implementing and supporting social innovation?

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