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Uncharted Territory:

Can Social Innovation Revitalize Literacy and Essential Skills Programs?

John MacLaughlin
Ron Samson

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AUTHORS

John MacLaughlin

John MacLaughlin is Manager of Research and Business Development at Essential Skills Ontario (ESO). He has recently developed a series of discussion papers including *Menial No More* (2011), *Clearer Sightlines to Employment* (2012), *Industry Shared Approaches* (2012), and *From Better Skills to Better Work* (forthcoming). These papers are shaping the way policy makers and programs are thinking about labour force development and the related priorities. John conceived of, developed and was the founding Executive Director of Preparatory Training Programs (PTP) in Toronto from 1990 until 2003. He spent the next six years in senior advisory roles in international vocational education and training in South East Asia. John has extensive experience in applying innovative concepts and translating them into on-the-ground strategies. He has worked in community development and adult literacy, and has more than twenty-five years of experience in educational research, evaluation and policy analysis.

Ron Samson

Ron Samson, Researcher at Essential Skills Ontario, brings a passion to the field of workforce development and is interested in advancing Ontario's and Canada's training systems through innovation. During his time at ESO, Ron has done background research for numerous reports including: *Realizing Local Workforce Potential through Workforce Planning Boards and Regional Literacy Networks,* and the *Ontario Adult Literacy Curriculum Framework Goal Descriptions*. His latest work is focused on career ladders and place-based strategies. After graduating from University of Toronto as an Honors Specialist in Employment Relations, Ron travelled to India and worked as a microfinance consultant for two years and as a Human Resource assistant at Daimler.

OVERVIEW

The concept of social innovation has recently emerged as an influential approach to address intractable social problems. Increasingly discussed in academia and policy circles, the concept draws on multifaceted practices and ideas from many disciplines. Yet despite widespread discussion and promotion, there is still limited understanding of precisely what the concept means in practice.

This paper serves as a primer on social innovation. It explores the different forms, drivers and actors involved. It distinguishes among forms such as social entrepreneurship, social intrapreneurship, social enterprise, and various types of social finance such as social impact bonds, with examples. Finally, this paper challenges the Literacy and Essential Skills (LES) field to ready itself to engage in social innovation by posing some key questions about if and how social innovation could be used to improve LES service delivery and programming. The paper refers briefly to, but does not focus on, critiques that have been developed about specific forms of social finance.

INTRODUCTION

What is social innovation?

"Social innovation" has emerged as a buzzword in social policy circles over the past decade. Thousands of research papers and briefs reveal dozens of organizations committed to the concepts, strategies, and ideas around social innovation. Yet despite the many words, it is not always clear what it actually means.

There is currently no commonly accepted definition. The sheer malleability of the concept is its primary challenge. It has the potential to mean everything and nothing at the same time. Nevertheless, the term has increasingly become common shorthand for applying market tools and engaging private sector players in areas normally reserved for the non-profit sector.

There are many strands of social innovation in Canada. Some are emerging, while others predate the notion itself. The people engaged in these efforts often do not see themselves as social innovators, but simply as people trying to achieve the best results for their clients and community. An example comes from the founders of Pathways to Education Program in Toronto, often-cited as an illustration of the power of social innovation:

> When we founded the Pathways to Education Program we didn't think of ourselves as social entrepreneurs. But, like others, we could not accept the status quo. While the dropout rate among Regent Park youth was long thought to be an intractable problem, we needed – and the community desperately needed – to find a solution. We not only had to find answers to confounding questions, we also had to fundraise for the social venture capital to develop the innovation and sustain it.   We had no idea what the outcome would be, but our process was clear: action research, built on a foundation of community development, while looking through a "systems" lens. We learned the importance of tenacity, the ability to live with potential failure, the power of passion for social justice and of leveraging partnerships with the private sector (Acker and Rowen, Forthcoming 2012).

Social innovation is a complex process of introducing new products, processes or programs that profoundly change the basic routines, resource and authority flows, or beliefs of the social system in which the innovation occurs. Such successful social innovations have durability and broad impact (Antandze, 2012).

So while there is no common definition of social innovation, it does assume a desire to do things differently with better results. A good place to start understanding how social innovation might happen in the landscape of literacy and essential skills is by describing and analyzing how different forms of social innovation are crystallizing in the Canadian context and elsewhere. We will then consider what aspects of social innovation might be applied to literacy, education and skills training.

1. FIVE DRIVERS OF SOCIAL INNOVATION

While enthusiasm for social innovation has run ahead of its effects, and the impacts of many social innovations remain largely unknown, a consensus seems to be growing that we need to reengineer traditional systems and programs in order to address intractable social problems (OECD, 2011).

In this context, the increasing impetus for social innovation can be attributed to five factors:

- **Pressing societal demands and intractable problems:** Emergent technologies, aging demographics, immigration, persistent unemployment, rising healthcare costs and the level of instability in the global marketplace are having profound impacts on society.

- **Growing movement toward shared values in corporations:** Businesses are looking more closely at the impacts of their practices not only on direct shareholders, but on society, the environment and the economy at large. While some businesses claim to have a social mission, social innovation provides a different and more proactive framework to address corporate social responsibility. Social innovation attempts to look at how industry could broaden its social impacts instead of only paying taxes and/or making donations. This may be through actions that produce a positive impact on the environment, consumers, employees, communities and all other "stakeholders". Many businesses are beginning to develop "triple bottom lines" (3BL) and blended value approaches to measure organizational success: economic, ecological and social ("Triple bottom line", 2009).

- **Recognition of limitations in the public and third sector:** In most developed countries, the state successfully funds and provides essential services such as healthcare, education, social security, housing and social care. While these services better the lives of citizens, many complex issues remain inadequately addressed. The challenges in the public sector include strong departmental lines and the lack of incentives or flexibility required to innovate or improve service provision in pace with social needs. Furthermore, the policies and structures of government tend to reinforce traditional models that are generally not well suited to tackling emerging and complex problems which cut across different levels of government and/or departments. Thus, governments at times have difficulty providing services that are flexible, timely and responsive to the needs of their consumers. For the third sector, the key challenges tend to be narrow funding requirements, ineffective performance frameworks, and lack of capital and resources to take promising ideas to scale.

- **Budgetary constraints, rising costs and lack of resources for new programming:** In the context of government deficit reduction, civil servants are under increasing pressure to effectively allocate resources to ensure that society has the services and resources to succeed, yet allow industry to remain competitive. The costs of an aging society, pension liabilities, decreasing tax revenues and other social issues threaten to hamper public spending in the foreseeable future.

- **An era of change:** Much of what is currently taken for granted in social policy and service delivery began as promising ideas and unproven practices in the 1940's. For the next 60 years, government was viewed as the primary or sole "problem-solver" of social issues through public policy discourse or funding. Over the past decade, policy experts have come to understand that these problems may require solutions beyond the traditional ones. There is an increasing sense that we have reached a tipping point towards a new paradigm of shared responsibility.   Most governments, non-profits, and even many businesses, understand that they need to move beyond isolated roles and dynamics to find new ways of creating social well-being. This concept has begun to dominate policy discussions over the past several years and the traditional paradigms of what constitutes public and private responsibility are dissolving.

2. THE PROCESSES OF SOCIAL INNOVATION

Innovation has to start somewhere. The birth of a new idea may be prompted by a creative person, organization or government interested in solving a new problem or a difficult problem that has remained persistent despite traditional remedies.

Innovation counts for little unless it produces something tangible that people can use, a product or methods that makes them more productive or which helps solve a problem. Our innovators have all created reliable, repeatable methods, processes, services or tools which people can use to learn more effectively. The kernel of these projects is a simple innovation that successfully meets a clear need (Leadbeater, 2012).

The concept proposed by the Stanford Center [see Four elements of innovations p. 9] provides a framework for defining the "innovation" in social innovation as a novel solution that is more effective or efficient than pre-existing alternatives (Phills et al., 2008).

THE PROCESSES OF SOCIAL INNOVATION

Four elements of innovations:

• the process of innovating or generating a novel product or solution, which involves technical, social and economic factors

• the product and invention itself – an outcome that is called "innovation proper"

• the diffusion or adoption of the innovation, through which it comes into broader use

• the ultimate value created by the innovation

Source: *The Stanford Center of Social Innovation*
(Phills, Deiglemire and Miller, 2008, p. 38)

However, while "innovation" may be a clear concept, often rooted in management theory and practice, it is harder to define the "social" in social innovation as it lends itself to ambiguous and arbitrary definitions and an endless range of activities. In general, "social" is taken to describe specific societal relations and motivations, a class of issues or problems or activities that are distinct from financial or economic values.

Looked at this way, the term "social innovation" can be differentiated from other types of innovations whose purposes are primarily for-profit and may have potential secondary social benefits. Social innovations focus primarily on social benefits, with an incline towards the perpetuation of social values – benefits to the public or society as a whole – rather than on private values of gain for entrepreneurs, investors and direct consumers. Social innovations can take the form of products, production processes or technology, a principle, an idea, a piece of legislation, a social movement, an intervention or combination of these (Phills et al., 2008).

Smartphones: Innovation with unintended social benefits

Smartphones offer a good example of the nuance that distinguishes social innovation from traditional notions of innovation. Created for the benefit of their companies' shareholders, smartphones have generated social benefits well beyond their economic profits. Smartphone technology has provided a revolutionary platform for social innovators to create software applications (apps) that have become indispensable to many fields and used for a range of social improvement purposes. Apps such as Audible, LookTel Money Reader and VizWiz, for example, have revolutionized communication for the blind and deaf-blind in ways unmatched since the invention of Braille. In the context of this paper, smartphones are a traditionally understood innovation, while apps created by social innovators with the intent to improve lives, communities and whole societies – rather than as a means to generate profit – can be understood as social innovation.

3. WHERE DOES SOCIAL INNOVATION HAPPEN?

Innovation has to start somewhere. The birth of a new idea may be prompted by a creative person, organization or government interested in solving a new problem or a difficult problem that has remained persistent despite traditional remedies.

A consensus is emerging internationally that the scale and complexity of modern social problems may require new, more sophisticated and more innovative approaches. We are also recognizing that the traditional boundaries between not-for-profit (or third sector) organizations, government, and for-profit businesses do not necessarily favour the emergence of social innovation. Current discourse suggests a new approach of shared responsibility in which the public, private and third sectors need not see themselves as adversaries, but can work together to achieve broader collective impacts.

3.1 The Third Sector

Comprised of non-profit NGO's, volunteer and charitable organizations, the third sector is often the driving force behind social innovation in response to increasing concerns about organizational and financial sustainability.

Most of the third sector recognizes that governments face fiscal restraints. For many, it is unlikely that funding mechanisms such as grants and core funding will increase for the foreseeable future and may even be at risk. Individual donations can be unpredictable and there is a trend among institutional donors (e.g. foundations) towards avoiding long-term commitments and favouring start-up operations. None of these financial mechanisms allows the generation of internal surpluses that could finance "new ideas". Confronting these realities, the third sector is looking for entrepreneurial tools and collaborative activities with the business and public sector.

These developments are transforming the third sector. New kinds of finance, platforms, packages of support, and regulatory, governance and accountability frameworks are being developed.   Yet, the sector cannot do this alone, and there are a number of possible roles to be played by government, business and charitable foundations in re-shaping these structures.

While social entrepreneurship and social enterprise are the most common forms of social innovation in the third sector, governments are increasingly drawn towards the concept of social finance as a way to align community financial resources towards achieving better outcomes.

3.2 The Public Sector

In the public sector, social innovation can take many forms. It may mean new public programs, better ways of organizing things, changing methods of funding (e.g. pay for performance), new means of communicating and using emerging technology to allow program co-design and evaluation through "open data".   While governments have been pioneers of social innovations, two current drivers are noteworthy. First, fiscal realities and structural issues are causing the public sector to consider both how it allocates and is accountable for its funds. Second, the growth centres in most Western economies have shifted from manufacturing, retail and transportation, to healthcare, education and old-age supports – areas in which government is a major player, as provider, funder and/or regulator. These are areas where a convergence of innovation between the public, private and third sectors can ultimately benefit the clients of these services.

To mitigate the risks of growing deficits and to improve government services, many countries and regional governments have established targeted funds to encourage social innovation strategies. Broadly speaking, governments see their role as investors in innovative solutions that demonstrate better results. Tools, such as innovation "seed" funds, and other social capital market structures can direct resources toward community solutions, such as creating government/non-government partnerships to promote and develop better mechanisms to measure and evaluate programs, improve outcomes, or foster knowledge of what works and why. A critical role of government as a funder of services is to provide incentives for innovation.

Nevertheless, efforts in the last ten years to foster social innovation in the public sector have not always decreased costs or improved outcomes (OECD, 2011).   A recent paper attributes this to the challenge of simultaneously funding both innovative approaches and ineffective programs and services. The authors argue that truly transformational social innovation in the public sector requires simultaneous "creative decommissioning", which actively challenges current service models and mindsets. Unless older and less productive programs and systems are decommissioned, social innovation in the public sector, they suggest, may end up being an additional expense (Bunt and Leadbeater, 2012).

3.3 The Private Sector

Business is increasingly coming to view engagement in social issues as a source of new ideas, reputation and recruitment. Many private entrepreneurs see social innovation as a way to create new business opportunities, grow brand loyalty through association with well-known charities or social enterprises, or attract employees who want a socially conscious employer and a stimulating culture of innovation. The continued growth of social industries – such as health, education, training and long-term care – can create opportunities for collaboration and a new alignment of expertise.

One of the most significant developments over the past twenty years has been the growth in the number of social enterprises and entrepreneurs running businesses that earn a profit but also focus on social goals. The main challenge for social enterprises is to maintain their commercial position in the market while staying true to their social goals - not an easy task. Some small enterprises lack the resources to take their innovations to larger markets. If larger commercial organizations see value in these innovations, they often seize the opportunities, pushing smaller enterprises to the sidelines. This has occurred in organics, fair trade and recycling. Alternatively, clusters of social enterprises have developed a network for collaboration and joint services which have enabled them to access services normally available only to large firms while remaining small themselves (Murray et al., 2010).

3.4 The Three Sectors Working Together for Collective Impact

An example of social innovation in which third sector, business and government work closely together to achieve large-scale change comes in the development of technology for business, academic research and skills development. Many universities and colleges have paired up or aligned their activities with technology companies. The lines between classroom research and industry technology development are becoming increasingly blurred. While not everyone agrees with this growing trend and relevant questions are being raised about the extent to which the traditional mission of educational institutions may be compromised, this "blurring" is seen in some quarters as a critically important lever for facilitating economic growth and a regional advantage in attracting industry (Essential Skills Ontario, 2012). While this approach has been a longstanding tradition in medical research, and where criticism has been most pronounced, countries such as Finland, the Netherlands and Japan have adopted it to advanced technology development between universities and private research and development divisions in industry. In the United States, many universities and colleges are pairing up with regional economic development offices to kick-start local economies through knowledge transfer hubs that often center on the creation, diversification, and industrial application of emerging technology.
[see Universities and regional economic development p.13]

Universities and regional economic development

Purdue University in Indiana has adopted an ambitious role in activating the region's economic development strategy. Working in cooperation with both local industry and government, Purdue has created:

- a technical assistance program for local manufacturers through the Manufacturing Extension Partnership (MEP)

- the Purdue Research Foundation, a 200,000 square foot technology incubator for new high-tech companies

- a Centre for Regional Development that engages in applied research, policy analysis and assistance in high-priority regional strategic directions

- a Corporate Partnership program designed to assist 'mature' manufacturing firms struggling with emerging technology (Mattoon, October 2007).

Such approaches are also used to create new entrepreneurs and small businesses. Many Canadian universities are establishing business incubators focused on students. For example, Ryerson University's Digital Media Zone (The Zone), in downtown Toronto, is currently incubating thirty-two firms and has expanded twice in the past two years to accommodate the growing demand for its service. The Zone offers numerous resources, such as StartMeUp, a program created by Students In Free Enterprise (SIFE Ryerson), that nurture entrepreneurial ideas by giving new business creators information and advice on business planning, presenting, funding, patents, marketing and more.

4. NEW MODELS FOR A NEW WORLD

4.1 Social Entrepreneurship

The words "entrepreneurship" and "entrepreneurs" refer to the processes and people who organize a business venture and assume the risk, but we often understand entrepreneurs as the individuals who have an innate sense and business acumen to recognize and act on opportunities. Ashoka defines social entrepreneurs as individuals with innovative solutions to our most pressing societal challenges. They do not leave these issues for government to manage but instead find out what is not working and look to solve the problem by changing the system, testing solutions, sharing the solution and inspiring others to take new steps (Ashoka, 2013). Combining creativity and perseverance, entrepreneurs create or bring about new ideas, services, products and companies that have the potential to change the world for the better (Martin & Osberg, 2007). So what is the difference between entrepreneurship and social entrepreneurship?

Martin and Osberg suggest that the "value proposition" distinguishes entrepreneurship from social entrepreneurship (2007). For most entrepreneurs the value proposition is that in creating a new enterprise they can generate profits through the goods or services they create and deliver. While there may be some benefits to society, the impetus is mainly profit. Social entrepreneurship, on the other hand, recognizes a social problem and uses entrepreneurial principles to create and manage an enterprise primarily to achieve a desired social good. A social entrepreneur does not act primarily for financial gain but rather, to create value in the form of transformational benefits that have positive impact on the lives of those in need.
[see Michael Fergusson p.15]

In terms of the value proposition, traditional entrepreneurship assumes that individuals in the marketplace can afford and will often pay a premium for a given product or service, allowing a profit for the entrepreneur.   A social entrepreneur, however, does the opposite. Social entrepreneurs provide and design goods and services for disadvantaged populations that lack the means or resources to achieve these benefits on their own (Martin & Osberg, 2007). These enterprises or initiatives do not preclude income generation, but profits are not the overarching goal. They may be structured as either not-for-profits or for-profits.

4.2 New Corporate Models

4.2.1 Corporate Social Responsibility (CSR)

While a traditional for-profit organization might not be a social enterprise, a socially responsible business may still create and achieve positive social change indirectly through its practices, operations and philanthropic endeavours – something known as corporate social responsibility (CSR). CSR is defined as the way businesses integrate social, environmental and economic concerns into their values and operations in a transparent and accountable manner. Government recognizes that CSR is important to business success and plays a central role in promoting values and contributing to the sustainable development of communities (Department of Foreign Affairs and International Trade Canada, Retrieved 2012).

CSR practices can include shared value activities such as creating a charitable foundation, paying fair wages, reducing environmental footprints, raising money for social causes and providing volunteers to help with community projects.

Michael Fergusson – A Social Entrepreneur

A 2012 finalist for Ernst and Young Social Entrepreneur of the year, Michael Fergusson is the Chief Executive Officer and founder of Ayogo a game company driven by the idea that playing is one of the most productive things we can do. As an entrepreneur and innovator on the web for over 15 years, Michael has developed games and applications that millions have played on computers and Smartphones all over the world.

Ayogo uses the application of game-design principles to solve problems or accomplish goals that are not directly related to games or play. For example, one of Ayogo's latest projects, I[♥]Jellyfish is designed to help children learn to manage their heart rate in order to improve their fitness. Michael is a Canadian innovator, proving that technology, games and social entrepreneurship can come together in meaningful ways and "nurture human connections, motivate and educate people and promote health and wellness" (Ayogo, 2012).

From Ayogo. *About*. Retrieved September 12, 2012 from http://ayogo.com/about/

4.2.2 B-Corporations

A new kind of social innovation model is emerging – one that aims to combine profits and social benefits. Developed in the US, benefit corporations, also known as "B Corps", are gaining traction in Canada (Mendleson, 2012). B Corps are for-profit companies incorporated under specific laws that recognize the organization's social purpose beyond the financial gain of the shareholders. B Corps must publicly report on their social and environmental performances using established third party standards. The impacts of their actions must also show positive benefits to stakeholders, such as employees, suppliers, customers, community and the environment (B Lab, retrieved September, 2012). [see Bullfrog Power]

In Canada, the MaRS Centre for Impact Investing has partnered with the U.S.-based B Lab, acting as the Canadian Certified B Corporation (B Corp) Hub, to grow the B Corp community in Canada. B Lab, a not-for-profit organization, certifies B Corporations in the same way TransFair certifies Fair Trade coffee or the United States' Green Building Council certifies Leadership in Energy and Environmental Design building.

Bullfrog Power – A Certified B Corporation

Bullfrog Power, launched back in 2005, is Ontario's first 100% green electricity retailer. It offers homes and businesses clean, renewable energy solutions, with the aim of reducing environmental impact and supporting the development of new renewable generation in Canada. Bullfrog Power also operates in Alberta (2007), British Columbia (2009) and the Maritimes (2009). Since 2005, more than 8,000 homes and 1,200 businesses have accessed Bullfrog's services.

As a Certified B Corporation, Bullfrog is audited annually to confirm that as much green energy has been injected onto the energy systems as their customers have used, and that they have retired all emissions credits related to customer contracts. In this way, Bullfrog Power meets higher standards of social and environmental performance, transparency and accountability. Unlike traditional corporations, Certified B Corps are required to consider the impact of their decisions on their employees, suppliers, community, consumers and the environment.

What is more, as a double-bottom-line organization, Bullfrog Power has pledged to donate 10% of its after-tax operating profits to organizations that support environmental sustainability. Additionally, Bullfrog's founders have pledged an additional 10% of the founding equity to organizations that promote sustainability. In this way, Bullfrog Power exemplifies a social entrepreneurship that successfully identified a social and environmental issue and is developing and delivering innovative solutions that are accessible, sustainable and supportive of social and environmental good.

Bullfrog Power. *About*. Retrieved September 10, 2012, from http://www.bullfrogpower.com/about/about.cfm

Three characteristics of social intrapreneurs

- they work inside major corporations or organizations to develop and promote practical solutions to social or environmental challenges where progress is currently stalled by market failures

- they apply the principles of social entrepreneurship inside a major organization

- they take an 'insider-outsider' mindset and approach (SustainAbility, 2008. p. 4)

Source: *The Social Intrapreneur: A Field Guide for Corporate Changemakers*

4.3 Social Intrapreneurship

Intrapreneurs are similar to entrepreneurs, but work within established corporations, organizations and institutions. "Intrapreneurship" is defined by organizational practices and management styles that integrate risk-taking, innovative approaches, and the reward and motivational techniques more traditionally associated with entrepreneurship (Social Innovation Generation, retrieved 2012, p. 4). 3M and Google, for example, use intrapreneurship as a management practice to encourage employees to be more innovative and keep their companies competitive. In many enterprises, intrapreneurs are the individuals who, without being asked, undertake something new, focus on innovation and creativity and transform an idea into a profitable undertaking, while operating within the organizational environment (De Jong & Wennekers, 2008). [see Three characteristics of social intrapreneurs]

Social intrapreneurs resemble entrepreneurs in adapting well to new contexts and circumstances and often thriving on risk and uncertainty as they search for new ways for solving societal challenges. However, they also differ in important ways. While both are inclined towards action, intrapreneurs are propelled by their positions within larger organizations, to tie their innovations into the processes and business case elements of the venture. In addition, while most intrapreneurs are comfortable acting independently of the larger organization for periods of time while they incubate their innovations, they also uniformly value teamwork, "understanding the critical need to engage others to develop buy-in and, ultimately, push ownership of new concepts through their organization" (SustainAbility, 2008. p.13).

"A social enterprise is a business operation commonly run by a charity or not-for-profit organization."

4.4 Social Enterprise

There is no common definition of a "social enterprise". Some descriptions limit it to not-for-profit organizations with business operations that generate sustainable revenue, while others point to for-profit organizations that have a social or environmental purpose. An inclusive definition suggests that it can be either. According to the OECD, Leed programme:

> Social enterprises include new types of organizations as well as traditional third-sector organizations refashioned by a new entrepreneurial dynamic. In this respect, the social enterprise concept does not seek to replace concepts of the non-profit sector or social economy. Rather, it is intended to bridge these two concepts, by focusing on new entrepreneurial dynamics of civic initiatives that pursue social aims (OECD, 2006).

In Canada, social enterprises are generally associated with business operations owned by third sector organizations. Revenue raised by the business operation is reinvested into the charity or NPO to support the programs and operations of the organization" (Social Innovation Generation, p. 5). For these organizations, the impetus to generate revenue through market-based transactions stems from a recognition that they need to diversify funding and rely less on government and foundation support. To be a social enterprise, a third sector organization has to integrate and align business approaches, practices and operations that generate sustainable revenue in a way consistent with the mission of the organization and the work they do. Innovative fund-raising campaigns and the sale of products or services not tied directly into who the organization serves or what it does do not constitute a social enterprise. To be a social enterprise, income generating activities have to tie directly into and work to address the social improvement mission of the organization (Canadian Centre for Community Renewal & Centre for Community Enterprise, 2008).

Characteristics of social enterprises:

- The primary purpose of the organization has to be socially-driven rather than for profit

- They directly address social needs through their products and services or through the numbers of disadvantaged people they employ

- They use earned revenue strategies to pursue a blended value approach

Social Enterprise Continuum

Traditional business	Socially-conscious purchasing	Corporate social responsibility	Hybrid social enterprise	Separate revenue-generating entity w/ social element	Earned revenue project operating within a NPO	Traditional NPO

[Adapted from the BC Centre for Social Enterprise]

Stella's Circle and the Hungry Heart Café

In 2008, in St. John's Newfoundland, Stella's Circle opened the doors of their social enterprise, the Hungry Heart Café. Their mission: to transform the lives of individuals in ways that engage the entire community. The Hungry Heart Café achieved this by providing culinary arts training to under-skilled vulnerable individuals while delivering great food using locally-sourced ingredients. Since then, the Hungry Heart Café has grown, provided countless opportunities, and become a community destination for feel-good healthy dining.

In 1945, Dr. Stella Burry, a social entrepreneur and community pioneer, founded Emmanuel House to provide food, shelter, friendship, and counselling to those in need. Emmanuel House became Stella's Circle which has changed with the times. With a growing economy and vibrant labour market in Northeast Avalon St. John's, the staff at Stella's Circle has grown organically and seized the opportunity to link the shortage of skilled workers in the food service sector with supports and high quality training that match their needs.

When Stella Burry Community Services acquired the W.J. Murphy Store at Rawlins Cross, an old multipurpose building, and after an encounter with social enterprise innovators Seattle-based Catalyst Kitchens, a partnership was formed and a plan was developed to create a social enterprise. The Hungry Heart Cafe operates as both a training facility and a viable social enterprise where community members can enjoy fresh healthy meals prepared by trainees.

As the Hungry Heart's operations have grown, so have the number of clients and range of services. The café has moved into the catering business with contracts for daily meal services. This has led to the creation of a separate training facility that gives clients predictable daily training opportunities. Adopting a proven development model from Catalyst Kitchens, the Hungry Heart Café has implemented an intensive two-tiered training model with a 13 week-rotation at each tier. Under the direction of skilled culinary professionals, trainees learn food preparation skills, sanitation and safety, proper food handling, a la carte dining service and customer service and catering standards. The comprehensive training program gives graduates the education, skills and experience, that makes them ready for the workforce.

More than training, Stella's Circle provides its clients the supports they need to secure employment. This includes mentorship and peer support programs. Over time, the Hungry Heart initiative is learning to balance the dynamic tensions between running an income-generating service and achieving their social mission.

Rob McLennan, the Director of Stella's Circle of Social Enterprise says, "Customers will come in and try based on the social mission, but they will only come back if the food and service is of quality."

McLennan, R. (2012, December 4). Telephone interview with John MacLaughlin.

4.5 Social Finance - Investments Based on Outcomes

"Social finance" refers to financial investments that deliver social and/or environmental benefits, and in most cases, an economic return. Social finance is an alternative financial model that encourages positive social or environmental solutions that are neither purely supported by philanthropic nor financial investment (MaRS Centre for Impact Investing, retrieved 2012). This term generally refers to activities such as community investing, microfinance, and social impact bonds, as well as sustainable business and social enterprise lending. The approach inherently includes funding mechanisms that are explicitly tied to performance-based measures or outcomes.

In the past, the social sector was often viewed one-dimensionally as a philanthropic activity where funding relied on government grants, private donors and foundations. It was understood as a field for the "public good". Returns on investment were rarely considered and outcomes were, generally, demonstrated through personal narratives rather than quantifiable measures.

A broader definition and understanding is emerging. In this new model, the traditional walls between social activities and for-profit activities are being erased. New forms of organizations, non-profit or for-profit, combine elements and practices from financial institutions, start-up operations, technology companies and grass root social innovations to create new forms of enterprises that may be more sustainable financially, socially and environmentally (Social Innovation Generation, retrieved September, 2012).

While most other forms of social finance include some type of financial return on investment (ROI) in the traditional sense, outcome-based grant making and social impact bonds (SIBs) are different.

4.5.1 Outcome-based grants

Outcome-based grant making is driven by investors' efforts to increase accountability, achieve greater impact and produce greater social return on investments (SROI). This approach uses research and data from past investments to increase both accountability and effectiveness of the intended outcome.

4.5.2 Social Impact Bonds

Rooted in the broader efforts to improve the performance and outcomes of social service delivery and to find innovative ways to control costs, SIBs, by design, offer incentives to improve outcomes while transferring some or all of the financial risk from governments and taxpayers to private investors. The concept of social impact bonds was developed to help enhance social benefits through investments in preventative as well as early intervention services, and to facilitate innovation through cross-sectoral partnerships that generate savings for government (Langford, 2011). SIBs work by identifying potential government savings through a restructuring of traditional relationships between government agencies, third sector organizations and the private sector. Once these savings are identified, capital can be raised from private investors to pay for action to address social problems before they arise or become unmanageable.

Three elements of Social Impact Bonds:

- Start-up investments are made by commercial investors, foundations and trusts, and high-net-worth individuals in interventions that prevent future problems

- Outcomes, rather than the means, are the focus of the investment. These outcomes are clearly defined in a set of targets. Providers are free to develop the most effective means to meet their targets

- If the programs are successful, payments by the government cover the costs of the interventions and enable investors to make a return; if the desired outcomes are not achieved, investors are unrewarded (Moynagh, 2010. p. 11).

Although originally conceived of as simple bonds, SIBs operate more like an equity investment in that investors will be paid based on outcomes achieved rather than automatically. In this sense, payments depend on tangible improvements in people's lives. Investors initially buy into an equity fund that is scheduled to be wound up on a pre-determined date. Returns then depend on how the bond is structured and how the program performs based on the pre-established targets (Moynagh, 2010).

NEW MODELS FOR A NEW WORLD

From an idea first tested in 2010 in Peterborough, England city prisons [see Social Finance, Ltd. and the U.K. Ministry of Justice – Pioneers of Social Finance p. 24], SIBs have garnered much international interest and become a buzzword in social policy. In 2012, Goldman Sachs announced that it would create the first SIB in America to help fund a New York City prison program that aims to lower the 50% recidivism rate among youth offenders jailed at the Rikers Island Correctional Facility. The four-year program is providing education, intensive training and counselling to at-risk incarcerated youths through private, non-profit agencies. It will have to reduce the recidivism rate by at least 10% for Goldman Sachs to recoup its investment. If the recidivism rate drops further, Goldman could profit by up to $2.1 million beyond its original investment while the company stands to lose up to $2.4 million if the program fails to meet its targets (Francescani, 2012).

As with most investments, there are inherent risks associated with SIBs. While it is too early to make any inferences or draw solid conclusions, it is understood that SIBs are a new financial instrument with the potential to harness innovation in the social service sector and address intractable social issues.

As the field of social finance evolves, we will develop a better understanding of how and which financial instruments, investments and incentives work best for whom and under what conditions.

The New York City Social Impact Bond: Its structure and financial returns

NYC Social Impact Bond Structure
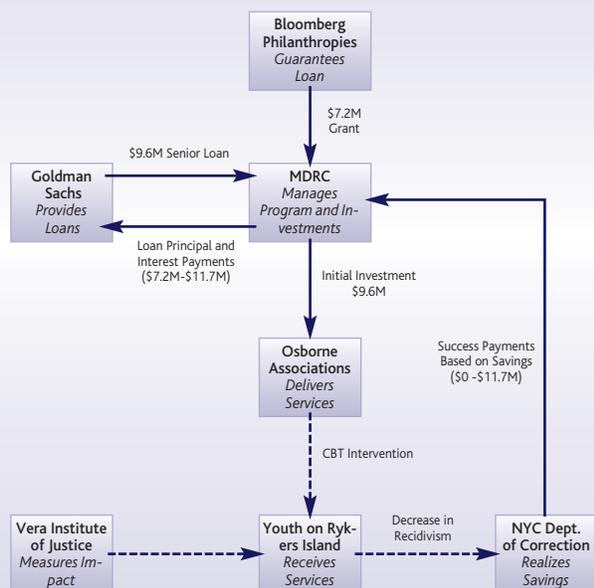
Payment terms for Final Evaluation (4 Years of Investment)

Reduction in Reincarceera-tion	City Payment to MRDC	Projected Loan-Term City Net Savings ($)*
20.0%	$ 11,712,000	$ 20,500,000
16.0%	$ 10,944,000	$ 11,700,000
13.0%	$ 10,368,000	$ 7,200,000
12.5%	$ 10,272,000	$ 6,400,000
12.0%	$ 10,176,000	$ 5,600,000
11.0%	$ 10,080,000	$ 1,700,000
10.0% (breakeven)	$ 9,600,000	$ 1,00,000
8.5%	$ 4,800,000	$ 1,00,000

*Savings after repayment and continued funding for program delivery.

Source: Gibbs, Linda I. (2012, October). Bringing Social Impact Bonds to New York City. Presented at The Centre for Literacy, Fall Institute 2012 Social Finance and Innovation for Adult Basic Learning: Opportunities and Challenges, Saint John, New Brunswick. Reprinted with permission from the author.

CAN SOCIAL INNOVATIONS HELP LES PROGRAMS ACHIEVE GREATER SOCIAL IMPACTS?

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Social Finance, Ltd. and the U.K. Ministry of Justice – Pioneers of Social Finance

In 2010, the non-profit advisory organization Social Finance, Ltd. and the U.K. Ministry of Justice signed and launched the world's first social impact bond (SIB) aimed at reducing recidivism among inmates at Peterborough prison in Cambridgeshire, England. Social Finance, Ltd. raised £5 million (US $8 million) from 17 investors to fund a comprehensive re-entry program (the One*Service) for short-sentenced prisoners leaving the system over a six-year period. This program was aimed at assisting typical prisoners serving sentences of less than a year who generally received little support upon release and had a recidivism rate of 60% for committing at least one offense within a year of release.

To address this issue, Peterborough prison SIB has contracted out service delivery to a group of non- profit organizations that will provide tailored wrap-around services to 3,000 prisoners before and after they are released from the facility to assist with successful re-entry into the community.

The 17 investors will get their investment back, if the program reaches its target by cutting the recidivism rate by 7.5%. If the drop in recidivism rate is greater than this target, investors have the ability to earn a greater return, capped at 13%, based on government saving.

Social Finance. (2012). *A New Tool for Scaling Impact: How Social Impact Bonds can Mobilize Private Capital to Advance Social Good*. Social Finance, Inc.

5. CAN SOCIAL INNOVATION HELP LES PROGRAMS ACHIEVE GREATER SOCIAL IMPACTS?

The landscape of social innovation is filled with some good stories with limited results and some good results with limited stories. While a number of important social innovations have demonstrated the ability to solve specific social or community problems, a critical characteristic of these successes is a shared and exhaustive understanding of the problem and a collective will to do things differently to achieve the best possible solution. In the endeavour to raise literacy and essential skills levels in Canada, numerous studies have documented the financial and social costs associated with poor LES levels. However, few LES social innovations are likely to be considered, designed or implemented if we have not developed a common understanding of what we are trying to achieve and for whom. Raising LES levels, in and of itself, may not be an outcome in terms of end results that achieve social impacts. These impacts will normally be measured through indicators such as better labour market outcomes, improved health, and reductions in poverty. Solutions to these complex social problems usually extend beyond the sole problem of raising low LES levels and may require different combinations of interventions, partners and model designs.

Furthermore, there is a growing consensus in policy circles, social services, and the fields of education and skills development, that place and context matter. Innovation leading to positive outcomes generally occurs in a policy context of decentralization, deregulation, and greater levels of autonomy, competition and choice. Experience has shown that one cannot create a truly innovative environment when there are too many top down administrative requirements that add rigidity to the system, take up a significant amount of resources (human, time and financial) and emphasize outputs and metrics too often disconnected from achieving better outcomes.

Beyond the challenges of funding and administrative requirements, there is a need to recognize that for any innovation to be seriously considered, or attract the necessary funding, current approaches are limited. In many jurisdictions, specifically in the United States, innovative adult basic education programs such as I-BEST (Washington State), Shifting Gears (Illinois), and RISE (Wisconsin) are being purposefully designed to address specific challenges (Foster, Strawn & Duke-Benfield, 2011).

These initiatives first identified what the primary challenges of the adult basic education system were and then worked to resolve them. They focused on learner persistence, program duration, appropriate client characteristics, positive learner outcomes and impacts on earnings. Furthermore, they waited until they had evidence of effectiveness of the innovation before exploring alternative funding models. In Canada, the field of LES has yet to identify and develop a common understanding of the nature and scope of the challenges it faces.

CAN SOCIAL INNOVATIONS HELP LES PROGRAMS
ACHIEVE GREATER SOCIAL IMPACTS?

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5.1 Creating the conditions for social innovation in LES

To create the conditions for innovative solutions to complex problems, we must ask the right questions to identify the exact nature of the problem we are trying to solve, as well as distinguish whether the problem is solely a matter of low LES levels or of complex social issues (unemployment, social assistance and family sustaining wages) where LES is one component of a more complicated challenge. Only by asking and answering such questions can the LES field arrive at an agreement about what we are trying to achieve and create the necessary conditions for social innovation to produce results that matter.

Once there is agreement on what we are trying to address, the next step is to agree upon what we believe LES programming can achieve in terms of actual student outcomes and social impacts. Beyond that, to cultivate an environment for social innovation, we might consider "innovations" in existing program design. Among the most important would be a more integrated systems approach which, as noted by Leadbeater about innovations in education, is less likely to be unique and more likely to be achieved by combining elements of existing approaches in our current employment and training system. There are numerous examples of successful alternatives which borrow elements from several approaches and have persuasive data about potential effectiveness. These are not just "social innovations", but innovations in program and system design that use substantive participant data to determine effectiveness and inform program improvement. We need to look at the results of these various approaches with a view to borrowing from the best (i.e. most demonstrably successful) to create the "new". The founders of Pathways to Education recognized that they were not developing new programs, but were developing an innovative approach – one that took isolated services and supports and blended them in a manner that made all programs accountable to the community (Acker and Rowen, Forthcoming 2012).

Former Ontario Deputy Minister Ben Levin noted that there is a tendency to blame others for a situation of malaise and lack of effectiveness and to assume that someone else has to change before anything new can emerge (2004). LES stakeholders should perhaps consider what changes we need to make to ensure the effectiveness of our work - without predicating those changes on what others (i.e. governments and business) must do first. While it is undoubtedly true that any new approach will require someone else to take a risk, it is perhaps more important that the *LES field acknowledge the need to take some risks,* to leave behind the comforts of conformity, and boldly address the many needs which call for social innovation.

TO CONSIDER: A CHALLENGE TO THE FIELD

6. TO CONSIDER: A CHALLENGE TO THE FIELD

Charles Leadbeater, an observer of systems and innovation across sectors, often suggests that what distinguishes social innovations that work for people from those that do not, is the degree of empathy. He notes that there are many large scale innovations that lead to systematic efficiencies but are coldly functional. Conversely, he also notes there are many small innovations that are highly compassionate but may not be efficient nor systematically scalable. With this understanding, Leadbeater formulated a question for the non-profit sector: "How can we achieve systems that are of 'high empathy' and which still have a modicum of efficiency?" (2011).

To follow his line of inquiry, it may be useful to think about the following questions about applying social innovation to the field of LES:

- Have we defined and understood LES problems correctly?

- Do the three sectors (public, private and third) define the problem in a similar way or do they overlap?

- What type(s) of social innovation might work to address LES problems?

  - *What is the literacy and essential skills problem for which a particular social innovation is the solution?*

  - *What is the evidence of this problem?*

  - *What does this specific innovation seek to address that has not been addressed in some other way?*

  - *What is the evidence that suggests that a particular social innovation is the right or necessary approach?*

- How will we know if we have succeeded?

  - *What is the evidence that will tell us that it was (or was not) the right approach?*

- Finally, can we use social innovation to marry efficiency with an intimate knowledge of the problem and a thoughtful series of intensive supports that all quality services require?

  - *Is the social innovation replicable and scalable?*

  - *And if so, can the social innovation outmanoeuvre the constant pressures in favour of the status quo?*

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Benefit Corporation (B Corp)

For-profit companies incorporated under specific laws that explicitly recognize the organizations' social purpose and benefit beyond the financial gain of its shareholders. As a B Corp, such organizations must publicly report on their social and environmental performances using established third-party standards.

Blended Value Investing (BVI)

The use of capital and market-based approaches to address social and environmental challenges. This investment strategy uses capital to create sustainable, long-term solutions for social and environmental issues. BVI recognizes that financial incentives can create various forms of impacts that cannot be viewed as separate components of the value proposition within any given investment.

Community Investing

Financial investments that address the needs of low-income communities by providing capital for affordable housing, small business and non-profit development. Commonly made through community development banks, loan funds and credit unions, they often take the form of loans, checking, savings and money market accounts.

Corporate Social Responsibility (CSR)

The way in which companies integrate social, environmental and economic concerns into their values and operations in a transparent and accountable manner.

Creative Decommissioning

The process and act of challenging existing service models and structures to radically innovative and invest in new approaches that achieve more effective and efficient results.

Microfinance

The provision of financial services to micro-entrepreneurs and small businesses or groups of individuals, who lack access to traditional banking or other financial services. Financial services include microcredit (loans), savings, insurance and remittance.

Open Data

A philosophy and practice that makes data free and easily available in order for citizens to use, re-use and distribute in new innovative ways.

Outcome-based Grants

Driven by investors' effort to increase accountability and achieve greater impacts and social return on investments, outcome-based grant making uses outcome measures as the basis for investments. This approach uses research and data to learn from past investments and to increase accountability and effectiveness of the intended outcome.

GLOSSARY

Social Enterprise Lending

The practice of offering loans and other financing vehicles below current market rates to social enterprises and other organizations pursuing social goals. Often referred to as financing with 'soft' terms, it generally includes longer loan terms, lower interest rates and repayment 'holidays' where capital and interest repayments are not due until the project is profitable.

Social Enterprise

Any socially-driven organization (for-profit or non-for profit) that uses market-oriented approaches to improve human and environmental conditions. Income generating activities are often tied directly into and work to address the social mission of the organization.

Social Entrepreneur (Entrepreneurship)

The recognition of a social problem and the uses of entrepreneurial principles to create and manage an enterprise or develop an initiative for the purpose of achieving a desired social change.

Social Finance

An approach to managing money that delivers social and/or environmental benefits, and in most cases, a financial return.

Social Impact Bond (SIBs)

A contract with the public sector in which a commitment is made to pay for improved social outcomes that result in public sector savings. The expected public sector savings are used as a basis for raising investment for prevention and early intervention services. SIBs are not bonds in the conventional sense; they operate over a fixed period of time and do not offer a fixed rate of return. Return on investments is contingent upon achieving specified outcomes.

Social Innovation

Strategies, concepts, ideas and organizations that meet social needs of all kinds.

Social Innovator

People who use innovative practices or do things differently to achieve social change.

Social Intrapreneurship (Social Intrapreneurs)

Any person or organization who uses entrepreneurial principles to pursue sustainable solutions to social problems within existing corporations, organizations and/or institutions. Intrapreneurship is defined by organizational practices and management styles that integrate risk-taking, innovative approaches and the reward and motivational techniques traditionally thought of as being the province of entrepreneurship.

Third Sector
The segment of a nation's economy that is made up of neither public nor business sectors, usually comprised of not-for-profit, voluntary and charitable organizations.

Triple Bottom Line (TBL/3BL)
A form of corporate social responsibility (CSR) that measures the success of an organization based on economic, social and environmental factors. Often used as an accounting and auditing framework, it goes beyond the traditional measures of profits, return on investment, and shareholder value to include environmental and social dimensions.

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