



TECHNOLOGY SOCIAL VENTURE

The New Generation Of Sustainable Business

Area Of Study: Innovation & Sustainability



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About the enquiry

The research and analysis for this report was conducted under the direction of the authors as a part of The British Chamber of Commerce for Italy Observatory on Innovation & Sustainability. A scientific contribution was given by Tiresia, the International Research Center on Social Impact of Politecnico di Milano.

A panel of experts and a cluster of companies were created to gather the required data. The panel of experts validated the definition of Technology Social Venture which was used to establish the boundaries of the field and select proper companies to analyze. The main criterion used to choose the experts was diversity, reaching out people able to significantly contribute the research thanks to a peculiar point of view.

According to the definition, 345 Technology Social Ventures were included in the database and stratified based on social and technological dimensions. The final sample obtained, which ensures adequate representation of all subgroups presented, was interviewed and a thematic data analysis was implemented.

Photo in the cover by Denis Kovalev

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AT A GLANCE

Why - Need of radical change

In a world in constant transformation, affected by wide-ranging social, technological and political challenges, the limits of the current capitalistic system are clearly emerging, raising the awareness in the public opinion that a change is needed. Still, barriers and resistances to change do exist, leading to minor changes that preserve the status-quo.

Conversely, a new **radical mindset** should guide decision-makers to better understand how each one can influence society and, in general terms, it should push anyone to act for a more inclusive prosperity.

How - Market revolution

However, this kind of **revolution** needs a joint effort to be effective: on the one hand, policy-makers should give guidelines, including new metrics to assess their interventions and setting rules in order to guarantee equality during the transition; on the other hand, corporations will try to implement or even precede those directives to build a shared path ensuring them a long term survival and minimizing possible negative externalities.

Finally, at the same time, also the philanthropic sector is trying to evolve, adopting leverages and behaviours that allow to make it more efficient and to build a more self-sustainable impact, getting closer to the business-logics.

What - Hybridization

Therefore, in the next years, we expect an **hybridization** among different sectors – public, private and no-profit -, in terms of goals and means: the Shared Value concept will become key for most of the companies that, understanding the threats and opportunities deriving from a more stakeholder-driven approach, will create several new inter-sectorial relations, leading to the growth of a Fourth sector. This will result in the rise of new business opportunities that, however, will require up-to-date managerial skills and practices to properly handle such complexity.

These are the reasons why enterprises like **Technology Social Ventures** are interesting, since they can symbolise a pioneering success-case that merges social and business perspectives, providing insights on future managerial trends.

Concept	Definition
Social Venture (SV) or Social Enterprise (SE)	Whatever mission-driven and independent enterprise, mixing social and commercial logics that tries to fulfil its mission implementing an entrepreneurial mindset.
Technology Social Venture (TSV)	A scalable enterprise that intentionally aims at having a measurable social impact, through a strategic tech-based innovation and an economic sustainable business model.

Contextualization of the TSV phenomenon

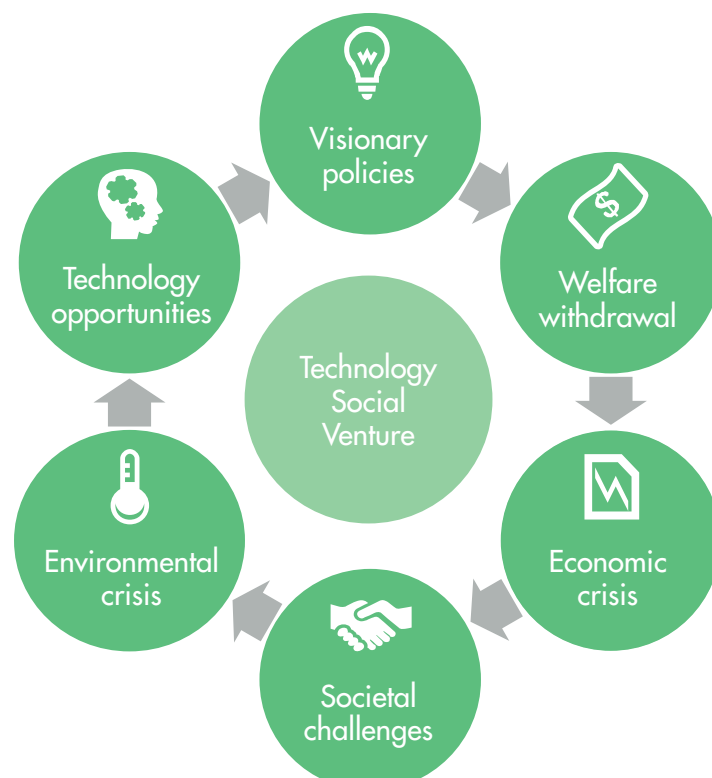
Sustainability background

To introduce Technology Social Ventures, it is important to start from what sustainability and social impact usually mean within enterprises, to clear the field of ambiguous interpretations.

In business, sustainability matters have usually been treated as side activities, more related to marketing and communication campaigns rather than to the strategy-generation process. More recently, regulations and iconic failures have been pushing companies to include sustainable practices in the risk management processes. Indeed, we can say that sustainability issues have been usually approached in the market, referring to the following three concepts:

- **Corporate Social Responsibility:** Social impact intended as responsible activities, unrelated with the core business and the primary activities of the enterprise
- **Risk management and Compliance:** Sustainability just intended from the operational perspective in terms of environmental, social and governance compliance, so to reduce internal risks and preserve the legitimacy to operate
- **Marketing opportunism:** Sustainability used just as a marketing leverage to show responsible behaviours and actions and improve the company image.

Despite these are all legitimate applications, they are not enough: indeed, today we are facing the most urgent and large-scale political, economic, social and environmental crises of our history and many of these challenges are the consequences of an outdated and **unsustainable economic system** that, in the last decades, has become the global norm.



Social Economy Pyramid

Consequently, rising concerns about the conditions of the planet drove the leaders from all the major countries to adopt metrics like the Sustainable Development Goals in 2015 and sign statements on purpose like the Business Roundtable did in 2019, to send a change message.

Focusing on the European perspective, many initiatives have been launched to take a step forward toward this direction and invest in alternative economic models¹: in 2016, research have shown how social entities currently accounts for 10% of jobs and 8% of GDP of the Continent. At the same time, especially in UK², several examples of hybrid organizations are taking the form of social enterprises, growing 1.5 times more of traditional British businesses³ and accounting for 3% of UK GDP - three times larger than agriculture⁴ -.

Around 400 **Technology Social Ventures** are part of this counting, representing a new kind of social entities that embed also factors like innovativeness and scalability (Ismail et al., 2012). These organizations are sparks of a new rising phenomenon, which can be called Ict-Enabled Social Innovation, **Digital Social Innovation** (DSI)⁵ or Civic Technology and that it is gathering more and more attention, due to its potential to foster effectiveness through a more collaborative approach, with respect to previous solutions (Misuraca et al., 2017). But how can such organizations be defined?



¹ Horizon 2020 and the Social Business Initiative are among the most important measures set by the European Commission to address this issue, respectively launched in 2014 and 2011

² Department of Trade and Industry report 'Social Enterprise: a strategy for success' represents the dawn of the policies for the development of social entrepreneurship

³ European Commission, Social Economy website

⁴ SEUK Report, 2018

⁵ Nesta research on DSI, 2019

The definition of TSV

Three pillars

In a nutshell, TSV are self-sustainable enterprises leveraging on technological innovation to intentionally solve social issues: however, there are more specific elements that can clarify nuances, similarities and differences with respect to a traditional SV or a high-tech firm, in order to manage and reward the risk in the appropriate way.

- **Social:** Through an inclusive and democratic approach⁶, a TSV should have a scalable social impact, namely it should be able to either replicate on a large scale or significantly improve the state-of-the-art (Chatterji et al., 2009), while intentionally pursuing (Höchstädter et al., 2015) a measurable social common return (Misuraca et al., 2017) (Perrini & Vurro, 2006).
- **Technologic:** A TSV should leverage on a technology-based innovation with a strategic perspective (Mithas et al., 2013), exploiting the opportunities coming from the 4th industrial revolution, creating a value added to the beneficiaries and the company.
- **Economic:** Legitimated by the alignment with the current capitalistic values, a TSV is engaged in continuous economic activity and its business model should be based on an entrepreneurial dimension that, in the long term, could ensure an economic return to the investors (Bengo et al. 2015).

Economic criterion	Social criterion	Technologic criterion
<ul style="list-style-type: none"> • Revenues-based business model • Long-term economic return to the investors • Entrepreneurial dimension 	<ul style="list-style-type: none"> • Scalable impact • Measurable social return • Intentional impact • Inclusive and democratic approach 	<ul style="list-style-type: none"> • Technology-based innovation • Strategic perspective

Value added

Making a simile, TSVs can be considered as much important for the social sector as the innovative start-up have been for the conventional economy: indeed, as the hi-tech start-ups operating in the traditional economy disrupted the market, TSVs might have the same impact, outperforming the traditional social entities.

Taking Italy as an example, the high tech start-up have been described as capital intensive firms - their rate of fixed assets on total assets is 3 times higher than average ⁻⁷, with a value added equal to 33 cent per euro of production, against 22 of the other capital companies; similarly, TSV can have a huge influence on social economy, in terms of innovation and soundness of the results.

⁶ Euricse, Social Europe Guide, 2013

⁷ MiSE, "Annual report to Parliament on the implementation and impact of legislation in support of innovative SME", 2017

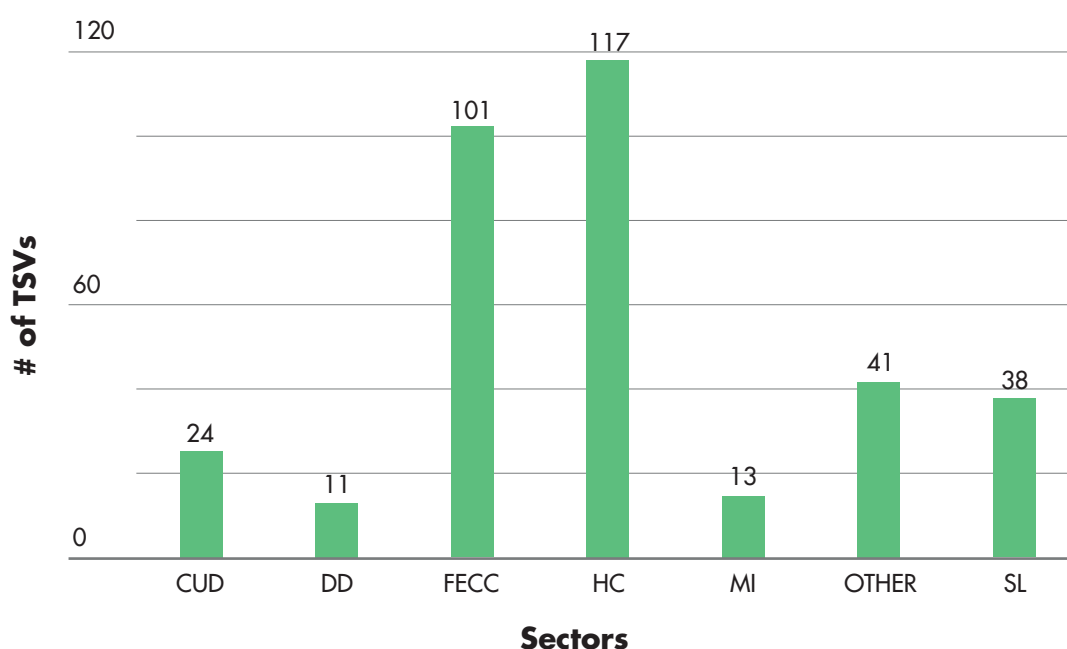
The state-of-art of TSVs in Europe

Highlights of the Database

To better understand the phenomenon, it is key to take a broader perspective and analyse the trend all over Europe: a prevalence of **young** (82% of TSVs with less than 10 years of experience) **and small companies** (88% of TSVs with less than 50 employees) was encountered within the sample. This reflects the absolute novelty of the field which can be approached only by highly transformative startups that are able to spot disruptive innovations better than incumbents.

On the one hand, the two **most numerous sectors**⁸ are **Health Care (HC)** and **Food, Environment & Climate Change (FECC)**. Social challenges like society aging and food waste drove social-aware entrepreneurs to explore uncovered markets, attracting investments that enabled to create scalable and sustainable businesses in these fields. Similarly, **Skills and Learning (SL)** is the third most represented sector, result that can be explained by the E-learning trend that gained momentum in the last decade.

On the other hand, younger sectors like Migration & Integration (MI), Digital Democracy (DD) and Cities & Urban Development (CUD)⁹ are gaining attention, becoming new potential markets for technological investments that couple social and economic return.



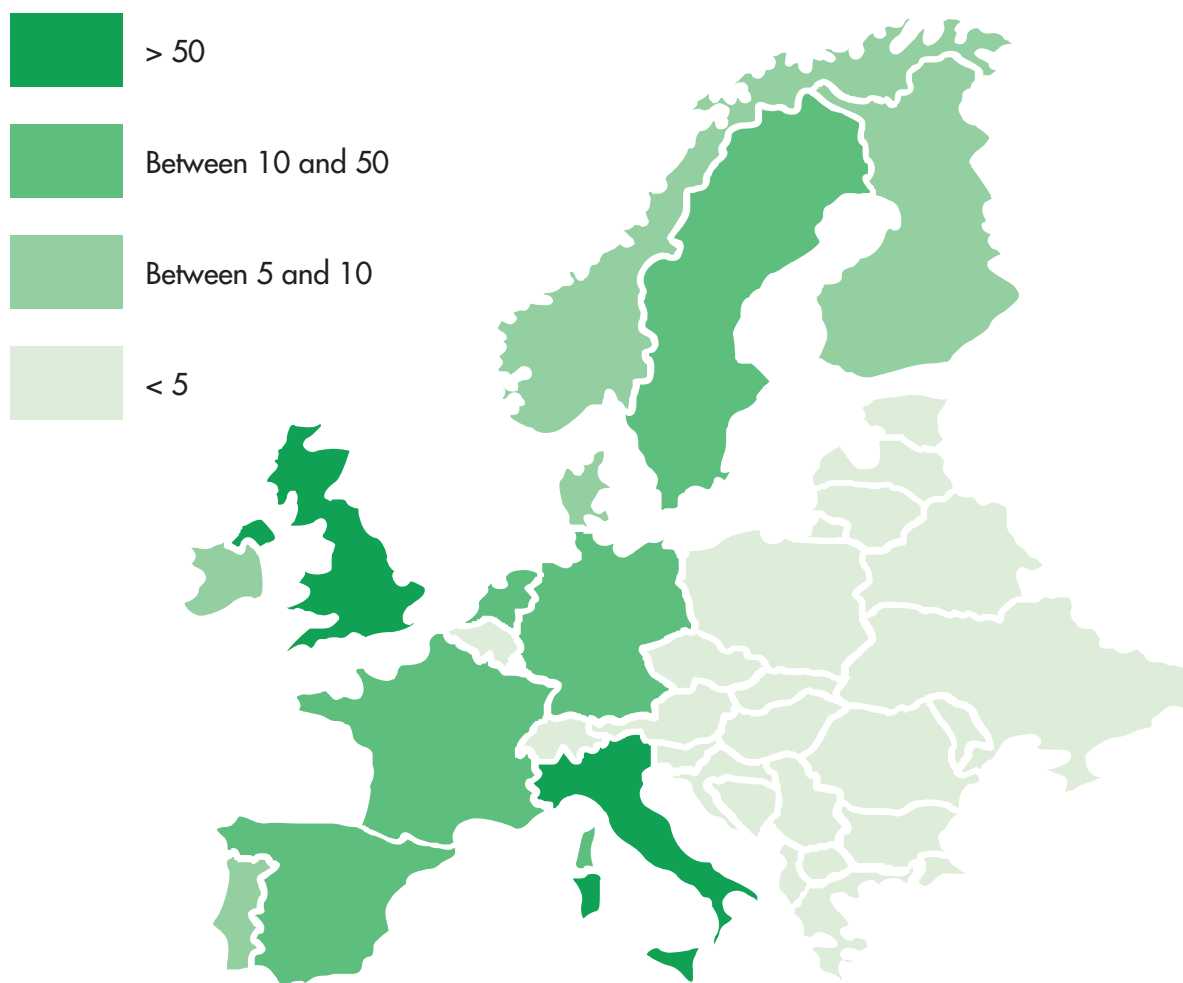
⁸ The reference sectors are defined by the Digital Social Innovation for Europe (DSI4EU)

⁹ The smart cities market is expected to reach a value of USD 1712.83 bilion by 2025, growing at a CAGR of 18.3%

Another relevant attribute is the level of technological innovation defined as the combination of the used technology, the application field of the innovation and the uniqueness of the overall concept¹⁰. **Almost three over four companies present medium or high degree of tech-intensity**. This evidence can be explained by the usual TSV's peculiarity to enter in uncovered market or, at least, in highly competitive ones that demand creativity and smart solutions to reach a long-term sustainability.

Despite Brexit, **United Kingdom can still be considered the European Technology Social Venture hub**: as a matter of fact, London represents a favorable ecosystem composed by impact investors, accelerators and incubators able to raise a venture more than in other places¹¹. The second most represented country in the database is Italy, but it could be a bias due to the sources used to realize the desk research.

Occurrences



¹⁰ Nomineet Trust report 'Social Tech Programmes: social impact evaluation', 2017

¹¹ Clarity report 'London leading the way in tech for food', 2017

Superstars

The following are **three examples** of companies that best represent the potential and the true essence of a TSV: economic, social and environmental sustainability.



Fairphone is a Dutch venture that is building a movement for fairer mobile phones. Its aim is to create a positive social and environmental impact from the beginning to the end of a phone's life cycle through: a long-lasting design, utilization of proper materials, creation of good working conditions and circular components. Its **last product**, (Fairphone 2s) **has been sold out** in March 2019¹².



Started in 2013, the Winnow system makes it quick and easy to record exactly how food is being wasted through smart meter technology attached to waste bin.

The British company guarantees **a cut on food waste between 2% and 8%** and a **ROI up to 1000% in year one**. Through tracking, recording and analyzing, the organization was able to save wastes for companies all around the world such as Ikea, Hilton Hotels and Costa Cruise¹³.



Too Good To Go

Too Good Too Go is a platform that allows people to buy unsold food from restaurants, cafes, supermarkets, bakeries etc. that otherwise would have to be thrown out. In four years, the venture was able to grow at a fast rate reaching a firm size of 250 employees serving **5 million of users** worldwide¹⁴.

¹² <https://www.fairphone.com/>

¹³ <https://www.winnowsolutions.com/>

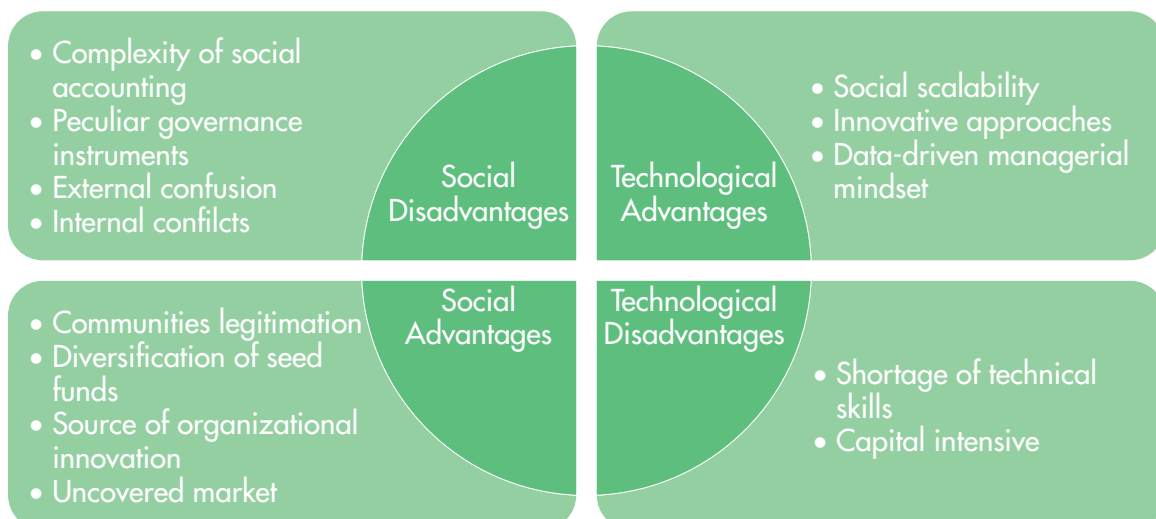
¹⁴ <https://toogoodtogo.it/>

The main takeaways about TSV

Pros and Cons

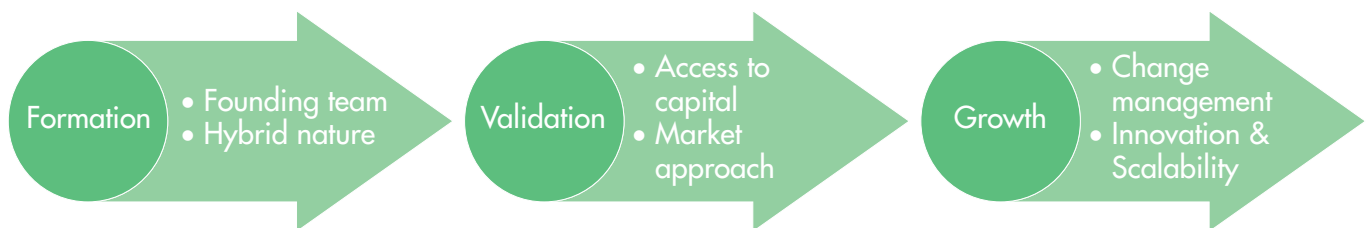
The whole phenomenon of TSVs can be assessed referring at the advantages and disadvantages that the merge between social and technological elements create:

- **Social Advantages:** Strategically, operating in a **social market** could be an opportunity given that, it usually means targeting customers and beneficiaries belonging to unserved market spaces. Moreover, the social sector gives opportunity to obtain **initial seed funds**, coming from alternative sources – impact investing, grants etc -. Finally, managerial challenges arising from the hybrid nature can lead to **organizational innovations**, related to people motivation and **communities' legitimation**; indeed, TSV are more likely to expand network, create sense of belonging and get in touch with relevant actors.
- **Social Disadvantages:** The coexistence of a dual mission could lead to unbalanced strategic decisions, resulting in **internal conflicts** between social and commercial components; therefore, the implementation of **peculiar governance** instruments is needed in order to avoid mission drifts. Moreover, **social accounting complexity** risks to overload the limited resources and might be frustrating in the first phases of development. Finally, difficulties linked to the novelty of the hybrid concept may create **external confusion** in the relationships with traditional stakeholders.
- **Technological Advantages:** Technology is an enabling factor to increase the number of beneficiaries reached and to improve the service offered; thus, **social scalability** is guaranteed. Moreover, technology enhance opportunities to access funds since **innovative approaches** are appreciated by venture capitalists and business angels. Finally, as a result of the technological emphasis, it is expected to emerge a data-driven **managerial mindset**, leading to sound performance measurement systems.
- **Technological Disadvantages:** Economic scalability is not always a direct consequence of a tech-based business model. Indeed, a TSV implies **huge capitals** not just at the beginning but also during the entire life cycle, in order to avoid obsolescence and be up-to-date. To conclude, as well as for any high-tech start-up, there is a **lack** of adequately **hard-skilled** people, an aspect even more critical for organizations that have to balance social return with economic return.



Lifecycle

Each TSV face different challenges according to the phase of life-cycle in which it is; starting from the Pros and Cons, **six elements** have been identified as the managerial implications, which the organizations should focus on their effort, to be successful.



- **Formation phase:** focus on ideating the business

1. **Founding Team:** At the beginning, the founding team should have **a mix of commercial and technical competences** in order to avoid excessive managerial challenges. In addition, the impetus of the founders, namely their values and mindset, are differential elements that influence the sustainability and the success of the business. The entrepreneurs are responsible to promote a certain corporate culture (social or profit orientated) beyond the classic origin of the organization that usual comes from the recognition of a social issue that directly affect them.
2. **Hybrid Nature:** The first effect of the merge between social and commercial background might be the **mission drift**, namely when the firm becomes too much profit-oriented at the expense of the social aim. This situation has to be properly managed, especially in terms of strategic decisions, where long-term perspective should be pursued. Moreover, **marketing** should consider the needs of beneficiaries in terms of pricing and communication, while **performance evaluation systems** should start from business-oriented KPIs and then evolve towards social ones.

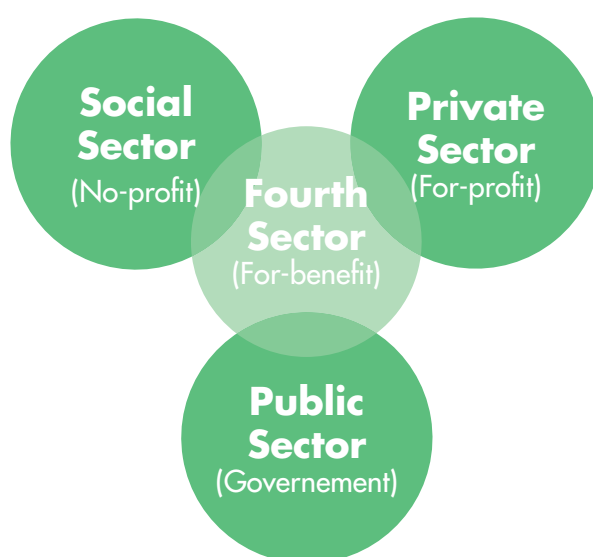
- **Validation phase:** focus on testing the business idea

3. **Access to Capital:** TSV are mainly **capital-intensive businesses** due to multiple technologies upgrades and the need of human resources to sustain the development of the company. The suggestion is to try to **diversify sources of fundings** (grants, impact investments, entrepreneurial philanthropists) in order to preserve the social mission that might be jeopardized by traditional investors.
4. **Market Approach:** Once a TSV has enough money to operate, it can test its own **uncovered market**. Marketing plays a strategic role, because the activities are not only oriented to create **awareness**, but they are also devoted to **explaining the benefits of the technology** and improving the distribution of the product or service. Moreover, according to the market, the strategy might vary (in sectors like FECC and HC, exist both services with a huge number of beneficiaries and niche markets).

- **Growth phase:** focus on scaling and establishing the business
5. **Innovation and Scalability:** The main differential characteristic respect a traditional SV stays in the innovativeness and replicability of the solution. These two **factors guide the organization among all the phases of the lifecycle** and their proper handling is the secret of the success. For instance, the level of innovation and the technology used more than the social aim, is the most powerful leverage to attract new talents and investors to join the firm and let the organization grow.
 6. **Change Management:** As a traditional startup, a young TSV is intended to become a consolidated company. For this reason, it is important to be mindful of the startup's characteristics and to notice when it is time to change, being careful about: **governance's role, organizational structure, recruitment and management of human resources.** A **democratic ownership** should be implemented, enabling almost everyone to be aware of the decision-making process. This practice is aligned with the initial adaptation of **a flat and responsive organization**, with roles and teams that change and adapt according to the situation. Along with it, many **informal practices** should be built to create a long-term commitment among the employees, both because it helps to improve the working environment and decrease the People turnover.

Conclusion

In the short term, TSVs represent an opportunity for the public sector to promote social investment through integrated approaches, catalyzing the involvement of various stakeholders in social policy design and innovative service delivery (Misuraca et al., 2019); while, in the long run, if entrepreneurs keep proving that TSVs can balance economic, social, and environmental impact, demand for such partnerships will grow, leading to the birth of the so-called **Fourth sector**¹⁵, also pushed by the rising Generation Z, which already shares these values (Sabeti, 2011).



Moreover, meaningful insights emerged even for traditional entrepreneurs, who can take inspiration for their business from the TSVs' ability to:

- exploit uncovered markets
- build inter-sectoral relations
- access to alternative and innovative sources of fundings
- measure their social impact
- innovate the brand management and organizational-wise

As declared by Allard Boer, former CFO of Fairphone: "Friedman was wrong, we need to find a new way of doing business. TSV is not the final solution but a vehicle to reach a world full of impact ventures. Our responsibility is to inspire people to take part in a movement greater than themselves". TSVs might represent just a first step, but they can lead the transition to a market composed by impact ventures, a **hybrid** combining the most relevant elements of for-profit and social ventures.

¹⁵ WEF, Fourth Sector Report, 2017

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