



European Economic and Social Committee

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**Innovation as a driver of
new business models**

Brussels, 25 May 2016

OPINION

of the
European Economic and Social Committee
on
Innovation as a driver of new business models
Exploratory opinion

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On 16 December 2015, Mr Boereboom, Director-General in the Dutch Ministry of Social Affairs and Employment, asked the European Economic and Social Committee, on behalf of the forthcoming Dutch presidency of the Council, to draw up an exploratory opinion on

Innovation as a driver of new business models.

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 10 May 2016.

At its 517th plenary session, held on 25 and 26 May 2016 (meeting of 25 May), the European Economic and Social Committee adopted the following opinion by 131 votes, with three abstentions.

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1. Conclusions and recommendations

- 1.1 Europe is facing complex challenges calling for renewed social and economic models. To deliver progress, growth and wellbeing in Europe, a shift towards an innovation-based economy is needed.
- 1.2 In this context, innovative concepts and business models are emerging, indicating a shift from traditional innovation to innovation taking technical, environmental and social perspectives into account with a focus on people's lives and welfare.
- 1.3 The EESC therefore calls on the European Commission to develop a policy framework to support these new business models emerging. This by recognising, connecting and promoting central concepts for these enterprise models building on theories like shared value, collective impact, impact measurement, helix partnership and social innovation.
- 1.4 The framework includes an enabling environment removing barriers and expanding traditional enterprise concepts. Issues to explore are public procurement, innovation-friendly regulation, tailored financial instrument, better targeted Structural Fund support, potential tax incentives, training, support and updating skills, the latter by specifically taking digitalisation and robotisation into account.
- 1.5 It is crucial that Member States and the European institutions fully recognise and promote "fairer" business models, which are centred on delivering innovation for social development by integrating social impact measurement in parallel to reporting economic progress.

- 1.6 The EESC urges the Commission to fully integrate the principles of the Social Investment Package and its connection to social innovation when developing the European Pillar of Social Rights, since many of these new business models are a concrete expression of these principles.
- 1.7 Member States and the Commission must ensure that social innovation is fully mainstreamed in innovation programmes. EU funding support, such as Horizon 2020, for social innovation must be fully utilised and should be evaluated based on technical uptake (by each stakeholder) and political impact.
- 1.8 Member States and the EU Institutions must mainstream the principles of innovation in enterprise policy to ensure an enabling culture which promotes, welcomes, rewards and disseminates innovation. This culture encompasses elements such as experimentation, new partnership constellations and an expanded view on value creation in society.
- 1.9 The EU must put greater focus on supporting and protecting SMEs, in particular, social economy enterprises, microenterprises and family businesses, and all types of start-ups in innovation policy initiatives to improve the conditions for sustainability and replication/scaling.
- 1.10 New innovative business models must be fully considered in policy initiatives directed at the Industrial Revolution 4.0, and related policies such as circular, sharing and functional economy, this by encouraging adaptation of all existing businesses and models, supporting emergence of new and non-conventional forms of enterprises, forming of new relationships and adjusted models of cooperation.
- 1.11 The EESC calls on the Commission in the upcoming review of the Single Market strategy, due in 2017, to fully incorporate these new business models, and suggest new measures in this direction.
- 1.12 As for all businesses it is essential that the principles of decent work, the social rights of employees and the role of the social partners in the context of new business models are fully respected.

2. **Introduction**

- 2.1 A new societal landscape is rapidly emerging in Europe, calling for new social and economic models to reshape Europe as a modern and globally competitive economy.
- 2.2 To deliver growth for progress, social cohesion and well-being, a new mind-set is required with regard to innovation. Innovation and research around the world has embraced this mind-set, as have many enterprises, now striving for social and environmental, as well as economic,

growth and impact. In addition, consumer expectations and demand indicate support for this kind of approach. This is clearly demonstrated with the emergence of initiatives such as the collaborative, circular and sharing economies. What these initiatives have in common is that they are based on a new set of values and aim for smart, sustainable and inclusive growth for progress that combines technical, environmental and social innovation.

- 2.3 The purpose of this opinion is to explore some new concepts central to innovation driving new business models. It will in particular use social economy enterprises to illustrate an example. The opinion builds on the EESC acquis in this area and particularly on the work done through the EESC project on social enterprise¹. This opinion does not address concepts such as the circular, collaborative, functional or shared economy, innovation or SME policies which are explored in related EESC opinions.

3. **New concepts arising**

3.1 **Promoting social and societal innovation as an enterprise model**

- 3.1.1 Europe is facing complex societal challenges which existing systems fail to meet. This indicates a paradigm shift which calls for a new mind-set and innovative solutions. These innovations are often referred to as social or societal innovations. "Social innovations are innovations that are social in both their ends and 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. They are innovations that are not only good for society but also enhance society's capacity to act"². Social innovations emerge in all sectors, and are nothing new, but the common feature is that they eventually lead to systemic change.

- 3.1.2 In the academic world, innovation nowadays encompasses more than technical development. Researchers now agree that innovation and research need to take technical, environmental and social perspectives into account. There is interdependence between social, digital and technical innovation. The role of digital technology in this context is as a tool to encourage sharing and empowering people to take action, while social innovation is the main objective.

- 3.1.3 Social innovation manifests itself differently from technical innovation. It is need-driven, often aiming to respond to a challenge in society or focusing on a specific user group, while taking into account social, environmental and economic perspectives. The most successful social innovations entail holistic thinking which ultimately leads to systemic change rather than addressing a single issue or subject.

¹ <http://www.eesc.europa.eu/?i=portal.en.social-entrepreneurship-make-it-happen>.

² Source: http://ec.europa.eu/archives/bepa/pdf/publications_pdf/social_innovation.pdf.

- 3.1.4 The foundation of social innovation is an ethical, ideological or general interest viewpoint. This is demonstrated by the role civil society has now and had historically in shaping the welfare systems. Social innovation may be a new concept, but it has existed for a very long time.
- 3.1.5 Social innovation is based on open communication and collaborative problem solving engaging diverse stakeholders and practices to catalyse new solutions. Social innovation is tearing down walls separating sectors and markets, replacing competition logic with collaborative and long-term partnership solutions. It is about sharing, linked to the open-source movement and applying non-competitive approaches.
- 3.1.6 Social innovation offers a fundamental frontier for Europe and will promote the "real social market economy" as per Article 2 of the Lisbon Treaty. However, this can only be achieved if innovation is clearly aimed towards objectives such as inclusion and equality. This will in its turn accelerate further societal innovation.

3.2 **Reviewing value creation from the perspective of shared value**

- 3.2.1 Awareness is rising that a more comprehensive view of value creation – economically, socially and environmentally – is at the heart of an attractive business case. The fact that economic profit is generated or increased by securing greater social and environmental value clearly demonstrates that economic growth is connected to social and environmental progress. This is referred to as creating shared value, a concept explored by several researchers³.
- 3.2.2 Key to this strategy is a shift from the norm of optimising short-term financial performance to generating economic value in a way that also produces social progress and value for society. Shared value may well drive the next wave of innovation and productivity growth in the global economy.
- 3.2.3 Supporting a real social market economy requires encouraging forms of investments specifically designed to support the emergence of a more participatory, democratic and inclusive economy. Here, a full financial eco-system is needed, where in particular it is interesting to consider hybrid and blended capital forms, a topic the EESC has explored in previous work⁴.
- 3.2.4 Applying the shared value logic means that value creation no longer represents a transfer of existing value but rather an increase in social, environmental and economic value overall. Further, it highlights that the market is not defined solely in economic terms but also incorporates social and environmental aspects. A key component is that shared value builds

³ <https://hbr.org/2011/01/the-big-idea-creating-shared-value/ar/1>.

⁴ [OJ C 13, 15.1.2016, p. 152](#).

on the strength and differences between the private and civil society sectors applying a co-creation model ultimately creating new as well as growing markets.

3.3 Building on a partnership approach

3.3.1 Facing complex societal challenges often requires close collaboration between government, the market and civil society in order to create effective solutions. This partnership is based on a deep understanding of each stakeholder's perspectives, on swift decision-making and empathetic approaches.

3.3.2 Cooperation, co-creation and cross-sectorial innovation have tremendous advantages over the ways in which society has addressed societal issues in the past. Central to this is gathering stakeholders early to jointly define a shared societal objective and the way forward.

3.3.3 It is worth noting that, since innovation often emerges in the local context close to the real needs, attention and support must be for all of society. There is great potential to gather and share these local experiences, many which may be replicated and scaled across regions and countries.

3.4 Aiming for collective impact

3.4.1 As mentioned, large-scale social change requires broad cross-sectorial coordination, alignment and partnership. Furthermore, one result must be collective impact.

3.4.2 Collective impact builds on the commitment of a group of central stakeholders across sectors, focusing on a common agenda to solve a specific social or societal problem. In addition it involves centralised infrastructure, dedicated staff, structured process, shared measurement, continuous communication and mutually reinforced activities amongst all participants. Large-scale social change will emerge as a result of better cross-sectorial coordination rather than from individual organisations.

3.5 Applying social impact measurement

3.5.1 If the concept of innovation is to include not only technical but also social and environmental perspectives, progress must be measured differently. The EESC has previously explored topics (Social Impact Measurement⁵ and Economy for the Common Good⁶) where the need for an expanded view on outcomes and reporting has been clearly demonstrated.

⁵ [OJ C 170, 5.6.2014, p. 18.](#)

⁶ [OJ C 13, 15.1.2016, p. 26.](#)

3.5.2 Economic indicators have for a long time been the norm to measure results. But the increasing emergence of hybrid structures delivering innovation calls for a set of new and holistic indicators which measure social, environmental and economic impacts.

3.5.3 Applying the principles of social impact measurement entails a stakeholder approach, a common understanding and definition of key outcomes, as well as joint setting of indicators. This will help to capture the real value created. The focus is to shift from economic reporting to measuring factors such as social input, output, outcome and impact. It is important that stakeholders have the same understanding of these concepts, given that they are applied in both the innovation and business contexts.

3.6 **Innovation and decent work**

3.6.1 Social and technical innovation can have a huge impact on the organisation of work and the working conditions of employees. Increasing individualisation and greater autonomy and flexibility in labour relations should not lead to deterioration in social protection. For innovative models to be successful the principles of decent work must continue to be guaranteed even in a changed environment⁷.

3.6.2 Innovation will go hand-in-hand with general social progress only if all stakeholders are included and profit from it, if the value added is fairly distributed and if there is no dismantling of social rights. The social protection of employees must continue to be guaranteed even in changed conditions.

3.6.3 The same applies to the individual social rights of employees, especially working conditions and wages. Innovative models and digitalisation in particular often lead to a higher degree of individualisation in the workplace and endanger social standards. Sustainable innovative models must respect the rights of employees and their working conditions, even in a changing world of work.

3.6.4 New innovative business models must promote the collective rights of employees, their practical implementation and the role of the social partners. The social partners, collective agreements and the participation of workers are often a source of innovation, as they create the necessary framework conditions.

3.6.5 Social dialogue and comprehensive collective agreements should continue to be promoted, because they also may contribute to the improvement of the framework conditions for the transition to innovative business models. The "social rules of the game" have regularly had to be adapted to new technical and social developments in the past, and this will continue to be

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The principles of decent work follow, according to ILO, the following objectives: Implementation of core labour standards; decent work opportunities with sufficient income; strengthening social security and strengthening the dialogue between the social partners.

necessary in the future. See for example the redistribution of labour (for example reduction of working time).

4. **Promoting diverse enterprise models – the example of social economy enterprises**

4.1 The EESC supports the need to recognise and promote the full diversity and plurality of business and enterprise models which jointly make up the single market⁸. An area where the EESC has specific expertise is social economy enterprise (SEE). SEEs and social entrepreneurs incorporate several of the concepts discussed above and illustrate well these hybrid forms of enterprise models emerging in Europe.

4.2 Over 2 million social enterprises exist in Europe contributing to 10% of GDP. However in many Member States the sector is new and underdeveloped indicating a significant development opportunity. Civil society and social economy are closely linked and have through innovation contributed to significant systemic changes in society such as childcare, hospitals, promotion of personal autonomy and independent living of the elderly and people with disabilities, work-life balance, work integration and (social) housing, as well as numerous scientific discoveries or inventions.

4.3 Centred on a specific user group, an unmet need in society or filling a gap, SEEs experiment and innovate solutions while engaging in economic activity. They reinvest profits to deliver the social mission and impact. SEEs have recently been particularly highlighted since they provide an interesting solution by creating dual value creation; socially through their activities (social cohesion or inclusion) and economically (through trading, business creation and providing employment).

4.3.1 Boosting innovation and creativity depends on each stakeholder, as well as on behaviour and attitudes. It is therefore crucial not only to strengthen the SEE sector but also to ensure an open attitude towards other diverse models emerging. A culture of cooperation and shared values must be cultivated, a principle that has been embedded in, for example, the social economy since its beginning. Realising that SEE through their innovation create new market opportunities, specific attention must be given to protecting these entities to allow them to continue to develop.

4.3.2 In particular it is worth noting that research indicates that women are more highly represented in social enterprise than traditional enterprise. Additionally, studies collecting sex-disaggregated data on the subject have shown that women social entrepreneurs even outnumber men in some European countries. These studies also seem to indicate that women social entrepreneurs are more innovative than male social entrepreneurs, while spending less

⁸ [OJ C 318, 23.12.2009, p. 22.](#)

on innovation⁹. This research demonstrates a great development area with a particular focus on supporting women social entrepreneurship.

5. Creating an enabling environment for new and innovative business models

5.1 New and innovative business models, such as SEEs, are part of the regular economy and not in conflict with other business models. With the changing societal landscape in Europe focus must be placed on capturing all forms of innovation resulting in new business models. While these new models build on many of the concepts discussed in chapter 3, most existing business support, development and start-up programmes as well as other necessary conditions such as legislation and financial instruments often fail to support these diverse business models, the reason being that most support and policy today remains designed for a standard more traditional company model and logic. Therefore, to harness support for the full spectra of diverse business models emerging in Europe, the following elements should be considered.

5.1.1 In the case of SEEs, the EESC is actively pushing for a full eco-system that is specifically tailored to the unique features of this particular business model¹⁰. Similarly **eco-systems must also be developed for other new and hybrid business concepts**. Further, existing support must be updated and adjusted to capture these new models as well as to support existing business to adjust to and apply these new trends. The ideal eco-system comprises elements such as a tailored financial eco-system with hybrid capital solutions, better forms of procurement, tailored business development support, and applying social impact measurement. This is crucial to support emergence and sustainability of each business model.

5.1.2 Innovation is no longer linear. The combination of technical, environmental and social innovation perspectives is crucial in identifying future solutions. Fully integrating these concepts requires a new view on **reporting progress, one that is outcome or impact based**. Two elements in particular are important here: shared value creation and the triple bottom line (ensuring social, environmental and economic progress has equal weight). Recognising total value through the collective impact of the economic, social and environmental aspects, new kinds of hybrid enterprises will emerge rapidly. Shared value is still in its infancy. Therefore, it requires managers to develop new skills and knowledge and governments to learn how to regulate in ways that enable and do not hinder shared value.

5.1.3 Financial markets have a key function in allocating resources within society correctly. But their increased **short-term focus conflicts directly** with the requirement to address society's long-term needs, which is addressed in various reports¹¹. Businesses must have space to invest for the future to generate value for investors as well as for society at large. This calls

⁹ WEstart: Mapping Women's Social Entrepreneurship in Europe, 2015.

¹⁰ <http://www.eesc.europa.eu/?i=portal.en.social-entrepreneurship-make-it-happen>.

¹¹ The Kay Review, 2012: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253454/bis-12-917-kay-review-of-equity-markets-final-report.pdf.

for new systems that reward long-term investor behaviour. Here the importance of public funding, often in blended capital solutions, represents an important element, which often underscores enterprise development.

- 5.1.4 For innovation to drive new business models, an **innovation-friendly culture must be continuously promoted**. Encouraging experimentation schemes which welcome both success and failure (as learning steps) is central to foster an innovation culture in Europe. Without the precautionary principle being a barrier for innovation, the "Innovation Principle" should be applied in a complementary manner to the precautionary principle; the "Innovation Principle" entails taking into account the impact of laws and regulation on innovation. Designing processes and systems around the concept of partnership by involving key stakeholders (facilitating open forums, dialogue spaces, and cooperative meetings) is a starting point. This is already happening around Europe and could easily be scaled up, shared and disseminated¹².
- 5.2 **Political will and ownership** are central to boost new business creation in Europe. Developing coherent policy agendas at EU and Member State level tailored to support different business models is crucial. It is clear that to be able to deliver growth and well-being in Europe, a move towards an innovation-based economy and society is needed. The internal market legislation and policies should be adequately leveraged to this effect. The review of the Single Market strategy, due in 2017, is an opportunity to consider new measures in this direction.
- 5.2.1 Adequate and sustained support for **basic and applied research**, as the seed of future innovation, is crucial, given the emphasis on shared value and the triple bottom line. In addition, the activities of these new business models must be captured **statistically** so that the most appropriate policy support can be provided.
- 5.2.2 It is important to **build awareness** of the various forms of innovation and innovators. SEEs and civil society often fail to label themselves as innovators. Increasing the visibility of social innovation and ensuring it is recognised by explicitly valuing its broad contribution to society will encourage more innovation across sectors.

¹² Europe Tomorrow – *Loss* (FR) and *unMonastery* (IT) projects.

5.2.3 The EU continues to play a central role in gathering and sharing new initiatives, facilitating an enabling environment and ensuring key policy initiatives indeed capture these new trends. The Commission is well placed to facilitate this **exchange of best practices and models to replicate**.

Brussels, 25 May 2016

The President
of the
European Economic and Social Committee

Georges Dassis
