Social Impact and a New Generation of Technology-Intensive Social Ventures

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The background.
Social Innovation: the dust and the hype.

We would be probably talking about something very old and dusty but:

- **Blended value** is the new centrality;
- **Entrepreneurial structuration**;
- **Technology** matters.

This revamps old issues and opens up new interesting perspectives for entrepreneurship, finance and policy.
Motivation

• Social Innovation and Entrepreneurship are undergoing a complex transformation.
• This is not a universal phenomenon, i.e. this does not mean that all forms of Social Innovation and Entrepreneurship will be subject to such transformation.
• Instead, part of it is evolving into a very interesting organizational hybrid (i.e. intentionally pursuing profit and measurable social impact objectives), knowledge/technology-intensive and thus drifting from labour-intensive to capital-intensive entrepreneurial model.
• The thesis of this presentation is that this new form of Social Venture is going to be a very interesting option for new inclusive growth policies and for a new generation of technology transfer and knowledge exploitation, more accountable to society.
From Social Ventures to Innovative Funding

- (New) Social Venture is not a Third-Sector’s monopoly: it is also the result of adaptive strategies of mainstream for-profit companies.

- Large scale empirical evidence is still missing. Only impressive anecdotal facts and unstructured evidence. More research needed in this direction.

- The scope of this presentation is also to understand how financial instruments are evolving to fit the new needs of new Social Ventures.

- We need to look at investment targets in order to understand what innovative funding needs to be or will be.

- Social Impact Finance is going to be what (new) Social Venture is going to be.
New Social Ventures

• New Social Ventures are hybrid organizations, that will have to be regarded as the outcome of a twofold evolutionary process:
  • originated both from the third sector, with social enterprises getting more and more structured in terms of business models, governance and resources,
  • originated from the traditional for-profit sector, with corporations trying to adapt themselves to threats and opportunities generated by sustainability challenges
• Not a universal transformation, it involves part of third-sector and part of for-profit sector.
The New Social Venture

Mainstream for-profit company

Social Venture

Social Enterprise

Advanced CSR
Innovation Modes
Impact Finance
Impact Measurement
Sustainable operations
Multi-stakeholder governance
Reputational Risk Management

Scaling-up and growth
Technology-intensive scaling
Impact Finance
Impact Measurement
Multi-stakeholder governance

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(New) Tech Social Venture

• Tech social ventures (TSV)’s represent a unique genre of social venture which attempts to satisfy a social need through technological innovation in a financially sustainable manner.

• The concept differs from social entrepreneurship on the basis of two factors:
  • innovative use of technology;
  • replication capacity.

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The Tech Social Venture

• Despite the increasing popularity, there are only two distinctive features that we can reasonably attribute to such entity:
  • hybridity
  • technological (knowledge) intensity

• All the rest is an ongoing transformation process and the best we can do is to observe such transformation in order to infer the attributes that will characterize such organizational entity, which many scholars tend to consider not a lateral form of entrepreneurship but a brand new entrepreneurial genre.
The Tech Social Venture and Social Impact Investing.

• Among many other things, the inherent characteristics of technology social ventures entail a fundamental transformation, i.e. from labour-intensive to capital intensity.

• This latter observation is the final step, only after verifying the actual consistence of this phenomenon the interest in social impact investing is legitimate.
The need for specialised finance.

• **Demand-side**
  – Withdrawal of welfare policies
  – New technology-intensive solutions to social problems;
  – Re-engineering social intervention models for prevention;
  – Need for innovative financial solutions: pay for results;

• **Supply side**
  – Generating and seizing new investment opportunities;
  – Sourcing new capitals: mobilize capital that would not be mobilized through traditional philanthropic schemes;
  – Reputational issues and impact-washing
The Other side of (Tech) Social Venture: Social Impact Finance

• The term social impact finance is referred to a resource allocation strategy in which capital is intentionally used to finance projects that generate a blended value.

• The purposeful allocation of financial resources to initiatives that can deliver measurable societal impact (social and environmental) alongside financial return.

• Provision of finance to organisations with the explicit expectation of social returns that are clearly defined a priori, are not an incidental side effect of a commercial deal and a financial return of at least a repayment of capital is expected.
The “Blended Value” mantra

Venture Philanthropy

Impact Investing

Source: Wilson, K. E. (2014)

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Matching demand and supply

• We should not repeat the mistakes made with high-tech entrepreneurship: sophisticating the financial instruments before taking care of nurturing a sufficiently consistent capital demand-side;

• Social Entrepreneurship is a consistent phenomenon but the candidates to receiving capital for growth are still very few; the strategic and policy issue is to help potentially scalable ventures to reach a sort of mezzanine layer (in terms of managerial structuration, robustness of business model and governance) where they can be eligible to receive financial support for social impact specialized instruments.

• The important efforts: capacity building, investment readiness acceleration and scaling up
Mezzanine layer
Business model archetypes

IMPACT FINANCE

SOCIAL VENTURE
Why to bet on new Social Innovation/entrepreneurship as a new industrial policy option?

- Bring fresh genuine individual motivations to the cause of entrepreneurship;
- A new opportunity to foster early growth through innovation procurement: social (civic) procurement;
- A innovation policy option that is more friendly to the prevalent industrial specialization model, industry structure and innovation mode of many European countries;
- A new generation of inclusive innovation policies able to stitch up the laceration between society and innovation.
- A new form of technology-transfer ensuring social accountability of research.
- An option for future cohesion policy.
- An option that can be complementary but not lateral to mainstream industrial policies.

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A real option for industrial policy?

• Anecdotal reflection: in any kind of EU-funded call/competition/prize in the field of social innovation, there is a systematic over-representation of proposals from countries where de-industrialization and unemployment hit harder.

• Social Innovation is perceived as an alternative option: policy maker should come to terms with this.
A real option for knowledge-based growth?

• Scientific knowledge exploitation and tech transfer: the value of research has been traditionally conveyed to society through the intermediation of the industrial system, which has taken care of exploiting knowledge, translating it into economic value and (partially) giving it back to society.

• But what if the industry (or a knowledge-intensive industry) is no longer there in certain areas of Europe? No real option for knowledge-based growth.

• The alternative is to think of (Tech)Social Innovation and entrepreneurship as a way to convey the value of knowledge directly to society in the absence of a consistent industrial option.

• Ultimately this is a good reason to address specific policies to foster a new generation of (Tech)Social Ventures.

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Urgent issues

• Capacity Building, Acceleration, Investment readiness, and “mezzanine business models”;
• Non linear, demand-side policies and ecosystem building;
• Metrics and measurement infrastructures;
• Integrate impact finance and public finance;
• After advocacy, demonstrate.