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Case Studies in Social Innovation

A Background Paper

by

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INTRODUCTION

The employment services sector in Australia is at a critical juncture. The third contract round of the Job Network coincides with a commitment by the new Federal Government to the principles of sound market design. These principles include the alignment of incentives between providers, users of services and taxpayers; generation of new sources of investment; removal of barriers to entry; and transparent information on service quality.

An important goal of the redesign of this market is to stimulate greater innovation amongst providers. Like any investor, government wants to achieve the biggest bang for its buck and it realises that its return on investment is restricted by a top-down, prescriptive approach to provider behaviour. Put simply, providers will be able to place more people in jobs if they are allowed to tailor programs to local circumstances. Avoidance of a failure at all costs must be replaced by a willingness to experiment and to err in the pursuit of success.

This background paper offers an overview of social innovation and three case studies of successful social innovation projects. The paper is intended to illustrate the principles of social innovation for organisations which may be considering an application to the Innovation Fund, the Federal Government's primary policy tool to stimulate innovation in employment services

The Fund is a $41m allocation to support localised solutions which build employability for highly disadvantaged job seekers (see DEEWR, 2008). It seeks to drive innovation in two ways: by asking providers to generate innovative ideas prior to government intervention and by making scarce capital available for innovation start-ups. Its target groups include indigenous Australians, the homeless, the mentally ill and jobseekers in jobless households. It will seek to support projects which integrate access to related services like health and housing, and those which demonstrate in-built flexibility.

The three case studies have been chosen because in each, providers have successfully applied social innovation to the provision of work to jobseekers. They cover both Australian and international experiences, and emerging new initiatives as well as well-recognised, longstanding ones. The paper seeks to draw out the common elements that have allowed these projects to achieve enduring success. Before we turn to the case studies, let us briefly review some defining features of social innovation.

WHAT IS SOCIAL INNOVATION?

Innovation is "fresh thinking that creates value" (Lyons, 2007: 4). The distinguishing feature of *social* innovation is that it addresses unmet social need. Mulgan and colleagues (2007: 9) defines social innovation as "the development and implementation of new ideas (products, services and models) to meet social needs".

Historically, governments have taken a 'big bang' view of innovation. If enough R&D money could be raised, enough business-university collaborations established, then eventually the next Hills Hoist, microwave oven or mobile phone would emerge. Yet this approach has failed. A recent INSEAD report on Germany's attempts to create biotech clusters and Singapore's new 'biopolis' found that, "Germany has essentially wasted $20 billion and now Singapore is well on its way to doing the same" (The Economist, 2007: 4). The problem is that these approaches assume a 'top-down' view of innovation in which governments can buy big breakthroughs by directing investment from above.

By contrast, we would argue that innovation is a bottom-up process. It relies on incremental adaptation and the interaction of thousands of people and ideas. Henry Chesbrough best sums up this reality in his theory of 'open innovation'. Chesbrough argues (2003) that the best ideas are found outside the organisation and that organisations should therefore collaborate openly with suppliers, customers and providers of related services. This is particularly true of social innovation, whose output is usually not a technological fix, but a collaborative process that meets a social need.

This paper argues that successful social innovation has four defining features, namely:

1. Focus on a specific unmet social need;
2. Creative matching of assets and capabilities;
3. Iterative development, rather than big-bang breakthroughs; and
4. Adaptive organisational forms.

We will use these four features as a framework to explore the success of the case studies in the paper, but first let us outline each in more detail.

Unmet social need

The desire to address unmet social need is the driving force behind social innovation. Need in social policy is best understood as the equivalent of demand in economic theory. Need occurs when there is a social cost created by an individual's inability to access and consume basic goods. Homelessness is perhaps the best example. Need differs from economic demand in that the consumer does not have the capacity to acquire the good or service in question. In these cases, private markets have failed to deliver socially desirable outcomes.

When thinking about need, it is particularly important for social entrepreneurs to clearly define the need in question and the target segment of the community whose need they seek to address. It is also important to remember that the beneficiaries of the initiative are not necessarily the direct consumers of the services. In the employment market, government is usually the buyer of the service while the recipients are jobseekers. This structure is typical of many social innovations.

Creative matching

If innovation is fresh thinking that creates value, this fresh thinking often takes the form of creative matching – assembling existing assets and capabilities in an unfamiliar way to generate something truly new. There are many parts of the puzzle that can be assembled differently. Skills can be brought to bear in areas where they were previously considered redundant: why not offer jobless people relationship counselling? Capital can be provided to people who were previously considered credit risks: why not give poor people micro-loans? Technology can be harnessed: why not give poor agricultural traders mobile phones? Delivery channels can be reconsidered: why not ask illiterate parents to sit with their children in reading classes?

Employment services current embrace many of these creative matching combinations, from complementary provision of skills and training to housing services, from drug and alcohol advice to childcare. But as we shall see, there are always new combinations to consider and the best social innovations actively pursue these.

Iterative development

Innovation rarely occurs in a single 'big bang' moment. Instead innovation is usually the product of repeated trial and error, often driven by a hunch based on observation and experience. Very few ideas are truly original, and very few social innovations are built on truly original ideas. Many succeed by experimentation and improvement, while others take an existing idea to a new demand niche and build on it.

There are two important implications of an iterative approach to development. The first is that a dogmatic search for a single, big breakthrough in social innovation is unlikely to bear fruit. It is much more likely to result in the loss of precious resources better spent on less ambitious, more practical approaches. The second is that a willingness to fail in the pursuit of success is critical. Small-scale failure is a vital interim stage on the road to effective social innovation. These failures should be anticipated, and built into business plans, funding targets and stakeholder expectations.

Adaptive organisational forms

The Federal Government is right to seek flexibility in the projects it supports through the Innovation Fund. All successful social innovation initiatives demonstrate flexibility as their project develops. The evolutionary path of successful non-profit start-ups involves early stage advocacy, typically by a charismatic champion, aligned with a successful fundraising effort, often driven by specialist fundraising professionals. Once this passes, the organisation must turn to operational delivery which, in successful ventures, is usually complicated by the demands of rapid growth.

Many organisations find it challenging to pass through these phases, which tend to require changes in personnel as skill requirements evolve. Given this, careful thought should be given at the outset to governance structures and the appropriate forms of engagement for various stakeholders. It is not a question of if success will demand changes of the organisational structure, but what form these changes take. The enduring social innovation successes are those which navigate these changes effectively.

Having presented this four-point framework for understanding successful social innovation, let us turn to our case studies.

SOCIAL INNOVATION CASE STUDIES

Case Study 1: The Big Issue

The Big Issue is the world's best-known street newspaper. It operates a simple business model under which homeless people purchase the paper at a 40-50 per cent discount to the cover price and on-sell it to the public, keeping the margin as their own income. The purpose of the initiative is to empower homeless people and rough sleepers through financial inclusion and self help. The direct income stream it provides is an important benefit, but the capabilities and self-esteem the program builds are even more powerful.

The paper was started in London in 1991 by John Bird and Gordon Roddick, husband of the Body Shop founder, Anita Roddick. The paper spread quickly throughout the UK, and then expanding internationally into Australia, Japan, South Africa and Namibia.

Unmet social need

The discrete need identified by the Big Issue founders was the inability of homeless people to find employment due to employer mistrust and to sustain employment due to a combination of inadequate skills, capabilities and self-confidence. The Big Issue addressed both these problems by providing self-sustaining work which built capabilities and self-esteem on the job.

The project clearly identified its target segment as people sleeping rough in large cities. Vendors were required to demonstrate homelessness, for instance by providing receipts from homeless shelters.

Creative matching

The key insight behind the Big Issue's success was that the distribution channels required to supply latent demand for free street newspapers offered an opportunity to provide work for the homeless. Had the founders not observed this latent demand or considered innovative distribution channels, this opportunity would not have been captured. Their creative matching combined an emerging market trend, a novel supply chain approach and an unmet social need.

They also dreamed up the unlikely proposition that homeless people could effectively be self-employed small business owners. This meant that the Big Issue did not hire homeless people as employees, but empowered them as business partners. In return for the opportunity, Big Issue vendors were required to sign a code of conduct that regulated their behaviour when working. This approach was yet another innovation which underpinned the project's success.

Iterative development

The Big Issue was not based on an original idea. The founders based their venture on Street News, a newspaper sold by homeless people in New York. The entrepreneurial drive provided by Bird and Roddick, perhaps aligned with more sympathetic social perceptions of the homeless in Britain, allowed the concept to flourish in its new environment.

Even in a more favourable environment, the company had to experiment with the format to ensure that growth could be sustained. The Big Issue began as a monthly which grew quickly and was converted to a fortnightly publication. This lost money and the company decided to try a weekly release, which proved the enduring format underpinning the newspaper's success. This trial and error is typical of good social innovation projects.

Adaptive organisational forms

More than most initiatives, the Big Issue has struggled to adapt its organisation to its different growth phases. John Bird was an immensely effective start-up champion, but proved less capable of operating a newspaper business. As one staff member stated, "John could be a complete nightmare – he would walk in ten minutes before press and demand that the cover be changed" (Mulgan, 2007: 39). Over time, Bird's role came to be seen by some as the company's biggest liability.

The Big Issue has also had to manage the expansion made possible by its success. It has implemented an international licence franchise which has seen the paper launched in Australia, Japan and South Africa although a foray into the United States proved uneconomic. Like many of the most successful social innovations, the Big Issue was established as a for-profit company, which was considered necessary for the organisation's sustainability and independence from external funding sources. The company now generates regular profits, so has established the Big Issue Foundation to which all profits are donated. The Foundation supports a variety of homeless services in the markets in which the Big Issue operates.

Case Study 2: Cape York Partnerships Work Placement Scheme

The Work Placement Scheme (WPS) assists young indigenous Australians from remote northern communities who are willing and able to leave their homes and communities for work in the southern states for a minimum of one year. The WPS commenced in early 2005 with the placement of a cohort of young indigenous people into fruit picking jobs in South Australia and Victoria.

It is much more recent than the other two case studies profiled in this paper, and while it has demonstrated early success, the scheme is still developing. As Chris Sarra explained at the Jobs Australia conference in

September, the goal of such programs is to “engender an ethic of hard work and pride” in young Aboriginal people. To date, the WPS appears to be doing this - all the work is unsubsidized, so the scheme depends on the continued support of employers, and it has now been expanded to include meat-processing work in Victoria and WA.

Unmet social need

The unmet social need addressed by the WPS is the lack of genuine, self-sustaining employment opportunities in remote Aboriginal communities. As WPS founder Milton James explains (2008: 2),

> “Real work is the key. Real work not only provides income, it provides equity, purpose, identity and the structure of time and place… The reality is that there are very few employment options for young Indigenous people living in remote communities outside the CDEP. If young people are to be helped to take up mainstream private sector employment, they must be willing and able to pursue opportunities away from home.”

Clearly, this means a very clear, focused definition of the target segment for the initiative, in geographical, ethnic and demographic terms. The beneficiaries of the WPS will be young (mostly male), indigenous people from remote northern communities. This is an excellent example of the type of segment definition which would be looked upon favourably by the managers of the Innovation Fund.

Creative matching

At one level, the creative matching employed by the Work Placement Scheme is obvious: it is a straightforward exercise in labour market matching. Excess demand for labour in southern Australia is being met with the excess supply of labour in the country’s north. However, if it were so easy, surely it would have started long ago and become widespread practice by now.

Instead, Milton James’s success has rested on the joint rejection of two pervading myths (James, 2008: 2-3). The first was that young indigenous people are unable to leave their communities to take up work elsewhere due to strong social and cultural ties to land and family. The second was that young indigenous people are unable to cope with the structural demands of mainstream employment after long periods living in a culture of welfare dependency.

Two observations convinced James these assumptions were wrong. The first was that anti-social behaviour of Aboriginal and Torres Strait islander teenagers and young adults would cease when they were sent away from the community and placed in the care of responsible, non-family members. The second was that in earlier programs, young Aboriginals had responded positively to the demands of real work, including commercial fishing, diving and boat repair.

It was this refusal to accept the collective orthodoxy that allowed James to imagine that the matching of northern labour with southern jobs might be harnessed for the benefit of young indigenous people.

Iterative development

The Work Placement Scheme has many of the hallmarks of iterative development characteristic of good social innovation. It evolved out of an earlier program, Boys from the Bush, a social enterprise developed by James that focused on the sale of tree oils harvested in Cape York. This was the program which first brought real work together with support and supervision, and sowed the seeds for the subsequent success of the WPS.

Once launched, the WPS embraced a trial and error approach to managing its work placements. Initially the program deployed on-site work group supervisors (WGSs) to oversee the fruit picking workers, but trials without WGSs actually delivered superior results. Once the scheme moved to meat processing jobs, it became apparent that off-site work group supervisors were required, as the young arrivals were performing effectively at work but were struggling to stay out of trouble in the wider community. The introduction of an off-site supervisor, cook and domestic support worker has addressed many of these problems. Doubtless, further experimentation will be required over time but the program has shown that it is capable of trialling and implementing new approaches as it grows.

Adaptive organisational forms

As the WPS is relatively new, it has not yet had to make wholesale organisational changes as a result of rapid growth. In Milton James, it has the entrepreneurial champion typical of so many social innovation successes. As the program has begun to prove its worth, demand from the private sector for indigenous workers has grown, leading to new collaborations such as that with Fletcher International meat works in WA.

Furthermore, high-profile business leaders Andrew Forrest and James Packer have both committed to hiring Aboriginal workers from remote communities (although not necessarily through WPS). Despite these successes, Cape York Partnerships will need to manage the scheme carefully as Milton James announced his departure from the organisation in 2008 in order to replicate these initiatives beyond the Cape York Peninsula.

Case Study Three: WorkVentures

WorkVentures is an enduring social innovation success story which will celebrate its 30th birthday in 2009. The organisation currently comprises an employment services group assisting jobseekers in Sydney and Melbourne, an IT repair centre in central Sydney and five neighbourhood Connect centres in suburban Sydney.

WorkVentures might fairly be described a social innovation conglomerate. Throughout its history, it has repeatedly readapted itself to a changing external environment without losing focus on its core mission: the delivery of innovative social services to the disadvantaged. Today, WorkVentures employs 167 paid staff and contractors, as well as over 550 volunteers. It has an annual turnover of $16m and net assets of over $4m. One of the keys to WorkVentures's success has been determination to embrace commercially self-sustaining activities which generate a surplus over time, rather than rely on one-off external grants for its financial viability.

Unmet social need

WorkVentures has taken an unusual portfolio approach to addressing unmet social need. From its inception, it has periodically asked itself, "How do we best help the disadvantaged, given our current capacity and the external environment?". The principle which WorkVentures has consistently espoused is that disadvantage is best overcome by equipping people with the skills and capabilities to sustain independent employment.

Specific social needs that WorkVentures has addressed included the provision of skills training, conventional employment services provision through Job Network, business incubation services for other social initiatives, and community services including markets, gardens and legal services. When WorkVentures has considered its services to become ineffective, it has withdrawn delivery and moved to the provision of new services.

Creative matching

The great insight of Steve Lawrence, WorkVentures founder, was to observe as far back as the 1970's that social needs could be fulfilled through profitable activities. Over the long term, the independence offered by recurrent surpluses delivered more effective social outcomes than programs funded by periodic grant funding. When Lawrence founded WorkVentures after a career as a community liaison officer in the NSW Department of Youth and Community Services, he realised how little innovation existed in social service delivery, and how dependent charitable organisations were on government.

So WorkVentures sought out projects which eschewed government funding. Lawrence says (Jobs Australia, 2008: 29) that, "We didn't want to be dependent on government – generating our own revenue gave us choices about how we did things." It did this in two ways. Firstly, it pursued activities which built people's capabilities at the same time as they generated independent revenue. For example, the Compuskill facility which started in 1984 accumulated skills through computer training while delivering book-keeping and desktop publishing services. Secondly, and more radically, WorkVentures built partnerships with the private sector which brought external investment into its social enterprises. In 1986, Microsoft made significant contributions to WorkVentures' first Information Technology Centre (ITeC) in Surry Hills. This access to external seed capital has allowed WorkVentures to make long-term investments in new social enterprises without the pressure of surviving an annual government grant process.

Iterative development

A willingness to take measured risks and to learn from mistakes is an inherent feature of the portfolio approach adopted by WorkVentures. It is inevitable that there will be some failure rate across several dozen social innovation initiatives, and the mantra of WorkVentures has been to draw lessons from these periodic setbacks.

In 1988-89 a music IT centre foundered with a loss of $20,000, and the organisation realized that even related sectors offered different challenges to those of the core IT business. A joint venture to contract IT services to large organisations failed in 1994, as sales leads could not be converted and the IT market became more competitive: marketing was identified as an organisational weakness. A restaurant offering hospitality training closed with a $300,000 loss after it proved impossible to find a manager with hospitality experience who could effectively run a social enterprise. After each of these setbacks, WorkVentures has bounced back more strongly with new initiatives and now boasts extremely sound financial health alongside its positive social outcomes.

Adaptive organisational forms

As a consequence of its periodic reorientations around new social challenges, WorkVentures has experienced more organisational change than most social enterprises. It began in 1979 as Peninsula Exchange, a parish group offering a variety of local community services. In 1984 it was transformed into Peninsula Community Services, when it separated itself from the parish and established a non-profit company. Finally, it was renamed WorkVentures in 1992 to reflect a new focus on growth and diversification into a range of new activities.

The one constant throughout this history has been the leadership of Steve Lawrence. It is remarkable that a founding entrepreneurial champion has overseen such a long period of expansion and success. Usually, these figures make way for more operationally focused leaders once the enterprise is established, yet Lawrence has successfully managed the transition. In 2007, Lawrence retired as CEO stating, perhaps too modestly, that he was "better at lighting fires but not so good at tending them." (Jobs Australia, 2008: 32). But WorkVentures has crafted a new role for Lawrence, as 'Founder and Social Entrepreneur' allowing the organisation to continue to tap his remarkable creativity.

CONCLUSION

The three case studies presented above demonstrate remarkably consistent patterns of success in social innovation. Each has addressed specific, clearly defined social needs currently unmet by private markets. Each has generated a value proposition based on the creative matching of ideas, skills and capital. None has enjoyed success as the result of a big bang breakthrough, but all have instead experimented with and finessed social initiatives over time. And all have had demonstrated the flexibility required to adapt their organisations to changing internal and external circumstances.

These themes can serve as important markers for Innovation Fund applicants. It is clear that government is likely to evaluate applications along similar lines. Given this, applicants' business cases should identify a target segment, offer a tailored blend of ideas, skills and capital, anticipate risks and incorporate flexibility.

Treat the Innovation Fund as a social investor, much like WorkVentures does with its external partners. Identify the social returns the initiative will deliver, outline the required investment and map a path to self-sustaining revenue over time.

It is an exciting time for social innovation in Australia, and employment services providers are at the coalface - the possibilities are immense.

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