

# Social Entrepreneurship as Dynamic Innovation

## *Innovations Case Discussion:* Freeplay Energy and Freeplay Foundation

Together the Freeplay Energy Group and Freeplay Foundation represent an exciting and dynamic case of social innovation and entrepreneurship. We have observed the Freeplay business model grow and change over the past five years, since we began teaching this case study in courses on entrepreneurial strategies for social impact at IESE Business School in 2003. The case is an important one for several reasons. As a complex illustration of social innovation in practice, it helps us to understand the ways in which business and social goals can be both simultaneous and complementary. It generates insights for education and for the next generation of managers and entrepreneurs to adopt out-of-the-box thinking and to make the “social” in social entrepreneurship obsolete as entrepreneurship naturally comes to involve “social” opportunities. As a relatively new field of research, social entrepreneurship offers scholars a “source of explanation, prediction and delight”;<sup>1</sup> a unique opportunity to rethink assumptions and concepts from different fields of management and social science research. Theorists working on social entrepreneurship will find that the Freeplay case helps us to identify key features of the phenomenon, each of them providing stimulating spaces for researchers, not only to contribute to emerging theory but also to enlighten and challenge our existing paradigms.

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## **Innovation**

When Rory Stear recognized the potential of commercializing human-powered wind-up energy, he saw a business opportunity in the field of renewable resources. However, he was also imagining a market in Africa that did not yet exist: he had grasped the power of the technology for use in contexts of deep poverty. The “innovation” in this case study has many different elements, but at its heart is Rory and Kristine’s ability to shape organizational vehicles that bring Freeplay products to existing markets and also help to create new ones. The Foundation’s efforts to support and encourage energy “microentrepreneurs” supplying their communities with battery-charging services for their mobile phones or self-powered lighting products is one such example.

We view social innovation as the mechanism that defines social entrepreneurship. A mechanism that involves experimentation and leads to the generation of solutions to old and new problems. Although some persist in viewing innovation as merely limited to invention, we view innovation as a process that achieves goals and objectives by rejecting institutionalized means and experimenting with unconventional, often unaccepted or deviant, practices and tools. In a recent paper, Phills, Deiglmeier, and Miller<sup>2</sup> reflect on the meaning of social innovation and see it as being composed of four basic elements: the process of innovating (generating a novel product or solution); the product or invention itself; the diffusion and adoption of the innovation; and the ultimate value created by the innovation. In the case of Freeplay, the invention itself, the wind-up technology licensed by Rory Stear, becomes a significant social innovation only through the processes of developing products to satisfy social needs and solve social problems, and of creating different organizational vehicles, not only to bring those products to existing markets but to diffuse the innovation throughout regions where markets have failed. The overall value created by this type of innovation is far greater than the sum of its parts.

We must reshape our heroic view of innovation as “invention” and broaden the scope of what we consider innovative to include interventions for social good, whether they focus on technology, structures, or processes and mechanisms. Social innovation often involves overcoming important bottlenecks that prevent the marginalized and the poorest from accessing the benefits of many technological and social advances. For example, the innovation of Aravind Eye Hospitals<sup>3</sup> was the ability to make eyecare affordable to even the most indigent patients and to extend its reach into rural areas without sacrificing quality. Freeplay further demonstrates that products aimed at social good do not have to sacrifice aesthetics either.

Companies should take this type of social innovation seriously because it often provides “proof of concept” in the most difficult circumstances: i.e., if wind-up radios can work in the remotest, most deprived areas of sub-Saharan Africa, they can work anywhere. A similar case is provided by SEKEM in Egypt; if biodynamic agriculture can be successful on a large scale in the Egyptian desert, then it can be successful anywhere.<sup>4</sup> Another reason why companies should look to social entre-

preneurs for models of innovation is their flexibility and ability to create the feedback loops that allow organizations to scout for unintended consequences and refine outcomes at an early stage of the innovation process, and to quickly integrate these refinements into product design. In the Freeplay case, for example, early feedback from Kristine and the Foundation on the fragility of radio aerials (and their attraction for other uses) led to a reengineering of the original Lifeline radio into something far more durable and user friendly.

### **Experimentation**

Another key element of social entrepreneurship exemplified by Freeplay is that of experimentation. The case corroborates our view of social entrepreneurship as a dynamic explorative space, not only in the realms of product and service offerings but also experimentation with business models, organizational forms and ownership structure. The experience of Freeplay demonstrates that social entrepreneurship business models are not static. We can see from the case history that there is a constant shifting of elements within the overall model, as well as reconfiguring of activities from R&D to distribution. Experimentation goes hand in hand with the flexibility to rethink resource configurations and to change or adapt elements of the business model to align more closely with long-term objectives. This is a feature of Freeplay's innovative approach.

Freeplay has experimented with many different organizational forms: first the Freeplay Group encompassed all the company's activities; then the Foundation was created as a separate entity to fulfill a specific social mission. Following this, the private company underwent an IPO in order to raise cash and simplify the structuring of debt. Most recently, Stear has taken the business private again so that he and his business partners have more control over its strategic direction. Freeplay offers perhaps an extreme case of experimentation with different organizational forms, and, as such, it provides an excellent illustration of the wide variety of forms that social entrepreneurial ventures can take. Social entrepreneurs are increasingly experimenting beyond the traditional non-profit and charity vehicles, especially with hybrid forms and partnerships. In fact, the organizational form itself becomes an important element or tool in the overall model for increasing social impact. In other words, it becomes a resource that is integrated into the total business model and must be aligned with the other elements and structures. A part of this experimentation with organizational form has been Stear's tinkering with the ownership structure—something that is perhaps not yet resolved and may yet see more experimentation.

### **Resourcefulness**

Given the limitations posed by raising funds, both through markets and private sources, social entrepreneurs have to be particularly resourceful. In the early stages Freeplay was able to access funds from different sources, such as the grant from the U.K.'s Overseas Development Administration (now called the Department for International Development [DFID]) to develop the wind-up technology. Today

governments and multilateral institutions are offering funds to a wide variety of actors and organizations developing market-based solutions to global social problems. This trend is definitely a positive one. The World Bank's Development Marketplace is perhaps the best known of these schemes and has, to date, supported 201 winning proposals by a broad array of actors, including NGOs, academic institutions, private businesses, and government agencies, as well as various partnerships between each of the above. However resources, or at least financial resources, are not the bottleneck for developing solutions to social problems. Rather, it is the flow of new ideas and innovation—in the unconventional, behaviorally deviant sense discussed above—that needs to be nurtured and encouraged. In this respect, it is therefore extremely positive that development funding is now offered on a competitive basis for good ideas and no longer based solely on the requirements of legal form (such as non-profit or NGO).

### **Partnerships**

Among Freeplay's various experiments with organizational structure was the decision to carve out a completely new organization that could specifically pursue the social goal of bringing wind-up energy products to poverty-stricken parts of Africa. The resulting Freeplay Foundation has a non-profit structure and the mission of "transforming lives through dependable, self-sufficient and environmentally friendly technologies"<sup>5</sup> Not only has this enabled the Freeplay company to concentrate on developing and marketing new products, it has also led to a productive and symbiotic relationship with the Foundation that has resulted in considerable sales to the humanitarian sector. The Freeplay Foundation continues to be a source of innovation and creativity for the company by remaining close to low-income (and even no-income) potential markets and providing a link to the development sector, which represents a significant proportion of Freeplay Energy's sales revenue. The Foundation also has an important role to play in accessing resources for further experimentation with suggestions for new products and new uses for products developed by the company. The Foundation's winning entry in the World Bank Development Marketplace, for example, allowed the Foundation to pilot a project to create micro-enterprises by equipping entrepreneurs with a Weza foot-powered generator that could charge mobile phones and batteries. This has led to further experimentation with Freeplay lighting products for a similar market.

The symbiotic partnership between the Foundation and the company allows each the independence to concentrate on their core strengths: for Freeplay Energy it is product development and sales through existing market channels; for the Freeplay Foundation it is reaching the unreached with energy solutions that can help solve social problems.

We take a dynamic view on partnership. In the case of Freeplay, the synergy is generated from the flow of resources both up and down the value chain: the Foundation is able to distribute to unreachable areas downstream, while the strength of the company is to push the technology frontier with product innovation upstream.

This kind of synergy leads to the fourth element of innovation identified by Phillips and colleagues: the ultimate social value created, which can be multiplied through partnerships to produce something greater than the sum of its parts. The important lesson here is that we should not view partnerships as static any more than we see innovation or organizational form as static. Each partner develops over time. Thus, while we see Freeplay Energy experimenting with form and structure, we also see the Foundation spinning off a for-profit arm to create a reliable income stream through the sales of Freeplay's humanitarian products to the development sector.

Positive examples of symbiotic partnerships involving social entrepreneurs are becoming more and more common. There has been a trend towards cross-sectoral business groups that combine non-profit and for-profit organizations under the one umbrella. This is exemplified by the SEKEM group, which consists of five different companies selling different biodynamic products (from cotton to phytopharmaceuticals), a non-profit entity committed to social development and a cooperative formed by its employees. Another example is a recent Skoll awardee, Thailand's Population and Community Development Association (PDA), which maintains a similar separation of business and non-profit activities so that the former can provide a reliable and unrestricted income stream to the latter. One could also point to the synergy between Aravind Eye Hospital and its surgical products manufacturer Aurolab.

Even more encouraging is the increasing incidence of creative partnerships and joint ventures between social entrepreneurial initiatives (particularly non-profits) and companies. An example is the partnership between the Bangladeshi recycler WasteConcern and the national fertilizer company MapAgro. Previous research<sup>6</sup> has examined how WasteConcern sought a processing and distribution partner for the raw organic compost it was producing from Dhaka city's waste, and by so doing managed to build an entirely new (and profitable) market for organic fertilizer. We hope to see more innovation and experimentation with partnerships along these lines.

### **Learning**

A final attribute we want to discuss here that is shared by social entrepreneurs is the ability to learn from their mistakes and to incorporate learning strategically into the business model.

Social entrepreneurs do not act in isolation. Rather, their actions are embedded in social and economic realities—the same realities that give rise to the kinds of social needs and market failures they are addressing. As a result, their actions tend to provoke and be affected by competitive forces. This is why it is important to understand the dynamism that is an integral part of social innovation. Above all, the *raison d'être* of social entrepreneurs is to trigger change.

Therefore their business models must be equipped to react to change. Moreover, because their social mission is ultimately what is at stake here, it is even

more important that the business models of social entrepreneurs adapt very quickly to changes in the competitive landscape. They must be able to judge opportunities based on both social impact and the financial bottom line in order to be sustainable. This requires the kind of agility we see in Freeplay Energy and the Freeplay Foundation: the ability to rearrange activities, resource configurations as well as competitive tactics while maintaining the anchor of a social objective that determines long-term strategy.

In a fast-paced and ever-changing environment where opportunities constantly emerge and quickly cease to exist, an ability to adapt strategy and incorporate learning is vital to long-term stability. We believe this should provide an encouragement to social entrepreneurs to share their learning and, in particular, to share “what does not work.” Case studies such as this one offer an opportunity to both practitioners and researchers to do just that.

## Conclusion

This case presents some of the most important elements of the phenomenon of social entrepreneurship and offers a variety of insights into how innovation can be harnessed to fulfill both social and commercial goals. Freeplay exemplifies our central premise that innovation is far more than just “invention”: it represents an exciting space for experimentation and a dynamic strategy for achieving social change which can be seen as the ultimate value created by the innovation. In fact, it is the adherence to a social objective that not only determines strategy, but also provides the authenticity to manoeuvre in the ocean of change that is the competitive landscape.

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