

The Promise of Social Innovation

Enterprise as a source of social good

by François Couillard



ebbf } mindful people meaningful work }

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45, rue Pergolèse, 75116 Paris France

Email: info@ebbf.org

Internet: www.ebbf.org

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INTRODUCTION

Society has failed to solve some of the most pressing issues of our times such as poverty, food security, environmental degradation, and chronic disease. Traditional “do-gooders” are challenged as never before. Non-profit organizations are struggling to make ends meet as they aim to fulfill the needs of more and more beneficiaries with fewer means. At the same time, their funders are asking for more accountability for the way they spend their money and the results they achieve.

Governments faced with growing deficits are disengaging from some of their social commitments, focusing more effort on reducing their deficits and stimulating the economy. Harvard Professor Stephen Goldsmith asserts, *“With a structure designed for a simpler time, government has become ill-equipped to handle the complex task of solving increasingly intractable social challenges.”*¹

Businesses, on the other hand, are under increasing pressure to behave in a socially responsible way and to adopt more sustainable processes. Capitalism is under siege. *“Pressure on the private sector to consider the social impact of its conduct has grown tremendously.”*² The Occupy Wall Street movement epitomizes the frustration of millions of disenfranchised citizens. A new corporate ethic is emerging which broadens the role of business beyond maximization of shareholder value to include the

creation of social value. Social innovation is emerging as a promising new way to connect these various actors and encourage collaboration across sectors.

Social innovation can be defined as new products or services that help meet our society's most severe social and environmental challenges. Most of the literature on social innovation comes from a social sector perspective that explores ways to make non-profits self-financing, improve public service, or create social enterprises to address local social needs. This publication takes a business perspective. It examines what role businesses can and should play to address our social problems, how they can foster social innovation, partner with non-profits and public authorities, and help identify and scale-up innovation.

THE CHANGING ROLE OF ENTERPRISES

Until recently, MBA students were taught the purpose of business was to maximize shareholder value. Milton Friedman (Nobel Memorial Prize in Economics), in a 1970s New York Times magazine article, stated that *“there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”*³ Countervailing forces have emerged over the years. Today, business is becoming accountable to a much broader set of stakeholders.

*According to the OECD, of the 100 largest global economies, as measured by GDP, 51 of them are US corporations, and only 49 are nation states. So economic power has shifted to the corporations; they, therefore, should have an increasing role in and responsibility for addressing social problems.*⁴

Two themes in recent decades have had a profound influence on how businesses are run: “Corporate Social Responsibility” and “Sustainability”. The term Corporate Social Responsibility (CSR) came into common use in the 1970s. The concept of sustainable development was coined in a 1987 report by the World Commission on the Environment and Development. The term ‘triple bottom

line’—a bottom line that includes financial returns as well as social and environmental responsibility—was first introduced during the 1992 Earth Summit in Rio.

The notion that corporations have responsibilities beyond profit maximization is becoming more entrenched in society. CSR Europe was created in the early 1990s, the UN Global Compact, a voluntary strategic policy initiative for businesses committed to aligning their operations with principles of human rights, labour rights, environmental responsibility and anti-corruption, came to life in 2000. The Global Reporting Initiative (GRI) released its first set of CSR guidelines the same year. CSR magazines, blogs, and conferences began to emerge around the world. Enthusiasm started to overflow from CSR circles. The title of a 2001 article says it all: “*CSR investment, the next ‘dot com boom’ investment without the crash?*”⁵ The 2001 Enron Scandal, growing climate change concerns, and the 2008 economic crisis have all contributed to reinforce the belief that corporations should behave ethically and be stewards of the environment.

The next big thrust in corporate accountability will emphasize businesses’ role in addressing our many social ills: unemployment, income inequality, access to healthcare, education, malnutrition, gender equality, and diversity. The needs of society are too great and the debt load of governments too significant to rely solely on traditional social actors like non-profit organizations and public agencies.

In his 2007 commencement speech at Harvard, Bill Gates, founder and chair of the software giant Microsoft, foretold a new era of capitalism.

*We can make market forces work better for the poor if we develop a more creative capitalism ... if we can stretch the reach of market forces so that more people can make a profit, or at least a living, serving people who are suffering from the worst inequities... if we find approaches that meet the needs of the poor, that generate profit for business and votes for the politicians we will have found a sustainable way to reduce inequity in the world.*⁶

Harvard's Michael Porter and Mark Kramer also promoted a broader role for business in their watershed 2011 Harvard Business Review article, "Creating Shared Value". "*Capitalism is under siege... companies are widely perceived to be prospering at the expense of the broader community...*"⁷ To overcome the increasing social deficit caused by alleged corporate greed, one needs to look at the intersection of a company's goals and the needs of the community in which it operates. Porter and Kramer assert:

Companies must take the lead in bringing business and society back together ... The solution lies in the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges ... businesses must reconnect company success with social progress ... a narrow conception of capitalism has prevented

business from harnessing its full potential to meet society's broader challenges ... Businesses acting as businesses, not as charitable donors, are the most powerful force for addressing the pressing issues we face.

Similarly, climate change champion and former U.S. vice-president Al Gore is promoting “sustainable capitalism”, which explicitly integrates social and environmental factors into corporate strategy.

...glaring and worsening systemic failures—such as growing income inequality, high levels of unemployment, public and private indebtedness, chronic under-investment in education and public health, persistent extreme poverty in developing nations ... are among the factors that have led many to ask: what type of capitalism will maximize sustainable economic growth?⁸

Nobel Peace Prize winner and economist Mohammed Yunus goes one step further suggesting we create “social businesses”. These are enterprises whose aim is to solve social problems and that are expected to become financially sustainable but whose dividends are reinvested in the company to improve products and services or increase social impact.

The European Baha'i Business Forum (ebbf) is a global network of individuals working to build a prosperous, sustainable and just society. It has been promoting ethical business practices and a new paradigm for work for more than 20 years. In its 1996 statement, Emerging

Values for a Global Economy, it foresaw a lofty role for business:

Business, as the dominant institution in our society, with experience and resources and credibility unmatched by other institutions, has the responsibility to collaborate in improving the health of society. It also has a very direct interest in doing so, since a healthy business cannot exist in a sick society.⁹

Through social innovation, businesses can help achieve this vision by building long-term value for their shareholders, while contributing to addressing some of society's greatest challenges and meeting their employees yearning to do meaningful work. This call for greater social engagement is firmly grounded in ethical values and the inherent need of individuals to do good. Striving to live our lives according to high moral standards often creates dissonance in our professional lives. Enterprises that stand for something other than profits create work environments where employees feel fully engaged.

WHAT IS SOCIAL INNOVATION?

According to Geoff Mulgan, past CEO of the Young Foundation, *“little is known about social innovation compared to the vast amount of research into innovation in business and science.”*¹⁰ The definition of social innovation, like that of social enterprises and social business, varies greatly from one author to another. Mulgan’s definition appeals because of its simplicity: *“social innovation is the development and implementation of new ideas (products, services and models) to meet social needs.”*¹¹ Here “social” is defined very broadly to include benefits to people’s lives and the environment in which they live.

To better understand what social innovation is, let’s look at a few examples:

Coffee For Water: ebbf member, Jahan Tavangar, owns an engineering firm in Philadelphia. In 2010, he joined a group of volunteers to travel to Haiti after the devastating earthquake. He was given the task of installing a water purification system in a school. He immediately saw the benefits to the 350 students and began searching for a way to scale-up the installation of water purification systems in a financially sustainable way. While on his trip, he enquired about the source of the coffee he was drinking. He was told it

was locally grown. An idea was born. Jahan created a company that imports coffee from Haiti and sells it in the USA. Profits made are used to fund the installation of water purification systems in Haiti. Not only is he addressing an important health issue, he is also creating jobs and stimulating the local economy.

Twitter: No one would argue the fact that Twitter is an incredibly innovative business success story. It is also a source of social good. It has, in a few years, reached hundreds of millions of users and created a communication platform that allows anyone with a smart phone to exchange short messages of 140 characters or less. It has helped fuel massive social movements like the Arab Spring and allows timely sharing of information on just about any topic. It helps business people, journalists, social actors, politicians, and artists to exchange messages, free from costly and inefficient intermediaries. It is unknown to what extent the founders weighted the positive social contribution of their innovation when they decided to go to market, but there is no doubt that it exemplifies how a business can be an innovative vehicle for social change.

The Hub Movement: Social innovation hubs exist in cities like London, Ottawa, Madrid and Atlanta. They are physical spaces where entrepreneurs can work and socialize. It is *“a global community of people from every profession, background and culture working at ‘new frontiers’ to tackle the world’s most pressing social, cultural and environmental challenges.”*¹² Hubs provide a unique peer and expert network and their

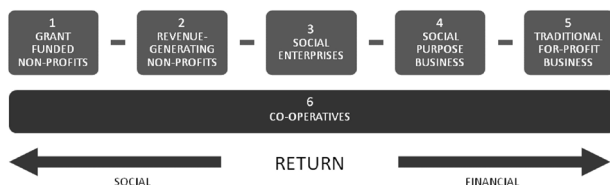
“Hosts” actively facilitate connections to increase idea flow and collaboration. They operate under various models, ranging from business to non-profits. Several ebbf members have been instrumental in setting-up hubs in numerous cities around the world, either as founders, investors or advisors.

Most social innovations occur at the grassroots level but successful social innovations have durability, impact, and scale.¹³ Social enterprises, cooperatives, non-profits, businesses, and government institutions can all be sources of social innovation. Some social innovations emerge in large organizations. Others are created by social entrepreneurs operating on the fringes.

THE EMERGENCE OF NEW ENTERPRISE MODELS

THE BLURRING OF BUSINESS AND NON-PROFIT ORGANIZATIONS

The following diagram is adapted from a model developed by Social Innovation Generation (SIG), a Canadian organization that promotes social innovation. A simple way to look at social innovation organizations is along a continuum of returns, ranging from purely social on the left to exclusively financial on the right. Social innovation can occur anywhere along the spectrum.



This diagram is not complete as it fails to consider governments. It is, however, a useful model to understand the blurring boundaries between traditional business and non-profits and the emergence of “blended values” when organizations deliver a mix of financial and social value.

1. **Grant Funded Non-profits:** The traditional non-profits depend on grants and donations to deliver their missions. They are all about delivering social value. Examples include local churches, some NGOs, local social agencies, and charities. The major challenge for these organizations is financial sustainability.
2. **Revenue-generating Non-profits:** In their struggle to survive, many charities shift their activities to the right along the spectrum. They begin revenue-generating activities to help support their worthy purposes. For example, the Red Cross, in some countries, generates revenues with activities such as blood collection, water safety instruction, and first-aid training. Probe International is another example. This environmental advocacy group funds many of its activities thanks to the profits generated by an arms-length subsidiary, the Green Beanery, an organic-fair trade coffee bean retailer.
3. **Social Enterprises:** This model brings together business and non-profits. Social enterprises, as defined by the Canadian Task Force on Social Finance, are *“any organization or business that uses the market-oriented production and sale of goods and/or services to pursue a public benefit mission.”*¹⁴ Most social enterprises rely on grants and donations to supplement their revenue-generating activities. Others strive to achieve financial sustainability. Danone’s venture with the Grameen Bank in Bangladesh is a great example. The multinational French dairy company has joined the microcredit

bank to help solve malnutrition in Bangladesh, by selling locally produced affordable yoghurts fortified with micronutrients. The social enterprise operates on a ‘No loss, no dividend’ basis. The goal is to improve the health of children and generate local jobs, not to generate a financial return for investors, but the venture has to be profitable enough to be self-sufficient.

Nobel Peace Laureate, Pr. Yunus, has been promoting a model of social enterprises which he calls “social business”. The following is from a “back of the napkin” list he wrote with Grameen Creative Lab co-founder Hans Reitz:

The Seven Key Characteristics of Social Business

- I. The business objective is to overcome a social problem, not to maximize profit
- II. The company attains financial and economic sustainability
- III. Investors get back only their initial investment
- IV. When investments are paid back, any profit is reinvested in the company
- V. The company is environmentally conscious
- VI. Employees are paid market wages with better-than-average working conditions
- VII. Work must be done with joy

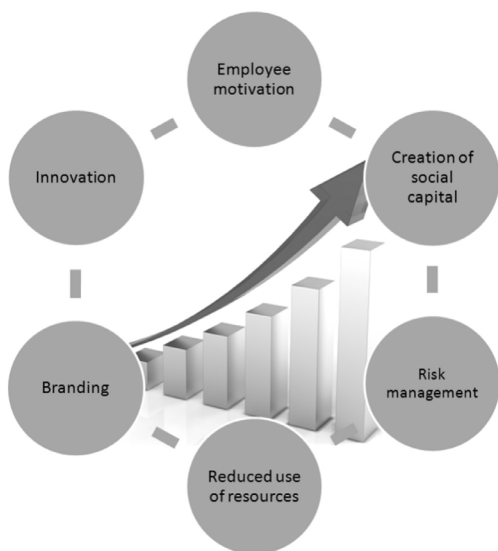
4. **Social Purpose Business:** These companies are created with a profit objective in mind but with a strong social commitment. As with social enterprises, they have the goal of generating social value in addition to economic value. They differ in that, although social mission is core, they also aim to generate a profit for shareholders beyond what is necessary to sustain the venture. An example of a social purpose business is Bullfrog Power, a Canadian “clean” energy provider. Its mission is to *“create a future that is powered by renewable energy... to provide Canadians with easy and practical 100% renewable energy solutions for their homes, businesses, and transportation.”*¹⁵
5. **Traditional For-profit Business:** As was discussed earlier in this paper, traditional businesses are being pulled to the left along the continuum. In an article published in *The Guardian*¹⁶ in December 2010, Sir Stuart Rose, the outgoing chairman of the British retailer Marks & Spencer, warned that companies will need to radically alter their business models if they want to cope with the perfect storm of climate change, a growing global population, and finite resources. Few businesses can hope to achieve long-term success without reducing their environmental footprint and becoming a source of social good. CSR and sustainability have become mainstream, and various enterprises are doing their best, within their means, to meet the stringent social and environmental standards that society now expects.

6. **Co-operatives:** Co-operatives are organizations that are owned and managed by those who use its products and services or by the people who work there. They have been around for centuries. They touch just about every sector of economic activity, from banking to farming. United Nations Secretary-General Ban Ki-moon highlighted their importance with this statement at the launch of the International Year of Cooperatives in 2012: *“Co-operatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility.”*¹⁷

This model is not meant to illustrate all possible types of organizations. Its aim is to show that **it is no longer possible to look at the world in a simple dichotomous way: business vs. non-profits**. A variety of models exist and social innovators can operate anywhere along the spectrum.

WHY INVEST IN SOCIAL INNOVATION

We can break down the benefits of social innovation into six broad areas as depicted in the diagram below:



INNOVATION

An effort to support social innovation can lead to new products, services, improved customer service, improved operational effectiveness, and finally, improved financial results. In the paper “*CSR in innovative companies improves customer satisfaction, which leads to better financial performance*”,¹⁸ Luo and Bhattacharya studied the link between CSR and firm market value of Fortune 500 companies between 2001 and 2004. They concluded that there was a marked financial benefit for innovative companies to invest in CSR. “*When firms are innovative and have good product quality, CSR improves customer satisfaction, increasing financial returns.*” However, it also indicated that **when firms lack innovativeness, CSR investments (rather than product improvement) are perceived as manipulative** by customers and fail to produce positive financial results.

Case Study

In 2008, the CEO of multinational sportswear manufacturer Adidas, Herbert Hainer, was challenged by the founder of the Grameen microcredit bank, Mohammed Yunus, to develop a low-priced shoe for the Bangladesh market to address a serious health concern, the incidence of hookworm and other parasitic illnesses. When Hainer asked Yunus how much the shoe should sell for, his answer was \$1. Hainer was floored but accepted the challenge and a design team worked for over a year to develop

the shoe. Marketed under the Reebok brand, it had to be affordable, durable, multi-purpose, and appealing. BBC news reported in November 2011, that over 5,000 pairs had been sold in Bangladesh as part of a pilot project. Unfortunately the hurdles to set up production were too high in Bangladesh and Adidas shifted its efforts to India where the shoe will be sold at an undisclosed price. This project forced Adidas to rethink its whole business model: from manufacturing to distribution, to provide the shoe at an affordable price, while still making a profit. Through this social venture, the company stands to learn how to reach “the bottom of the pyramid”. According to Mohammed Yunus, *“The idea behind the project is that no person anywhere in the world should go without shoes”*.

EMPLOYEE MOTIVATION

Social innovation can boost employee morale and increase “engagement”. For example, Robert Dutton, Past-CEO of RONA, one of Canada’s largest retailers, mentioned in a talk at a Canadian Business for Social Responsibility conference in 2010, that the number one reason why employees liked working at RONA was their social commitment. One only has to look at the millions of individuals working as volunteers for causes they believe in, to understand the benefits for companies to engage in “meaningful” work.

SOCIAL CAPITAL

We define “social” capital as the accumulated goodwill created by the values, products, services and actions of enterprises that help them weather reputational risks. Companies like Johnson & Johnson, the American healthcare multinational, have created significant “social” capital over the years through their association with products that improve the lives of millions and through the support of the communities in which they operate. This goodwill has helped them navigate through several crisis over the years, such as the Tylenol recall of the 1980s or the catastrophic recalls of 2011 when Johnson & Johnson withdrew 43 million bottles of Roloids, Tylenol, Benadryl, and Sinutab, 70,000 potentially cracked Invega syringes, 585,000 surgical sutures, hip implants, and an epilepsy drug (Bloomberg, Nov 2, 2011). Johnson and Johnson has been guided by a credo that has provided a moral compass since 1943:

Johnson & Johnson’s Credo

We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices ... We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and

*recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities ... There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical. We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens—support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources...*¹⁹

RISK MANAGEMENT

Risk management is an important preoccupation for boards and senior management. It includes various aspects such as hazard risks, financial risks, operational risk, and strategic risk. As the digital economy is driven by innovation, failure to keep up can cause a company to be left behind and its shareholder value to erode. Similarly, failure to behave according to the high ethical standards now expected from corporations can create a significant reputational risk to organizations and can be a potential source of costly litigation. Social innovation

can mitigate these risks by helping companies innovate while building their social reputational resilience.

An example of this is found in Canada's Devonshire Initiative. It is an unlikely network of mining companies and NGOs who work together to pilot small field projects around mining operations in developing countries and share best practices. The group is somewhat controversial and is often criticized by academics and some social actors, but the mining companies involved are hoping their investments in these small social innovation initiatives will pioneer a more socially and environmentally-sound mining exploitation.

REDUCED USE OF RESOURCES

Social innovation can play an important role in helping companies become better stewards of limited resources. By reducing, recycling, and re-using resources they not only minimize their environmental footprint, but also improve their bottom line and are able to measure it. Some companies, like German conglomerate Siemens, have gone further and created a whole business line focused on helping their clients to reduce their consumption. Their "Environmental Portfolio" helps companies reduce their environmental footprint and combat climate change. A Siemens media release states:

*In addition to its environmental benefits, our Environmental Portfolio enables us to compete successfully in attractive markets and generate profitable growth. We expect revenue of the Environmental Portfolio to grow to €40 billion by 2014.*²⁰

In FY2011, Siemens revenues grew nine percent to 30 billion euros. In 2009, it helped its clients cut approximately 210 million tons of CO2 emissions. In 2011, this figure grew to 317 million tons.

BRANDING

Through social innovation, some notable companies have created brands that are among the most trusted in the world.

The Body Shop has developed a brand image associated with “green products” and responsible behaviour. It is one of the largest cosmetic franchises in the world, with over 2,000 stores. Commenting on the death of its founder, Anita Roddick in 2007, UK Prime Minister Gordon Brown called her “one of the country’s true pioneers” and an “inspiration” to businesswomen. He said: “*She campaigned for green issues for many years before it became fashionable to do so and inspired millions to the cause by bringing sustainable products to a mass market.*”²¹

Mountain Equipment Coop (MEC) was founded in 1971 on Canada's West coast by a group of outdoor enthusiasts who could not get access to reasonably priced quality outdoor gear. Instead of opening a conventional store they chose a co-operative business mode. MEC offers quality eco-friendly products and has a strong commitment to corporate social responsibility. It promotes ethical sourcing, progressive work conditions, and innovation in sustainability. Started as a mail-order only service, it now has more than 15 stores across Canada and more than 3.3 million members.

Patagonia has been a source of innovation in sports equipment and apparel since its founder, Yvon Chouinard, noticed the pitons he was using to help secure a fall while rock climbing were destroying his playground; the rock cliffs were slowly being chipped away. Chouinard invented Hexentrics and Stoppers-metal wedges that are forced in rock cracks to secure a climber's fall. These are removed after each climb and leave virtually no trace of a climber's passage. His business grew to sales of close to US\$300 million and a long series of innovative products that are respectful of the environment.

Organizations like these have managed to build and maintain brand images that are closely associated with doing what is right for the client, the environment, employees, and communities. In doing so, they have built a broad customer base founded on trust and a reputation for quality and innovative products. They have also created formidable brand resilience.

THE THREE PILLARS OF SOCIAL INNOVATION IN BUSINESS

In what ways can businesses be a source of social innovation? Peter Drucker writes:

*Innovation is the specific function of entrepreneurship, whether in an existing business, a public service institution, or a new venture started by a lone individual in the family kitchen. It is the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth...*²²

In the context of social innovation, this includes not only financial, but also social wealth. As the diagram below shows, there are three broad areas where socially innovative businesses should focus their efforts: new products, services or markets; environmental stewardship; and the social well-being of their employees and the communities in which they operate.



NEW PRODUCTS AND MARKETS

Companies can develop and commercialize products and services that meet a social need and adopt inclusive market strategies to target neglected segments such as the poor in society. As noted earlier, Siemens developed a multi-billion product line that is growing at a faster rate than the rest of its business by selling products that reduce their clients' environmental footprint. Adidas is marketing a low-cost shoe in Bangladesh and India. There are numerous other examples: BASF, the world's largest chemical company, is now manufacturing and selling malaria mosquito bed nets; GE Healthcare is training rural women in Bangladesh to use portable computerized tomography (CT) machines to detect at-risk pregnancies; Tata Motors, an Indian multinational

automotive company, through a “frugal innovation process”, has developed a \$3,000 car. Bullfrog Power is selling only electricity produced through renewable sources of energy. Even relatively conservative business networks like the International Business Leaders’ Forum (IBLF) are promoting “inclusive” business models to meet the needs of the bottom of the economic pyramid.

Case Study

Danone Communities is an incubator of social business created by Danone, the French multinational dairy company. It is backed by a Société d’Investissement à Capital Variable (SICAV), a public collective investment scheme which puts 90% of its assets in traditional investments, while the other 10% are dedicated to funding new social business. Many social innovation funds exist in the world but rarely has a consumer goods company expended so much energy to support social enterprises. Through a series of initiatives, Danone is seeking to improve health and create jobs in underprivileged communities. For example:

Grameen Danone: Started in 2007, this joint venture with Grameen Bank aims to reduce malnutrition in Bangladesh by providing affordable, nutrition-packed yoghurts for children.

La Laiterie du Berger: This social business is helping small milk producers from Sénégal earn a living.

1001 Fontaines: This project provides clean water to over 15,000 people in Cambodia.

Naandi: This project aims to provide clean, safe-drinking water in India.

Emmanuel Faber, Co-Chief Operating Officer of the Danone group talked candidly about his experience in social business at the 2011 Global Social Business Summit in Vienna:

Social business is not for the faint of heart! It is very difficult, and much more complex than running a regular business: you have to deliver social benefit in addition to profit. It also takes much more time.

“Social” takes time ... That being said, Faber is convinced of the benefits of social businesses for companies like his:

1. *It is a **source of innovation**: It helps you look at your business from the outside in. It is a source of co-creation with your social partners.*
2. *It **stretches the mission** of your company further: it forces you to examine your “raison d’être”, your mission. If not for profit, then what? It forces you to ask yourself how you can best bring value to society (create shared value).*
3. *It **creates a new mindset** inside the company: you start valuing your employees as full persons, not only as accountants, engineers, marketers...*

ENVIROMENTAL STEWARDSHIP

Enterprises should use resources in a responsible fashion—reduce utilization and waste, recycle, and adopt renewable energies. Unfortunately, economic systems are not well-suited to address environmental issues. Businesses have a short-term perspective and limited geographic impact. Environmental issues evolve over long time periods and have global implications (see Arthur Dahl).²³ There is an obvious mismatch when trying to manage large scale problems like climate change, water management, soil erosion, the accumulation of organic pollutants, etc. That being said, the accumulated behaviour of enterprises all over the world can have a dramatic effect on the environment.

In the absence of any international regulatory body, the next best thing is to encourage responsible behaviour through moral suasion and economic arguments. The economic argument is actually quite compelling. In 2010, the United Nations Global Compact and Accenture released their CEO study titled *A New Era of Sustainability*.²⁴ It concluded that the recent economic downturn had increased not lessened CEOs' commitment to sustainability. This can be partly explained by the fact that sustainability practices actually reduce operational costs!

A 2011 MIT Sloan Management Review article titled *Sustainability: the 'embracers' seize advantage*, concluded that:

In the area of sustainability, organizations qualified as strategy leaders ‘embracers’, are creating a gap with laggards ‘cautious adopters’. Companies increasingly believe sustainability will become a source of advantage and should be incorporated strategically in all aspects of a business’ operations.²⁵

Sustainability initiatives can be a source of innovation. Former Vice President of Dow Chemical, Claude Fussler explains:

The themes of innovation and environment marry well. The need to operate the global economy at levels where society exists off the earth’s dividend and not off its resource capital will induce profound changes in existing markets...²⁶

This is further reinforced by Tomorrow’s Value rating 2011, a rating of sustainability practices among leading companies worldwide. It links game-changing innovations with sustainable practices:

- Innovation processes integrate environmental and socio-economic benefits across every product and all lifecycle stages
- Innovation that pulls in ideas and insights from communities, peers, regulators, investors, from upstream and downstream, not just from customers and employees
- Innovations that can create enormous change in the resources required to make products and the impacts of those products²⁷

Some of the most common sustainability practices in enterprise include:

- Reducing the use of non-renewable resources (fuel, plastics, etc.)
- Replacing toxic materials in products with environmentally friendly ones
- Recycling (paper products, plastics, electronic components, etc.)
- Reducing the enterprise's carbon footprint (reduced use of fossil fuels, encouraging carpooling, the use of bicycles, telework, buying carbon offsets for jet travel, replacing face-to-face meetings with web teleconferences to reduce travel...)
- Conducting life cycle analysis to engineer products that utilize less material and have a smaller carbon footprint (and lower cost)
- Creating products that last and reducing consumption and waste

Any one of these good practices can be a source of innovation to create new or improved products, processes and services that better meet customer needs while addressing the health of the planet.

SOCIAL WELL-BEING

Businesses can help improve the socio-economic well-being of their staff and the communities in which they operate.

Employee wellness: There are many factors contributing to employee satisfaction. Competitive wages and physical working conditions are obvious ones. Employees can also be attracted and retained by a variety of progressive programs and policies that are associated with healthy workplaces. Many of the programs we now take for granted were once social innovations. The following list is not exhaustive, nor does it apply to all workplaces, but it gives an idea of the types of initiatives businesses can adopt to enhance employee wellness.

- Flex time (adaptable work hours)
- Telework (work from home)
- Tuition support and continuing education
- Diversity in the workplace programs
- Fitness centres
- Employee assistance help lines
- Childcare
- Profit-sharing
- Stress management programs
- Parental leave and discretionary leave time for family/personal emergencies
- Retirement pension plans, medical insurance and assistance
- Healthy food choices at company cafeterias

- Job security
- Job retraining and transition assistance for those who have to leave the company
- Mentoring and coaching
- Celebration of achievements and recognition programs

Women-friendly organizations also understand the need to be flexible and innovative in allowing individuals with the responsibility for the care of loved-ones at home to lead productive careers without compromising their health and the security of their families. Employees cannot be treated as mere production inputs or mercenaries. Their satisfaction and wellness ultimately lead to a more productive workforce. Failure to address employee working conditions leads to increased absenteeism, higher turnover rates, and a greater likelihood of labour conflicts.

Healthy communities: In many communities, businesses play an important role, providing work for their citizens and supporting local events and charities. They are often what provides life and energy to a neighbourhood. Take away industry from a locality and it quickly becomes a ghost town. Through social innovation, businesses can explore non-conventional ways of enhancing their local communities and supporting their social ecosystems.

Case Study

Pacific Rubialess is a mining company with operations in Latin America. It understands it must give back to the communities in which it operates. It uses

the eight priorities of the millennium development goals (MDGs) as a framework to orient social investment decisions. It is involved in many innovative community programs. For example, it has programs to train community leaders in community rights. It educates children, teenagers and parents about their rights and obligations through an innovative mobile playground (the Ludoteca Movil) and it supports the Guaduas community in exploring eco-tourism alternatives in Columbia.

Case Study

Nestlé, the global food company, has adopted Porter and Kramer's "shared value" philosophy. They boldly state on their website²⁸ that "in order to create long-term value for shareholders, we have to create value for society". They support many social innovations. For example, their Nestlé Prize in Creating Shared Value is awarded to individuals, non-governmental organizations or small businesses to reward an outstanding innovation or project in the area of water, nutrition or rural development. They have also developed the Healthy Kids Program, which seeks "to raise nutrition, health and wellness awareness of school age children around the world". This program is designed and implemented with local partners, such as national health authorities and child nutrition experts. Other social innovation programs targeting communities include the Nestlé Roadshow in Papua New Guinea and Thailand, which promotes good nutrition through healthy cooking demonstrations and education.

FUNDING SOCIAL INNOVATION

IMPACT INVESTING

The first sources of funding available to organizations are their own internal resources. Some companies, like Danone, started funding their forays into social business by using a portion of their CSR and philanthropic budgets. Others are using conventional R&D and marketing funds.

External sources of funding are also available. The idea that traditional ways of funding businesses can be applied to social innovation is taking hold. Impact investing is one of the most promising ways of funding social innovation. It is defined as “*Investment strategies that generate financial return while intentionally improving social and environmental conditions.*”²⁹ Although the idea has been around since the Quakers first started to align their investment and consumption with their values in the 17th century, the movement truly took off after the 2008 financial crisis. Wealthy individuals such as Hungarian business magnate George Soros and Microsoft founder Bill Gates started investing heavily in the field of social innovation. The key concept in impact investing is the idea of intentionally improving social and environmental conditions. Executives and managers of impact investment funds resist the urge to focus solely on increasing profits and instead concentrate on their social mission.

THE ROLE OF CORPORATIONS

Impact investing is an important opportunity for corporations: they can earn both financial and social returns on their investment. J.P. Morgan Financial Services estimate that impact investing “*could represent a highly-profitable trillion dollar market over the next decade.*”³⁰ Further, “*risk in impact investment is expected to match that of traditional investment.*”³¹ Impact investing can also enhance corporate reputation with consumers who are wary of big corporations, especially banks, after the 2008 financial crisis and the recent LIBOR scandal (when banks were accused of manipulating the London Interbank Offered Rate- the average interest rate estimated that they would be charged if borrowing from other banks, therefore pocketing significant profits).

Corporations can get involved in impact investing in several ways. They can invest in existing funds or create their own impact investment funds. By creating their own funds, they can choose how they invest their money and more closely monitor their investments. An example of this is the Royal Bank of Canada’s Impact Fund, the first impact investing fund launched by a Canadian financial institution. Created in 2012, the goal of the \$10 million fund is “*to help finance projects by organizations and entrepreneurs tackling social and environmental challenges. Priority areas will include projects promoting environmental sustainability and water resource management, and providing employment opportunities for youth and newcomers to Canada.*”³²

THE ROLE OF GOVERNMENT

Governments have an important role to play in impact investing. They can create a regulatory framework for impact investors to flourish by giving tax breaks to corporations that invest a considerable sum of money or a percentage of their capital in impact funds. This would be advantageous, not only to impact investors, but also to governments as they would have to spend less on social programs. Another way governments can encourage impact investing is by creating their own impact investment funds or even creating a fund in partnership with the private sector. An example of a government joining the private sector to create an impact investment fund is the Big Society Fund, created by former UK Prime Minister David Cameron's government. This fund uses £400 million recovered from dormant bank accounts and £200 million from some of the UK's biggest banks to finance social businesses. The fund is managed by experts from the private sector to avoid increasing public spending. It helps social businesses that create job opportunities for Britain's poor, thus helping the government reduce its social welfare spending.

BARRIERS TO IMPACT INVESTMENT

Although the impact investing movement is expanding at a rapid pace, there are significant barriers to growth of the sector.

- Limited understanding and lack of awareness—Many investors do not understand or are unaware of the existence of impact investing.
- Lack of measurement tools for the social benefit created—Although there are some indicators such as IRIS, that attempt to report social good created by impact investment, it remains difficult to quantify social advances.
- “*Philanthropists may prefer donations to loans*”³³—Some believe that investment undermines the act of giving.
- Lack of a track record of successful investments³⁴—The impact investing sector is relatively new. Many corporations are wary of impact investing due to the relatively small sample of successful investments.
- Cultural clash between two very different ways of seeing the world—Business investors think of making money first. Their decisions are based on a disciplined, methodical analysis of business plans and markets. Non-profit social actors look at the world differently. First, they identify an unmet social need, and then they figure out a way to address them. The two worlds have totally different value sets and cultures.

HOW-TO GUIDE OF SOCIAL INNOVATION

GUIDING PRINCIPLES AND BEST PRACTICE

Thus far we have looked at what is social innovation and how it can be applied in business through various examples. This section proposes guidelines and best practices to help organizations create social innovation. Roll-up your sleeves and get ready to innovate.

The section is broken down in the following sub-sections:

- How to find social innovation ideas
- Looking to developing countries for ideas
- Testing an idea - pilot programs
- Partnering for ideas and dissemination
- Scaling-up social innovations for impact
- Barriers to social innovation
- Measuring social impact

HOW TO FIND SOCIAL INNOVATION IDEAS

Unlike scientific innovations, social innovations are not discovered in a lab. They can emerge from a multitude of places. The challenge is usually not to create an idea for a social innovation but to recognize a good one.

*The challenge is usually not to create
an idea for a social innovation but
to recognize a good one.*

Large decentralized organizations have to find ways to identify and disseminate innovative programs deep in the organization.

New paradigms tend to flourish in areas where the institutions are most open to them, and where the forces of the old are weak. So, for example, there is more innovation around self-management of diseases and public health than around hospitals; more innovation around recycling and energy efficiency than around large scale energy production; more innovation around public participation than in parliaments and assemblies; and more innovation around active ageing than around pension provision.³⁵

Indian researcher Anil Gupta has done some amazing work in the field of social innovation. He states that diversity in innovation, like biodiversity, needs to be protected and nurtured.

*Forces of globalization tend to homogenize the human taste and preferences; constricting in the process the space for articulating ethical capital, particularly from the grassroots' green innovators ... we need to look for multiple spurs of entrepreneurial growth.*³⁶

Every six months, Gupta organizes Shodh Yatras (learning walks), where he walks with a group of people from village to village to engage with local knowledge experts and identify grassroots innovations. These walks may seem extreme to business leaders but they are not unlike “management by walking about”, popularized by Hewlett Packard’s two original founders and Tom Peters and Bob Waterman in their 1982 book, *In Search of Excellence*.

LOOKING AT DEVELOPING COUNTRIES FOR IDEAS

Entrepreneurship in developing countries is impressive. This creative energy is fuelled by a need to improve social conditions that is unfettered by an over-reliance on governmental programs or overly protective social nets. The needs are great and they have nothing to lose. They can afford to try things and fail. *“Many of the most impressive examples of social enterprises have come from the developing world.”*³⁷

One only needs to look at the success of the online social loan platform Kiva to feel the drive and deep motivation of individuals in those countries.

Gupta encourages us to reach out to the poor as partners in innovation.

While many companies try to deepen the market and reach the unreached, very few consider socio-economically disadvantaged people as potential supplier of innovative solutions...If there is a scope for learning conceptual or empirical lessons from socially disadvantaged and generally excluded people, then they need not be reached through CSR but through R&D partnerships. Absurd as it may seem to few, my argument rests on the ability of economically disadvantaged people to trigger frugal, creative and recombining innovations that can stimulate imagination of product and service designers.³⁸

Let's look at a few examples:

Healthcare: GE Healthcare is investing in a social business in India to break the barriers of inequality in health at birth and reduce maternal deaths. To achieve this, GE is testing low-cost, portable products specific to maternal and infant health that can be used in rural areas. GE is hoping that technologies rolled-out in India can later be a source of innovation to provide improved health outcomes in other countries.

Mobile phones: Mobile phones have allowed developing nations to leapfrog over land line technology and adopt the latest communication tools in creative ways. A 2009 blog post³⁹ by Kelli Peterson abounds with examples. In 2005, the Grameen Foundation launched the “Village Phone” in rural Bangladesh in towns that had no access to telecommunications. Women were provided microloans to purchase mobile phones which became a source of revenue as well as virtual “phone booths” for other women. The Gates Foundation invested in the Mobile Money for the Unbanked (MMU) initiative, with a goal of supplying 20 million people with mobile financial services by 2012. Several providers are developing text messaging services. Peterson suggests that *“The future of well-designed social innovation programs should take a look at the realities and economics of what is driving health and welfare in emerging markets.”*

Microcredit: Microcredit promotes credit as a human right. The concept was started in a developing country (Bangladesh). It has spread and helped people all over the world emerge from poverty (in spite of recent controversial behaviours of opportunist investors who transformed a socially motivated innovation into a profit-making opportunity). As proposed by the founder of the movement, Mohammed Yunus, its mission is to help poor families overcome poverty. The Grameen Bank, for example, has loaned more than US\$9 billion to eight million poor people. A full 97% of its clients are women, who are also owners of

the bank. It operates 2,500 branches in over 81,000 villages. Bangladesh has a total adult literacy rate of 56%, but second generation Grameen borrowers have a literacy rate of 99%. The social impact of the movement has been recognized internationally with the Grameen Bank and Mohammed Yunus jointly receiving a Nobel Peace prize in 2006.

Education: TwoWings is a non-profit that funds education programs in developing countries through innovative North-South partnerships that empower receiving communities. It offers “help to self-help”. On their website, they explain how they got the idea for TwoWings.

After trips to more than 70 countries and regions, where tourists usually don't go, Bahia and Dr. Faramarz Ettehadieh¹ were able to gather impressions on the spot that affected them deeply. The smothering poverty, lack of education and hygiene and particularly the suppression of women activated both of them. They were inspired by the quote: “Regard man as a mine rich in gems of inestimable value. Education can, alone, cause it to reveal its treasures, and enable mankind to benefit therefrom.”⁴⁰

These are just a few examples to suggest that businesses would do well to watch closely and invest in social innovations that take root in the poorest countries.

1 Dr. Ettehadieh is Austrian and is an active member of ebbf.

TESTING AN IDEA — PILOT PROGRAMS

In general, before a business invests significantly in any new idea it puts it through a rigorous screening process. The goal is to reduce risks: financial, reputational, and regulatory. Managers are trained to ask the right questions to ensure that only a fraction of innovative ideas actually make it to market. This process stifles creativity and discourages employees from thinking “outside the box”. The field of social entrepreneurship teaches us the following best practices in testing social innovation:

Start small: Grameen’s Yunus launched the micro-credit movement with a loan of less than US\$30 to a few poor people in Bangladesh. He had no idea it would develop in a worldwide industry. Large initiatives introduce correspondingly large risk factors, a lot more senior management attention, and much lower probability of success.

Fail quickly, learn quickly: Don’t be afraid to fail. Learning is accelerated through failures. *“Try again. Fail again. Fail better”* (Samuel Beckett). By starting small, failures are small, learning is fast. Not much learning occurs when all is going well. *“Just start, don’t wait for perfection. Just start and let the work teach you.”*⁴¹ Mulgan and Caulier observe, *“Few ideas emerge fully formed. Instead innovators often try things out, and then quickly adjust them in light of experience. Tinkering seems to play a vital role in all kinds of innovation, involving trial and error, hunches*

and experiments that only in retrospect look rational and planned.”⁴²

Don’t focus too much on intellectual property protection: Remember that in social innovation, the main driver is to do social good. *“Trying too hard to privatise ideas, or protect their IP, is more likely to stall the innovation process than to galvanise it.”⁴³*

Stay off the radar: At first, while you are trying things out, the last thing you need is corporate pressure. As much as possible keep your prototyping low profile.

Keep things low cost: It helps reduce risks of failure and ensures you are staying off the radar.

PARTNERING FOR IDEAS AND DISSEMINATION

This is probably the area that stretches most business out of their comfort zones. Businesses, in their drive to succeed, surround themselves in secrecy for fear a competitor might steal their ideas and get to market first. They often perceive governments as rule makers and gatekeepers. Non-profits are viewed as a totally different sector where profit is a dirty word. Customers are people you sell to, not partners. Social innovation requires a major cultural shift. Businesses become more trustful and generous. They create the necessary partnerships with other social actors to identify and

spread innovations. *“Most difficult and important social problems can’t be understood, let alone solved, without involving the non-profit, public, and private sectors.”*⁴⁴

The concept of “bees and trees” illustrates this necessary partnership well. Mulgan and Caulier suggest, *“Most social change is neither purely top-down nor bottom-up. It involves alliances between the top and the bottom, or between what we call the ‘bees’ (the creative individuals with ideas and energy) and the ‘trees’ (the big institutions with the power and money to make things happen to scale).”*⁴⁵ Companies and public agencies can act as “trees” to individual innovators or small social enterprises.

SCALING-UP SOCIAL INNOVATIONS FOR IMPACT

This is when the “bees” come looking for the “trees”. At this stage, the innovator no longer seeks to be off the radar. On the contrary, he or she seeks opportunities to showcase what worked at a small scale. She is looking for missionaries to spread the word. The innovator now needs capital, social and financial, to scale-up. This is a big challenge. There are thousands of social entrepreneurs but very few large scale social innovations: *“We have learned to create the small exceptions that can change the lives of hundreds. But we have not learned how to make the exceptions the rule to change the lives of millions.”*⁴⁶

While prototyping is for creative entrepreneurs, this phase is for strategists. It requires organizations that can create a coherent vision of what the innovation can look like at a large scale. This does not happen in a board room or on the spreadsheet of a project manager. To succeed, social innovations have to scale-up progressively in an organic fashion. Henry Mintzberg's analogy of *Crafting Strategy*⁴⁷ applies here best. The basic concept behind a craft is the intimate connection between thought and action. You try something, reflect on the result, adapt your strategy and move on. This cycle of action, reflection and adaptation is repeated over and over.

But how do you select the innovation that merits scaling? The article, *Scaling social impact*,⁴⁸ published in 2004 in Stanford Social Innovation Review suggests looking for the 5 R's: *Readiness, Receptivity, Resources, Risk and Returns*. Is the innovation ready? What will be the receptivity of the target market to this innovation? Is it resource intensive? How risky is it? Will it deliver an attractive blend of financial and social returns? Geoff Mulgan studied scaling extensively. In his e-book, *The Open Book of Social Innovation*, he offers the following wisdom: "*ideas spread more rapidly when credit is shared.*"⁴⁹

BARRIERS TO SOCIAL INNOVATION

The road to innovation is paved with obstacles. The following are some of the most common:

Lack of commitment from senior management:

You can do all the prototyping you want, but if you want to scale-up, sooner or later you will need senior management buy-in. If the executive and board don't "get it" you won't go very far. Don't even try.

Ideologies: One of the most insightful books explaining the barriers to social innovation is Stephen Goldsmith's *The Power of Social Innovation* (2010). Goldsmith was a successful entrepreneur, before moving to the public service arena as the mayor of Indianapolis. He served under both Presidents George Bush and Barack Obama as chair of the Corporation for National and Community Services. He warns us: "In the field of social innovation ideological partisanship must be replaced by innovative pragmatism". The social sector, like business, can become married to certain schools of thoughts. Efforts to introduce new ways to address social problems will often be met with resistance.

Legacy organizations: School boards, health authorities, government agencies, and large non-profits all have a vested interest in resisting changes and innovations. They are chasing the same limited pool of funds. Any new program that could be

perceived as a threat will be resisted. Any innovation that risks weakening political power will be fought. Don't underestimate this factor. Know the players and engage them as much as possible to create mutual benefits.

Resources: Innovation takes time, people and money.

Impatience with results: Social innovation takes time and is complex. Achieving financial returns is one thing; achieving financial and social return is of a totally different order of magnitude. The financial sector describes the capital invested in social enterprises as “patient capital”—don't expect short-term results.

MEASURING SOCIAL IMPACT

This is one of the most important, yet difficult goals to achieve, when trying to promote social innovation. Businesses are used to measuring everything they do—financial results, number of employees, productivity, market share etc. The saying “what gets measured gets done” is fundamental to the functioning of business. When selling a service or product, success is measured in terms of sales growth, market penetration and market share. When you are trying to do social good, measuring success can become quite challenging, especially when you are trying to convince investors of the impact of your interventions.

Certain social innovations, for instance programs to reduce resource utilization, are easily measured. Others, like improving the well-being of your employees, can become quite challenging to track. Traditional social actors are faced with a similar predicament, as they compete for scarce program funding, how do they prove that their programs are efficient and deliver the promised benefits? Funding is scarce and ideas abound. The power to attract and sustain public or private funding depends on an ability to deliver better outcomes.

Case Study

A large Canadian nursing organization was well-known and respected for the quality of care it provided. After more than 100 years of selfless service, it went from a quasi-monopolistic position to almost disappearing from the healthcare sector due to a failure to recognize the needs of funders and to demonstrate, in objective ways, the effectiveness of their care. The lesson was harsh. It is not enough to do good works and feel good about it; you have to be able to prove that you can deliver superior health outcomes in a more cost effective way. This national health care provider has learned its lesson and is now investing heavily in its IT capacity to improve its performance and reporting capacity.

Goldsmith devotes a whole chapter to measuring the results of social innovation. He advocates “evidence-based” social programs and shifting money and resources from “ineffective incumbents” to “providers

better suited to the needs you are trying to serve”. This writer suggests four conditions for effective indicators of social performance:

1. **Social innovations are established with the beneficiaries in mind:** Social innovators need to ensure the people we are ultimately trying to help are top of mind.
2. **Social innovations incorporate the input of key stakeholders:** Social performance indicators cannot be developed in isolation. They should take into account donors, beneficiaries, staff, communities, governments. Academics can play a key role as well. They are often involved in doing independent assessment of programs in a retrospective fashion. Soliciting their input to identify key metrics worthy of measurement before a program is launched can greatly facilitate future work. For example, the Red Cross movement is involved in massive malaria bed net distribution campaigns. These are made possible by the generous donations of thousands of individuals and large government grants. Government agencies and large private foundations are constantly re-evaluating the best way to make an impact. The Red Cross works closely with these agencies and academic institutions before and throughout the delivery of the programs to collect meaningful data that will help justify funding for future campaigns.

3. **Social innovations should measure hard and soft data:** Good indicators measure financial performance, operational effectiveness, social impact and sustainability. Not everything that is meaningful and important can be measured with hard data. Health improvement, happiness and quality of life can be very complex and expensive to measure as compared to hard data like program costs. This is an area where much creativity is needed!
4. **Social innovations are relatively simple:** Most social innovators do not have the resources to embark in costly outcomes tracking. Goldsmith calls for “*pragmatic performance contracting, using varying levels of rigor as appropriate and affordable*”. Do not let the perfect be the enemy of the good!

CLOSING COMMENTS

Leading companies are moving beyond corporate social responsibility and sustainability to fully embrace their role as agents of social progress through social innovation. They can choose to innovate within their existing organizational structure by adopting new business models like that of social enterprises. Social innovation can help create long-term value for all stakeholders: shareholders, clients, employees, governments, communities, partners, and the environment. As companies pursue this journey they stand to improve their brands and social capital. They can introduce innovative new products and services and penetrate under-served markets to increase revenues. They can generate significant cost savings by reducing their use of non-renewable resources. Finally, they can reduce their corporate risks and fuel further business enhancements through the active participation of motivated and engaged employees.

Social innovation is different from traditional industrial or scientific innovation. It requires a keen eye for spotting creative sparks no matter where they occur, deep within the organization or in society. It requires nimbleness for fast-prototyping. It calls for patient capital to nurture and scale innovations to their full potential. It requires a new set of collaborative skills to bridge the gap between businesses and social actors like governments and non-profits and to develop an

ability to build partnerships. Above all, it requires a new mindset that brings together an adventure-seeking disposition and strong moral compass.

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ABOUT THE AUTHOR

François Couillard has been a member of ebbf since 2001. He has served organizations dedicated to improving health and social wellbeing. His career spans the business and non-profit sectors, in Canada and abroad. He has held senior positions at two of Canada's leading health care corporations, Johnson & Johnson and MDS. He has also led the operations of two of the nation's largest non-profit organizations, The Canadian Red Cross and VON Canada. He is the current CEO of CAMRT, Canada's national professional association for radiological, nuclear medicine and magnetic resonance imaging technologists and radiation therapists.

François holds a Chemical Engineering degree (Sherbrooke) and a MBA in Marketing and International Business (McGill).

François volunteers his time generously. He is an advisor to Ottawa's Hub for social innovation and VP of the Board of Directors of OCISO, an immigrant service organization. He is also a member of the Canada-Belgium Committee. François was appointed by the Prime Minister of Canada to the Advisory Council on National Security in 2007 and has been co-Chair of the Centre for Chronic Disease Prevention and Management of the Conference Board of Canada. While living in Europe he was on the Board of the Canada-Belgium-Luxemburg Chamber of Commerce

and was Secretary and Treasurer of AIPES, the industry association representing European companies involved in Medical Imaging.

François is a serious cyclist and enjoys backcountry skiing in winter. He also appreciates a good cup of coffee which he roasts himself at his home in Ottawa, Canada.

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