Social Innovation Generation's Submission to the Expert Panel
Review of Federal Support to Research and Development   February 2011

Summary

Revitalizing Canada's innovation policy requires broadening the definition of innovation to embrace social innovation. By doing this, innovation can be more effective in sustainably generating both economic and social value for Canadians. It will demonstrate the relevance of innovation for tackling complex and intractable challenges facing our society. Innovation can no longer remain the domain of a few. Rather, its success calls for a national innovation strategy leveraging the creativity, competencies, and involvement of all sectors – government, industry and community – collaborating together in new ways. Succeeding at this requires new enabling policies, an expanded and networked innovation ecosystem (including innovation labs, hubs, and clusters as well as training and educational capacity building for strategic, collaborative leadership across sectors), and a robust finance marketplace serving all parts of the innovation cycle. To enable public sector's innovation, at least one percent of each department's budget should be dedicated to innovation.

Social Innovation Generation (SiG)

Social Innovation Generation (SiG) is a national partnership comprised of **The J.W. McConnell Family Foundation, MaRS Discovery District, PLAN Institute** and the **University of Waterloo.** Its aim is to foster a culture of continuous social innovation to address Canada's social and ecological challenges. Canada's ability to conceive, build and scale high impact social innovations requires a national innovation strategy enabling and financing a collaborative, tri-sector innovation ecosystem.

Integrate business thinking with social innovation

Canadians' standard of living in the future depends upon our capacity to innovate. It is natural then that governments and business should devote significant effort and money to strategies designed to encourage and support R&D. The problem, as demonstrated by our low OECD rankings, is that until now such strategies have proven to be both expensive and disappointing in terms of return. A survey of CEOs attributed this to a risk-averse business culture and to complacency. Professor Michael Porter, Harvard Business School, talks of the "winner's curse" that afflicts countries that are well-endowed with natural resources, and that are in consequence less aware of the need for development of their human resources.

The second decade of the 21st century will be marked by growing needs for natural resources, from which Canada stands to benefit, and by a more intensely competitive global marketplace, in which Canada will struggle to maintain its place. Merely exporting natural resources will not be enough to maintain our present quality of life. Developing new business products and processes will be important to create high value jobs, but it will only address part of the challenge of the next decades.

Cost-effective ways of meeting social needs requires that as much attention be devoted to innovation in governance, education, healthcare, inclusion of vulnerable populations such as seniors, people with disabilities, new Canadians, etc.

Unlike private sector R&D, relatively little attention is paid in modern times to innovation in the public sector. Schooling is based on a model developed in the 19th century; healthcare's technological breakthroughs have not been matched by comparable progress in how the system is managed and, given learning from recent research into the social determinants of health, in how individual behavior can be modified. Social media empowers people, as demonstrated recently in the Middle East, but the potential of new technologies to re-define the role of government and strengthen the fabric of communities in an intentional fashion have scarcely been tapped.

Similarly, government has paid limited attention to how to enable and empower the innovation-generating role of the community sector – charities, nonprofits, and community associations.

Business innovation, without parallel testing of new ideas and approaches to address societal challenges and governance models, cannot assure Canadians a high quality of life. Our big challenges – climate change, aging, prevention of pandemics, managing water resources, social inclusion, urban development, protection against

terrorism, etc – cannot be 'fixed' by technology alone, because ultimately they all involve people's attitudes, perceptions, behaviours and understandings.

Recommendations
- **Broaden the definition of innovation to include social innovation**
  - Design and equip our innovation ecosystem with a national innovation strategy to solve large-scale complex 21st century challenges facing Canadians
  - Ensure innovation policy supports collaborative tri-sector participation – industry, public sector, community sector
- **Develop a capacity building approach bridging mainstream innovation and social innovation competencies**
  - Integrate social innovation into the model of hub and cluster development underway, building on lessons learned by MaRS Discovery District, the Accelerator Centre (Waterloo)
  - Support tri-sector leadership training programs, like the Waterloo-McConnell Graduate Diploma in Social Innovation
  - Recognize the pivotal role of partnership brokering to enable cross-sector innovation generation
- **Accelerate the public sector's innovation role by calling for at least one percent of each department's budget to innovation**
- **Facilitate development of innovative financing models supporting the full cycle of innovation**
  - Support capital market innovation as outlined in the seven recommendations of the Canadian Task Force on Social Finance in order to mobilize private capital for public good
  - SR&ED eligibility should be extended to innovation activities undertaken by charities and nonprofits

A necessary, integrated complement to business-oriented, science and technology, R+D innovation is social innovation. Canada lags behind other jurisdictions, like the European Union, in making this linkage explicit in policy and programmes.

"Social and technical innovations share a number of similar characteristics," explains **Waterloo University's Frances Westley.** "First and foremost, all novelty is created not so much in the primary elements, but in their combination. Innovation lies in the relationship between elements – the more unusual the combination of elements, the more radical the innovation. Some innovations – technical or social – dock rather seamlessly into existing products and processes, for example a new computer application or a new program for the homeless. Others are far more radical, demanding a change in a cascading series of adjacent areas in order to be made functional."

This emphasis on how innovation's elements combine to generate success echoes the conclusions of Booz & Company's annual **Global Innovation 1000** studies of the world's top innovating corporations. In 2010 Booz stated that their research "has shown time and again that there is no statistically significant relationship between financial performance and innovation spending, in terms of either total R&D dollars or R&D as a percentage of revenues. What matters instead is the particular combination of talent, knowledge, team structures, tools, and processes — the capabilities — that successful companies put together to enable their innovation efforts, and thus create products and services they can successfully take to market."

Social Innovation: A critical ingredient to address complex challenges
Social innovation is a critical ingredient to successfully address the complex challenges of our time while providing opportunities for Canada's science, technological and health innovations to bridge the implementation gap towards commercialization and service delivery.   The ultimate test of innovation's ability to create value is to be intentional and deliberate about linking and unlocking both economic and social value.

A common definition of social innovation is *innovation meeting unmet social needs*. **SiG's** formal definition goes further:

Social innovation is an initiative, product or process that profoundly changes the basic routines, resource and authority flows or beliefs of any social system in a direction of greater resilience. Successful social innovations have durability, impact and scale.

The capacity of any society to create a steady flow of social innovations, particularly those which re-engage vulnerable populations, is an important contributor to overall social and ecological resilience.

Social innovation strategies generate economic value through positive social change. As a society so focused on economic indicators, our challenge has been integrating the multiple aspects of value generation.

As **MaRS** CEO Ilse Treurnicht explains: "Canadians have long relied on governments and community organizations to meet evolving social needs, while leaving markets, private capital and the business sector to seek and deliver financial returns. However, this binary system is breaking down as profound societal challenges require us to find new ways to fully mobilize our ingenuity and resources in the search for effective, long-term solutions."

Integrate Social Innovation into Innovation Policy
Combining social and economic value through innovation is becoming a mainstream preoccupation.

The European Business Panel on Future EU Innovation Policy, established by the Directorate General Enterprise and Industry of the European Commission, reflected this in 2009:

Businesses innovate mainly for return on investment, whereas society must innovate for social return. Europe needs both…

Social innovation explains 75% of innovation success. Breaking the mould requires collaborative, cross cutting responses reaching out to business, public policies, research, education and training, public services, finance and NGOs.

Public policy should not only stimulate business innovation, but also social innovation. Social innovation brings together individuals and communities, including civic society (or third sector) to address specific challenges…Social innovation will require experimentation, engaging citizens as co- creators, ability to turn promising ideas and new service models to scale at the level of cities, regions, EU Member States, the EU and global markets…

In 2010, Europe's new innovation policy, the Europe 2020 Flagship Initiative "Innovation Union", has declared "social innovation as an important new field" and committed to launching "a European Social Innovation Pilot" and a commitment that "social innovation should become a mainstream focus in the next generation of European Social Fund programmes". European innovation partnerships will "focus on a specific societal challenge". The European Commission will embark on a "substantial research programme on public sector and social innovation" and will pilot "a European Public Sector Innovation Scoreboard".

Often social innovation is seen as the purview of the social or community sector. While the community sector might be the current originator of much visible social innovation, social innovation is relevant for all sectors. In fact, according to Peter Drucker, a century ago the public sector was the leader in social innovation by creating new public-service institutions.

The Shared Value Proposition for Business
Core elements of social innovation's approach are permeating leading business thinking, most recently in Michael Porter and Mark Kramer's article in Harvard Business Review, "The Big Idea: Creating Shared Value: How to reinvent capitalism—and unleash a wave of innovation and growth"(January/February 2011).

Shared value "can be defined as policies and operating principles that enhance the competitiveness of a company while simultaneously advancing the social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress."

Shared value both reflects the core premise of social innovation and is a conceptual social innovation. Porter argues shared value arises from a deeper understanding of the drivers of competitiveness and competitive advantage; achieving shared value requires new operating practices, new technologies, and new approaches to competing.

For instance, companies that place social impact as a core outcome can examine how each aspect of production engages with the social value chain, allowing for product creation to engage with new markets. As well, the internal functionality of a company supply chain can influence a cluster of supporting industries.

The innovation synergy between social issues and industry growth is increasingly recognized. For example, mobile technology's newest innovations tackle social issues as diverse as health awareness and savings for the world's poorest people. In Kenya 8 million poor, most outside the formal banking system, are able to save for the first time by using M-PESA's mobile app to save, transfer money and manage credit all through their cell phone.

As Porter and Kramer explain, "Shared value creation will involve new and heightened forms of collaboration. While some shared value opportunities are possible for a company to seize on its own, others will benefit from insights, skills, and resources that cut across profit/nonprofit and private/public boundaries. Here, companies will be less successful if they attempt to tackle societal problems on their own, especially those involving cluster development."

Activating Supporting Industries

By examining a cluster of social issues we can see how industries have developed around them in the chart below.

Social Issue	New Industry
Disability rights	Disability products and services, palliative care, safe seniors products and services, targeted information & technology and financial services such as the RDSP
Economic equality	Fair trade, corporate social responsibility, micro-finance, credit unions, cooperatives, micro-insurance, social enterprise, social finance and impact investing
Climate change	Low carbon technology, renewable energy, energy efficient products, energy star labels, sustainable transportation, clean tech
Education	Public schools, early childhood education, distance learning, open-source software, the Internet, Roots of Empathy

Unleashing the Innovation Power of Community

Charities and nonprofits will play an increasingly important role in Canada's new innovation strategy. Nonprofits are a critical part of the R&D infrastructure as they innovate how new science and technology (hard tech or soft "social tech") can improve people's lives, especially when grappling with challenges as diverse as mental health, reducing our carbon footprint, integrating new Canadians, overcoming social isolation, or enhancing quality of life for an aging population. Nonprofits are preparing themselves for an enlarged role by diversifying their business model beyond dependence on donations and government grants to become more sustainable. By employing business models based social enterprises or innovatively financed program service arrangements (e.g. drawing on "success bonds" or "social impact bonds",) the community sector will be better able to provide proof-of-concept of successful social innovations that can be scaled up.

For nonprofits to be more effective innovation ecosystem players, the regulations governing them need to catch up with leading international best practices. That means revamping our laws based on the 1604 Statute of Elizabeth. **As Tim Brodhead, CEO of The JW McConnell Family Foundation states**:

We need to release the sector's creative and entrepreneurial spirit. One way is to end our binary distinction between for-profit and charitable. The single largest (and fastest growing) source of revenue for organizations in the community sector is self-generated income, from service fees, memberships, and in some cases product sales (this accounts for from 40-50 percent of total revenue). Yet charities in Canada are constrained by rules from further developing their entrepreneurialism, and they are prohibited from carrying out activities which might even inadvertently produce a 'profit', even where the goal is not private benefit but funding the charity's mission.

Enabling Public Sector Innovation

Government's innovation role is critical, not just because it sets the enabling policy context, but also because it can be a central player generating public sector innovation – "new ideas that create value for society". At least one percent of departmental budgets should be used to develop, test, and scale up new and better ways of doing things in the public sector.

Social innovation is vital to business innovation because it…

✓ Seeks high impact social and environmental application of new innovative, products, services or technologies

✓ Spawns new markets, employment opportunities and more sustainable cost structures for public goods like our health system

✓ Opens the innovation system's access to a much wider pool of potential collaborators and idea generators

✓ Taps into to new capabilities, skills and competencies in how ideas are generated and how they can be translated into practical, enduring implementation

✓ Enables the role of the community sector in supporting both private sector and public sector innovation capabilities and opens the door to involving households in innovation

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