

CSR, Sustainability, Ethics & Governance

*Series Editors:* Samuel O. Idowu · René Schmidpeter

Thomas Osburg  
René Schmidpeter *Editors*

# Social Innovation

Solutions for a  
Sustainable Future

 Springer

# CSR, Sustainability, Ethics & Governance

## *Series Editors*

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Thomas Osburg • René Schmidpeter  
Editors

# Social Innovation

Solutions for a Sustainable Future

 Springer

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# Forewords

In recent years, we have experienced a mass of major short-term and long-term challenges in the area of employment and social policies. The financial and economic crisis and such long-term structural transformations as population ageing require us to find a new focus on social cohesion. Continued investment in human capital must be a key component of this strategy. Our policies must be more cost-effective and efficient than in the past.

Social innovation can play a key role in helping to adapt social policy constantly to new challenges, which is why it has also been a leitmotiv of the Europe 2020 Strategy. Europe 2020 recognizes that success for the EU in delivering smart, sustainable and inclusive growth largely depends on its ability to innovate on all fronts.

In employment policy, there is a need to boost the demand for labour. The Commission is promoting youth guarantees and targeted hiring subsidies for new net recruitment; a budget-neutral tax shift from labour to other sources; and greater support for business start-ups, self-employment and the social economy.

The Commission has also developed action plans in the “green economy”, healthcare and information and communication technology sectors to take up the challenges of achieving a low-carbon and resource-efficient economy, of an ageing population and of rapid technological change.

New attention is also being paid to the balance between work and private life, which is an important factor in fostering economic recovery, a sustainable demography and social and personal well-being. Affordable and high-quality care services as well as adequate family-related and flexible working arrangements for both men and women are key innovations of recent times.



New ways of investing in society should be identified to create more cohesion and so reduce future social outlays. This implies a reorientation of our social policies based on a social investment approach, focusing on investment in human capital and social cohesion and avoiding higher or longer-term costs at the individual and societal levels.

Innovation in social policy-making requires a supportive regulatory and financial environment to create an enabling framework for social policy innovators. It calls for new partnerships between the public, private and civil society sectors to find suitable, financially feasible and socially acceptable solutions. The Commission also actively supports social enterprises as key actors in social innovation.

The EU funds and the European Social Fund in particular contribute to Member States' efforts in strengthening social and territorial cohesion through social innovation. This also includes the appropriate use of EU funds to support the implementation of successful policy innovations as well as to promote innovative financing mechanisms.

Europe has a great tradition of entrepreneurship and innovation. But our huge pool of talent is not being used sufficiently to tackle and solve the burning societal issues of today. More efforts will have to be made to promote social innovation and the social economy, in order to produce success stories of businesses that have made a social impact — by combining creativity with solidarity, sustainability, inclusiveness and integrity, which will help in making economic and financial progress.

I very much welcome this book. Its insights should provide inspiration for its readers and help in the renewal of Europe's economic and social models.

EU Commissioner for Employment,  
Social Affairs and Inclusion

László Andor

The timing of this book could not be more apt: Social Innovation is a topic of discussion for governments, companies and NGOs around the globe. If you do a search on the term “Social Innovation”, you will find a range of definitions as to what it stands for and what it is trying to achieve, nevertheless, all involved parties are agreed on its benefits: good for society, good for companies, good for the people and for the planet.

Innovation is in the DNA of a company like Intel. Our success for more than 40 years has relied on our being at the cutting edge, in our constantly being a technology leader. We thrive on innovation. But innovation on its own does not necessarily carry a direction. Innovation alone is neither good nor bad, it is just new. One has to give a direction, a purpose to innovation in order to bring more value to the end user, society and humankind. This is especially true in the technology sector – there are very few areas that depend on innovation quite as much as technology. But we always ask ourselves the questions: What is the purpose of this innovation? What are we trying to achieve? How can it benefit not only the company but society as a whole? We at Intel express this ambition very clearly in our own vision: This decade we will create and extend computing technology to connect and enrich the lives of every person on Earth. But we cannot do it alone of course. “Open Innovation”, which means the close collaboration between internal units and external stakeholders, is critical both for Intel and for Social Innovation. Gone are the days where one single institution had all the answers. Successful cross-sector collaboration is arguably the most critical element of Social Innovation.

At Intel, we have a large track record of Social Innovation: From our World Ahead Program, which brings technology to underserved areas of the world, to local initiatives like “Initiative Madrid” that uses technology to help people get back into the job market. To that end, this book brings together the leaders in Social Innovation: a collaboration between academia and practice. It will outline both the state of the art of Social Innovation and what we expect or need to see in the future.

Intel Corp., Vice President, General Manager,  
Europe, Middle East, Africa

Christian Morales





Social Innovation – an expression that is still very unspecific and the interpretations of which can differ considerably. At the same time, innovation is still understood in the narrow sense as technological innovation, disregarding completely that every technical advance (innovation) results in social change and consequently in social innovation. This means also, however, that social innovation as such is beneficial to society.

As Joseph Schumpeter described in his “Theorie der wirtschaftlichen Entwicklung” (“The Theory of Economic Development”) and in his “Konjunkturzyklen” (Conjuncture Cycles), innovation not only needs but also brings about social change. Nevertheless, in every matter concerning innovation, the social aspect that can be affected by innovation is usually dismissed as irrelevant. And yet, numerous innovations have brought about permanent social change. A few examples are the conveyor belt, motor vehicles, computers and the Internet.



In recent years, certainly as a result of the economic crisis that has been seemingly without end since 2008, a search has begun for new, better and more ethical forms of management. Sustainability, corporate social responsibility, corporate citizenship, social investment etc. are some of the approaches which have been made to resolve the crisis and rebuild the economy. The essence of all these approaches is that companies, as part of society, remember throughout their activities that these will have an effect on society, and also that an enterprise should strive to make its influence on society as positive as possible. This means that business companies should not only consider the technical and economic questions surrounding their activities but also contemplate the social issues. This initiative of concern for society within corporate activity opens up the opportunity to practice permanent social innovation in the positive sense and, by so doing, to attain economic and social benefit.

At the same time, there is, however, a danger that the definition of good or correct social innovation is defined by ideological motivation and enterprises are therefore limited in their capacity for innovation.

For this reason, social innovation needs not only the concept of sustainability but also a social framework allowing a company to provide services that are positive for society and at the same time economically successful. Social innovation refers not only to the economy but also to politics. In many nations, one of the greatest social innovations was, and certainly is, general national insurance. On the other hand, excessive social services have a negative effect on society when these services are not financially feasible. Similarly, compulsory education is one of the most significant achievements in history – but the education system also has to adapt to suit social development with regard to organization and content. Thus, politics are

required to permanently pursue social innovation and adapt their system to social change. Likewise, civil society needs to pay a corresponding contribution through its consumer behaviour.

Only the interaction of civil society, economy and politics can continue to generate social innovation, guaranteeing an improvement in the long-term well-being of the population.

Centre for Humane Market Economy  
Salzburg  
Austria

Bettina Lorentschi

Social innovation has become a buzz word in business and policy circles. I am writing this foreword in January 2013 whilst following the news from Davos where the subject features again on the programme. The World Economic Forum (WEF), through the Schwab Foundation and other institutional initiatives, supports a WEF Social Innovation Council which will publish its “Policy Guide to Scale Social Innovation” at the regional WEF conference in Peru in April 2013. The 2012 Social Innovation Summit took place in Silicon Valley in December 2012 and the next one follows already in May 2013 at the UN Headquarters in New York. “Business Innovation Meets Social Transformation” is the ongoing theme of the summits which are organized in partnership with Intel.



Social innovation as corporate strategy and business innovation that affect transformational social and environmental change is a significant departure from the now increasingly outdated concept of CSR. First, it is much more at the heart of what really matters in business and society since it has the power to create shared value for business and society by innovations in products and processes, transforming productivity in value chains across economic and social boundaries and providing real solutions to social and ecological challenges. Second, it calls for significant and deep partnerships between companies large and small, entrepreneurs, financial institutions, venture capitalists, non-profit organizations and governments. Third, what is understood as social innovation has significantly more relevance and impact for public policy at all levels.

This book, edited by ABIS Board Member and Intel Director Thomas Osburg and René Schmidpeter, Head of Research at the Centre for Humane Market Economy in Salzburg, with an exhaustive overview of the different approaches and dimensions of social innovation, comes very timely. Contributions from academics and practitioners explore diverse perspectives and related concepts, instruments and best practices provide a state of the art of the potential of social innovation in corporate and societal contexts.

This book is a major landmark in the development of thinking and action with respect to social innovation. The previous landmark book was by Stephen Goldsmith – *The Power of Social Innovation* (2010) – with a remarkable foreword by Michael Bloomberg, mayor of New York. In this book, the relevance of social innovation for public policy was more prevalent.

We can recognize a significant trend here, which is also expressed in the eyebrow-raising October 13 2012 issue of *The Economist* titled “True Progressivism, The new politics of capitalism and inequality”. The editorial article expresses deep concern that social inequality is not only a threat to social cohesion but more

significantly to the proper functioning of market economies. The author draws historical parallels with the wave of globalization at the end of the nineteenth century and the deep social divisions it caused. The aim of the new “Progressive Era” which followed and which started under the Republican presidency of Theodore Roosevelt was to make society fairer without reducing its entrepreneurial zest and without hurting growth.

In our day and age, the relevance and potential of social innovation is not yet fully understood by politicians. And this is the major and growing challenge. With the return of ideology in politics, the old left-right divisions are becoming alive again and these are inhibiting innovation in public policy. The right is still not convinced that social inequality and environmental care matter and the left is rediscovering the electoral capital of taxing the rich and further regulating the economy. But with governments short of cash and faced with enormous social challenges, market-based social innovation should attract more attention very soon.

President of ABIS - The Academy  
of Business in Society

Prof. Dr. Gilbert Lenssen PhD, MBA



# **Social Innovation as an Emerging Paradigm**

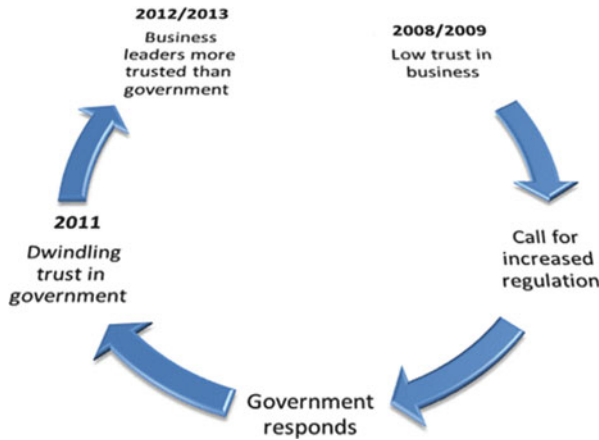
## **1 Introduction**

The concept of Social Innovation has seen an astonishing rise over the last years both in Theory and Practice. If the search engine Google is a quantitative indicator (with all its shortfalls), it found 1.2B hits in 0.26 s for the term Social Innovation, which is significantly more than for Corporate Social Responsibility. Its importance for companies, NGO's and the public sector can't be denied these days. One of the reasons clearly lies in the proactive approach and newness of solutions for firms, compared to a responsible behavior and partially reactive approach of similar concepts. Current definitions for Social Innovation focus around new solutions or innovations that somehow are social in their ends or that address societal challenges, in new forms of collaboration (EU Commission 2012; European Business School (EBS) 2012; INSEAD 2012).

However, despite the directional clearness of the concept, a lot of uncertainties remain, as most definitions are rather large in scope and allow for a lot of activities and approaches to fall under the Social Innovation umbrella. This can be for new programs or current initiatives, which then are re-labeled Social Innovation. This, however, does not do justice to the huge potential Social Innovation can have to transform the way we live on this world.

## **2 The Erosion of Trust**

Since before the beginning of the current economic crisis in 2008, we saw a slow decline in trust towards business and governments across the world, which, since then, has picked up speed. The year 2011 however, was a significant turning point, as trust in governments across the globe decreased more than ever before but remained stable for Business. In 2012, trust levels have increased again by 5 % each, but still only 48 % of the world population now trusts Governments and 58 %



**Fig. 1** The dynamic of trust between Business and Government (see Edelman 2012)

trust business to do what is right (Edelman 2013). NGO's remain the most trusted institutions with 63 % of the people trusting them to do what is right (Fig. 1). The relevance of this shift over the years is significant and now offers companies a huge opportunity to lead with the appropriate behavior and actions:

In order to gain leadership for trust, business mainly needs to continue exercising principle-based leadership instead of rules-based strategy. Firms need to focus on what is really creating shared value both to shareholders and society and defocus on operating only on what is legally permitted to do. While in the past, operational factors were key to building trust (like products, regulations, financial returns), this will change. Trust will be built around engagement-oriented behaviors being more socially beneficial in nature (Edelman 2012). In other words: Social Innovation can be a key driver for companies to continue building leadership and trust from societies.

### 3 Call for a Larger View

As Social Innovation becomes more relevant for business and cross-sectorial collaboration to create shared value and regain trust for all stakeholders, it becomes clear as well that the current product- or solution centric view needs to be expanded. Nowadays, the Social Innovation process can mostly be described as NGOs identifying a problem and calling on companies to help to solve it. But true Social Innovation goes far beyond this problem-solving approach and needs to include major functions of the whole company.

Marketing is a key function in the process of creating Social Innovation through identifying customer needs, designing solutions with stakeholders, communicating the solutions and ultimately including it in the overall product- or service portfolio

of the firm. Social Innovation should not be seen as an add-on but an integral part of the firm's offering. Social Innovation is also closely linked to the investments the company is making. How is this aligned with the "new" portfolio and how can it support Social Innovation? Furthermore, the whole Innovation process of the company is affected, as it needs to broaden its scope from pure revenue or profit driven goals to the creation of joint benefits and shared value. And ultimately, Social Innovation needs to be measured like any other investment and innovation. This is certainly more challenging than for traditional innovations, as the bottom-line impact is tougher to detect and the external impact can often only be seen after several years.

Social Innovation, if done in a meaningful way, is thus affecting the whole organization and that is also where its full potential lies. Social Innovation has the power and capacity to transform the largest organizations in order to increase the bottom-line result and create societal value at the same time.

## **4 About This Book**

Following the approach of Social Innovation not only being a key driver for companies in the future but a whole new paradigm, this book takes a new approach. Instead of listing current Social Innovations as best-practice examples and focusing on the solution only, we brought together the thought leaders in the area of Social Innovation both from Academia and Business to shed more light on a much larger scope of a Social Innovation understanding. This is reflected through general perspectives and considerations and a thorough discussion of related concepts that are closely linked to Social Innovation, enriched with some real-life concepts from groundbreaking solutions in the Social Innovation space. The relevance of Marketing, Ethics, Humanitarian perspective and Social Investment are discussed as well as New Business Models and the relation of Social Innovation to Sustainable Development and Corporate Responsibility. The broad range of contributions is the beginning of a groundbreaking journey which will change the way we are thinking about business. This book is for both business leaders and academics that care about building new business models and are willing to accompany the authors on their way towards a sustainable future.

## **5 Acknowledgements**

All authors are leading experts in their particular field of expertise and have all been enormously cooperative in achieving this thought provoking volume. A special thanks goes to each of them for sharing their intense knowledge and giving unique insights into their personal ideas of innovation and sustainability. We would also like to thank Christian Rauscher and his colleagues from Springer who supported



the publication not only with intense professional knowledge but also diligent personal advice. Due to the grateful support of the Centre of Humane Market Economy in Salzburg, Intel Europe, CSR Europe, ABIS and the European Commission's DG for Employment, Social Affairs & Inclusion we are confident that this publication will be the beginning of a continuous exchange between academia and business. The mutual goal will be to develop an international network of high level intellectual exchange. Together, we can build the basis for a new business world in which enterprises are the key drivers for sustainable solutions to the world's most pressing challenges. We hope that you will be part of it and wish you a brilliant start to your own personal journey into the world of Social Innovation!

Thomas Osburg  
René Schmidpeter

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# Social Innovation: A New Concept for a Sustainable Future?

René Schmidpeter

## 1 Introduction

Like all innovative intellectual concepts, the endeavor of developing the concept of Social Innovation starts with a broad debate on what the underlying problem looks like and what the contribution of introducing this new term to the ongoing intellectual discussions about our society should be. One goal of the publication is to capture and highlight the current state of thinking about how to overcome the most pressing challenges of our time. How can we foster innovations which add value to our societies by tackling our very real problems in the field of education, demography, energy, finance, ecological scarcity, as well as social and economic prosperity? It becomes more and more clear that we need a “quantum leap” – a big step forward in innovative thinking in order to achieve a sustainable future – for ourselves but especially for our kids. Such a complex matter of course cannot be easily achieved, sometimes answers seem more confusing and with every new argument new questions arise.

We are now in the process of reshaping our societies in terms of economic, political, as well as academic thinking. This requires novel concepts, approaches, as well as a broad variety of expertise and, most importantly, a lot of respect for the mutual efforts to make our world more sustainable. Every new concept is a chance to find new answers but also to raise the dynamic of thinking for our future – so is the discussion about Social Innovation.

More and more business leaders and politicians realize that we need to increase innovation (product-, process-, management- and innovation) and react to current challenges with proactive leadership approaches. As business can probably be a main driver for urgently needed social innovations, one of the core questions in every part of this book is the role of business in contemporary society and its capability to provide innovations which add value to sustainable development. The examples provided show already how much economic, political, and academic time and resources are invested to deepen and shape the current process of solving the most pressing problems of our societies.



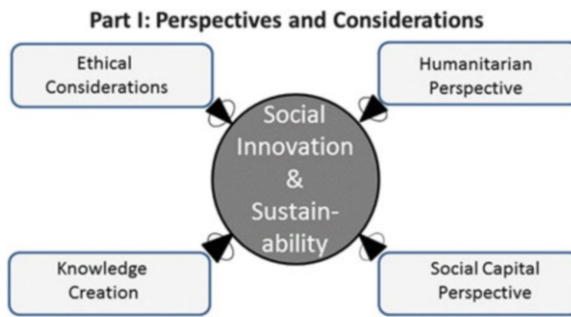
**Fig. 1** Overview of the publication

## **2 Overview of the Publication**

This publication is divided in five parts, each of which provides insights from different academic disciplines as well as practical experiences. In the first part, different perspectives and considerations on the concept of social innovation and its underlying assumptions are outlined. The second part tries to link the idea of social innovation to related concepts e.g. Corporate Social Responsibility, Inclusive Business Models, and Social Entrepreneurship. Within the third part, concrete instruments and applications of social innovations are laid out. The fourth part shows concrete practices of social innovation in different fields e.g. Youth Unemployment, Decarbonisation, and Technological Advancement. Last but not least, a look to the future should give an idea how the Role of Business could look like in order to thrive, social innovations, and also what can be learned from the different perspectives presented by the different authors in this publication (Fig. 1).

### ***2.1 Perspectives and Considerations***

The first part gives a broad overview of the assumptions and perspectives on the concept of Social Innovation. The first chapter, written by Thomas Osburg, argues that innovation is a key driver for our societies. It describes different types of innovation and shows which of them lead to fruitful collaboration among different actors in society. Furthermore, the linkage between Social Innovation and Sustainability is scrutinized and it is argued that Social Innovation will be a success key for companies in the coming decade. Finally, concrete measures are outlined in order implement the new thinking in organizational development as well as daily business operations (Fig. 2).



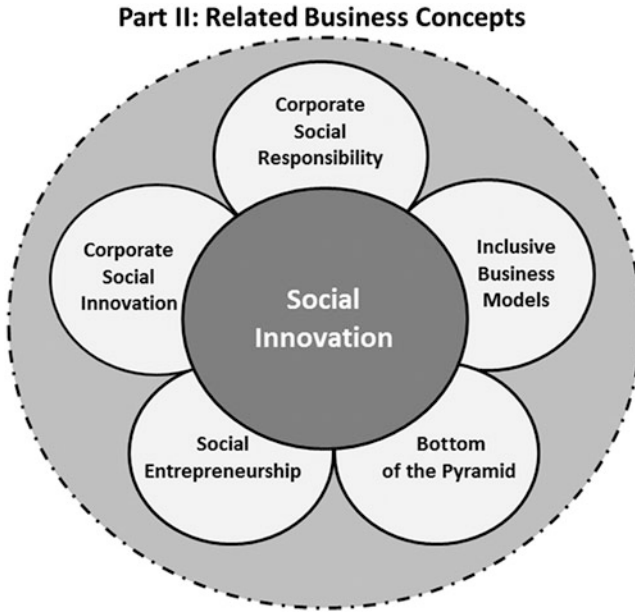
**Fig. 2** Perspectives and considerations

Joan Fontrodona shows in the second chapter how a positive and comprehensive view of ethics leads to a sound understanding of how ethics and innovation are closely related to each other. He outlines the collaborative nature of innovation and how adding an ethical dimension to problems means, in many cases, completely changing the way how the problem is conceptualized, and the way to solve it.

This ethical perspective is applied to the way of thinking about business from a humanitarian perspective by Michael Hopkins in the third chapter. He not only highlights the difference between Corporate Social Responsibility and mere Philanthropy, but also describes the main actions that corporations could take to enhance corporate social development. Thereby, he shows that CSR is a systemic concept which involves every part of a company in fulfilling its wider role in society.

Interesting insights into the field of knowledge creation are given by Waymond Rodgers and Arne Söderbom in the fourth chapter. They argue that Social innovation is becoming critical for organizations since it determines how to transfer knowledge and increases organizational performance. In their contribution, they outline a knowledge-based theory of the firm, develop a knowledge transfer model in order to explain decision-making in the field of Social Innovation, and outline the implications of their thoughts for future research and practice.

In the final chapter of this part, André Habisch and Christian R. Loza Adaui outline another line of innovative thinking in order to understand social innovation – the social capital theory. They explain three levels of social capital in the explanation of social innovation. On the Micro – Individual level, they outline the role of the social innovator. On the Meso – Organizational level, they discuss the role of social organizations. On the Macro level, social capital and the institutional drivers of innovation are highlighted. The authors thereby provide a collective action orientated concept of social capital, which can be very helpful to better understand the structure and role of social innovations for the development of our societies.



**Fig. 3** Related business concepts

## **2.2 *Related Business Concepts***

After building an interdisciplinary base for further debate, the second part discusses the relation between the concept of social innovation and other business oriented management concepts e.g. Corporate Social Responsibility, Corporate Social Innovation, Inclusive Business, and Social Entrepreneurship (Fig. 3).

Stephaen Crets and James Celer show the interdependence between Social Innovation and Corporate Social Responsibility in the first chapter. They show how the concept of Corporate Social Responsibility has developed over the last decades and illustrate how companies at the forefront of CSR are nowadays creating “shared value” – for society and business – by addressing social problems and developing business opportunities at the same time.

In the second chapter, Bradley Googins argues that CSR is on a crossroads now. On the one hand, it is widely adapted by business, and on the other side, the positive effects to society are still not enough. Therefore, he develops the idea of Corporate Social Innovation (CSI) that integrates and strengthens the idea of innovation within the CSR discussion. Googins argues that the next stage of CSR has to focus on producing high quality and high impact Social Innovation. This helps to move the current state of CSR from a “clean up”, minimize damage to a systemic and positive management approach that tackles large scale social change.

Jessica Scholl introduces another management concept – Inclusive Business Models – in the third chapter. In her view, the concept of inclusive business models



is not only the key driver for Social Innovation, but is also a Social Innovation itself. She describes the philosophy, policies, products, and processes of inclusive business models and thereby argues that Social Innovation has always been an intrinsic component of inclusive businesses.

In the fourth chapter, Mirjam Schöning outlines the difference between social entrepreneurship and social innovation. By giving practical examples, she demonstrates the innovative power of social entrepreneurs. She even argues that social entrepreneurs are the biggest source of social innovation to date. In her view, the pursuit of social innovations often involves going against the conventional grain of how companies, public institutions, or large NGOs operate and that social entrepreneurship is key to developing new solutions.

Anirudh Agrawal and Kai Hockerts propose institutional theory as a framework for reflecting on social entrepreneurship in the fifth chapter. They see institutional theory as a tool for practitioners to reflect upon the legitimacy, survivability, and scalability of social enterprises because it can reduce risks associated with emerging fields such as social entrepreneurship. They present four cases of social entrepreneurship, reflect on them, and also propose a future agenda for practitioners interested in social entrepreneurship.

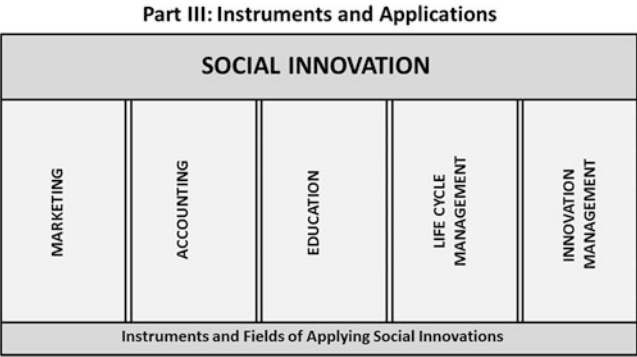
In the sixth chapter, Deepa Prahalad shows how to connect design and social innovation in the concept of the bottom of the pyramid. Thereby, multiple business approaches to address social problems are discussed. Different case studies of the bottom of the pyramid concept illustrate how an ecosystem which fosters social innovations can be built and what relevance this knowledge has to global markets as well as to innovative business strategies.

## ***2.3 Instruments and Methods of Implementation***

In the third part, instruments and methods of implementing social innovation are discussed (Fig. 4).

CB Bhattacharya sketches the importance of marketing for Social Innovation in the first chapter. He argues that the principles of marketing and stakeholder centrality are of extreme relevance to the development and implementation of social innovation. He describes three concepts – co-creation, communication, and calibration – which should be applied to existing social innovations as well as to future social innovations. This leads to the maximization of value creation in the business as well as in the socio-environmental arena.

In the second chapter, Edeltraud Günther und Thomas Günther demonstrate how the impact of an intangible category such as social innovation can be measured. To successfully integrate social innovations in for-profit and non-profit organizations, measuring the impact of social innovations is crucial. Therefore, they recommend to monetarily measure and value social innovations as far as possible, because this allows integration into existing techniques and procedures of management, but also helps to manage social innovations for society and on the individual level.



**Fig. 4** Instruments and applications

In the third chapter, Peter Russo and Susan Müller present drivers and formats for how social innovation can be taught. They argue that using the core competencies of different partners within cross-sectoral partnerships is the key factor for social innovation. Furthermore, knowledge about how to scale-up and replicate ideas is fundamental in order to increase value for society. They describe skills needed in order to become a social innovator and illustrate how these skills can be taught by portraying the example of the summer school of social innovators.

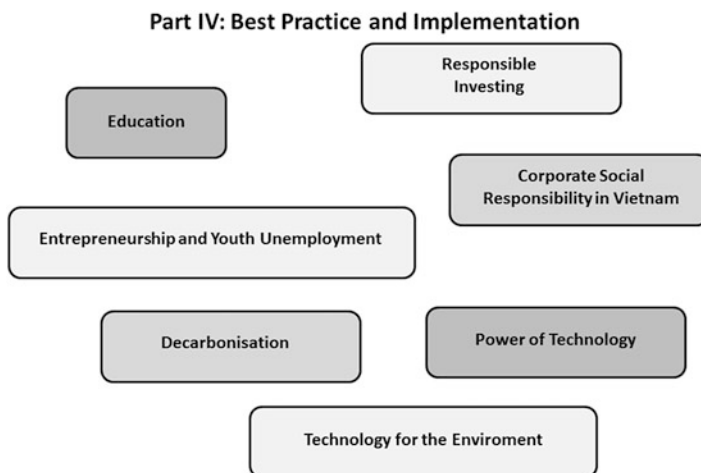
Filipe Santos, João Cotter Salvado, Isabel Lopo de Carvalho, and Uwe G. Schulte show which implications the concept of life cycles has to the implementation of social innovation and to social entrepreneurship. They argue that each key transition within the different life-stages requires a different leadership role in order to be successful. They highlight that this leadership transition can be difficult, as entrepreneurs commonly return to their main habits and style when facing problems. They give advice as to what should be taken into consideration in the different stages of the life cycle process of social innovation.

In the last chapter, Eva Grieshuber describes the impact of sustainability and CSR as a source of innovation in the fields of process innovation, social and product innovation, and business model innovation. Thereby, she outlines how the key issues of raising efficiency and reducing cost, fostering involvement and diversity, and securing market positioning can be achieved by thriving sustainable business model innovations.

**2.4 Best Practice and Fields of Application**

The aim of the fourth part is to show further best practice and fields of application of the concept of social innovation (Fig. 5).

In the first chapter, Shelly Esque, Martina Roth, and Danny Arati explain how the public and private sectors increasingly collaborate in the area of Education.



**Fig. 5** Best practice and implementation

They outline that extending education to the masses was itself an early concept of social innovation. This compulsory education has contributed to the nation-building and education of a wide range of children and thus has been an important factor for social inclusion and cohesion. They also provide examples of how collaboration between different stakeholders and innovative technologies provide new, inclusive, and participative ways to deliver Education.

In the second chapter, Caroline Jenner explains how social innovations can help to tackle youth unemployment. She displays how entrepreneurship education stimulates social innovation, new business creation, and thus leads to more jobs and reduces youth unemployment.

Stefanie Hiss explains how responsible investing reduces today's incredible societal costs and burdens of the negative externalities in the financial market in the third chapter. She shows how responsible investing can be put into practice and which role corporations, investors, and rating agencies play. Responsible investing is being established as an alternative infrastructure that systematically takes non-financial issues into consideration and, therefore, can be considered to be an important social innovation for the further development of financial markets.

In the fourth chapter, Thomas Walker and Florian Beranek outline how to support Vietnamese small and medium sized enterprises to implement CSR strategies to foster social innovation. They describe three methods: the Weather Report (for large groups from 50 to 500 people), the CSR Marketplace (for mid sized groups from 5 to 100 people), and the Ethical Stand Up Meetings (for small groups from 3 to 12 people) to give a voice to society/stakeholders. The authors find it especially necessary for developing countries to foster critical thinking and creativity based on a sustained self-understanding in order to develop a sustainable society.

In the fifth chapter, Raluca Oltean, Thomas Osburg, and Lorie Wigle express how “Technology for the Environment” applies the newest technology solutions to environmental challenges. The authors argue that our societies are entering into a new phase of development in which information and communication technology (ICT) will be a key enabler for social and economic developments. ICT will become the most influential key technology in various innovations across all industries and will be a key factor for potential social innovation processes. The benefits of ICT will further extend when smart grids and public utilities are aligned and ICT innovations are used for fundamental energy reform.

Sandrine Dixson-Declève and Helen Spence-Jackson illustrate in chapter six another example how social innovation is addressing ecological challenges. They show how the Atlas Project aims to reduce the carbon footprints and energy bills of schools, while also boosting the use of low carbon products and services, creating jobs and growth. These and similar projects will contribute to the necessary paradigm shift in ecological behaviour of humans and create value added for society.

By laying out different technological projects from the World Summit Youth Award (WSYA) in chapter seven, Peter A. Bruck and Martina A. Roth prove the power of technology to address social as well as ecological challenges. The projects illustrate the scope, range, and depth of social innovation by creative applications of young people all over the world.

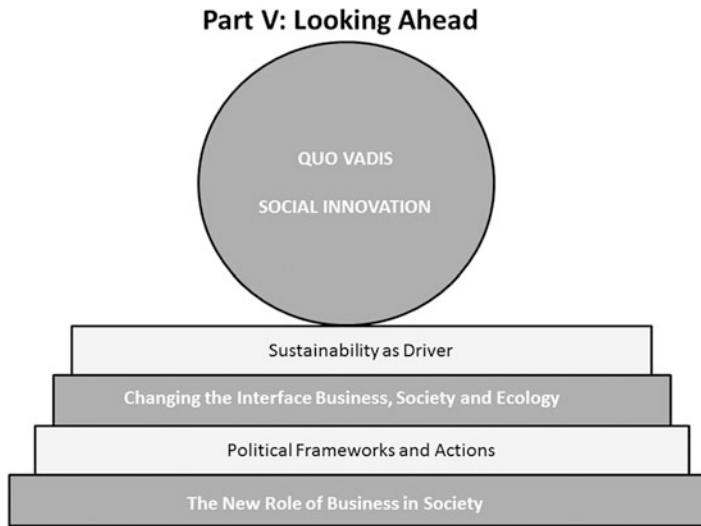
## ***2.5 Looking Ahead***

The last part looks into the future of the concept of social innovation. What will be the role of business in society, how could politics support sustainable developments, and how could the interfaces between business, society, and ecology be managed? (Fig. 6)

In the first chapter, Mollie Painter-Morland summarizes the different concepts of business e.g. businesses as wealth generators and creators of stakeholder value, businesses as participants in social contracts, and businesses as citizens. She outlines the need to rethink the role of business in society and develop an interdisciplinary approach to business theory which overcomes the current limits of business thinking.

This business oriented chapter is followed by an interview with Sue Bird from the DG Employment. She gives her view on the latest developments in the field of Social Innovation and CSR. She talks about the challenges the EU faces in the social and employment field and the effects of the financial and economic crisis which will increase the importance of business engagement in social and ecological fields.

In the third chapter, Nigel Roome focuses on the link between sustainable development and social innovation in a provocative way. He argues that sustainable development is a new paradigm that will involve all actors in society in completely



**Fig. 6** Looking ahead

new ways. If business really becomes part of the new paradigm, it will constitute a grand form of social innovation. Nevertheless, there is still a long way to go.

Matthias S. Fifka and Samuel O. Idowu argue that sustainability is a driver of Social Innovation. They state that, despite the great contribution of the concept of Social Innovation in addressing social problems, it should not be regarded as capable to cure all social ills. As Social Innovation cannot be generated in the same way as technological innovations, it is a complex approach which cannot easily be managed.

In the last chapter, Thomas Osburg and René Schmidpeter give a final glance on the current state of the discussion of Social Innovation. This input aims to show the further direction and which learnings can be drawn from the concepts and ideas presented in this publication.

### 3 Conclusion

As said in the beginning, the endeavor of all innovative intellectual concepts start with a broad debate. This publication provides the platform for this discussion of leading thinkers and aims to be a milestone of the further academic and practical exchange of thoughts. It shows that the concept of Social Innovation is heavily discussed all over the world and will certainly be an important cornerstone of socio-economic discussions over the next years. It is still uncertain whether we will be successful in raising the level of social innovations in all sectors of society, e.g. politics, academia, business, far enough to have a decent impact. Certainly, entrepreneurs and businesses all over the world will play a crucial part in this game.

# **I Perspectives and Considerations**

# Social Innovation to Drive Corporate Sustainability

Thomas Osburg

## 1 Introduction

The concept of Social Innovation seems to be omnipresent in today's corporate discussions, but deeper reflections indicate that there are significant differences in the way Social Innovation is understood and implemented. While some see it as the next big thing after CSR or CSR 3.0, for others it is simply a new term for CSR. As with most new concepts, this unclear understanding might ultimately hinder the development of a concept that, if applied seriously, might have a significant contribution to improve the way we collaborate, innovate, and ultimately have a positive impact on the world.

Even when the concept is fully embraced, it can often be detected that there is a focus on only the invention, without paying too much attention to the process leading to this result and the societal and business impact. In order to advance Social Innovation concepts, basic and proven principles from Innovation Management need to be taken into account, in addition to the needed but often overrated focus on just the big idea to solve major problems. It thus seems appropriate to have a deeper look at some basics about the Innovation concept and put it in perspective and relation to Sustainable Development.

## 2 Innovation as Key Driver

Before diving into the field of Social Innovation, it appears needed and helpful to have a look at Innovation in general, as it is the key underlying conceptual framework for Social Innovation. Sometimes, little attention is given to known and proven concepts of Innovation when Social Innovation is discussed.

Based on the works of the Austrian economist Joseph A. Schumpeter, Innovation can be understood as a new combination of production factors (Schumpeter 1982). Thus, Innovation can be understood as the creation and

adoption of something new that creates value for the organization that adopts it (Baldwin and Curley 2007). It can be a specific instrument of entrepreneurship, the act that endows resources with a new capacity to create wealth (Drucker 1985). Contrary to the mere invention, the concepts of Innovation include the process of transforming an idea or an invention into a solution that creates value for stakeholders like customers, shareholders, or societies. Thus, Innovation should not be confused with invention.

Innovation theory has seen constant transformation over the last decades. Focusing on the concept of newness (1950s), Innovation started to be integrated into Management theory (1960s) and focused on the meaning for the demand side (1970s). This was followed by research on Process Innovation (1980s) and Service Innovations (1990s). Finally, over the last decade, we saw a discussion about Open Innovation and, for some years now, a focus on Social Innovation.

## 2.1 *Innovation Concepts*

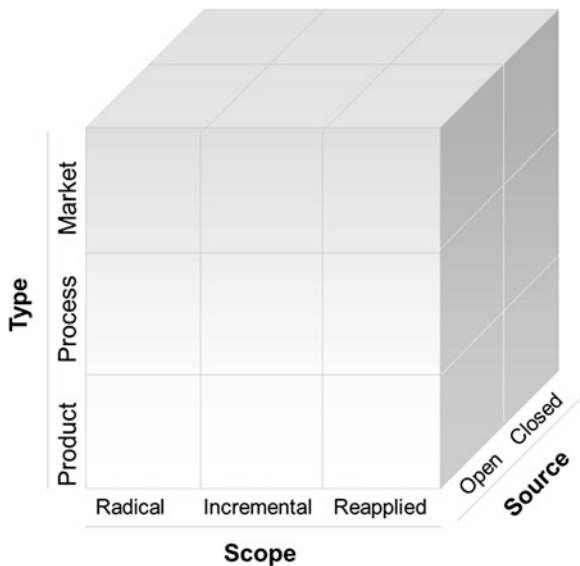
Innovation, as a term, is rather ambivalent and this, as we will see later, is one of the root causes of different understandings of Social Innovation. Based on the work of Schumpeter, Innovation can focus on the types of Innovation (Product, Process, Market), the dimensions (objective or subjective), the scope of change (radical, incremental, reappplied), or how it was created (closed or open Innovation) (Stummer, Guenther and Köck 2010). All of these differentiations are highly relevant to concepts of Social Innovation as well.

**Types of Innovation** – Product and Service Innovations are certainly a major area to focus on for companies, as these Innovations typically are very visible and shape the reputation of the firm. However, process Innovation (i.e. a new form of production that saves emissions and resources) or market Innovation (i.e. creating new markets for social solutions) is often as important as product Innovations.

**Scope of Change** – In common understanding, Innovation always needs to be something big and ground-breaking. However, most Innovations are not that. The radical or disruptive Innovation fundamentally changes the markets and daily lives of people. Often, they are closely related to the inventor and bear high opportunities but also high risks. Incremental Innovations rather build on constant improvement of disruptive Innovations; they are more related to the organisation and less to the inventor. In general, they offer a high potential for economic success. A third area to look at is reappplied Innovation. Those are often existing concepts that are successfully implemented in a new area (Baldwin and Curley 2007).

**Sources of Innovation** – Closed Innovation processes strongly focus on the Intellectual capacity and property of the organization; inventions and Innovations are developed in-house and then results are shared with external stakeholders. Open Innovation, on the contrary, is “...the use of purposive inflows and outflows of knowledge to accelerate Innovation. With knowledge now widely distributed, companies cannot rely entirely on their own research, but should acquire inventions





**Fig. 1** Dimensions of innovation

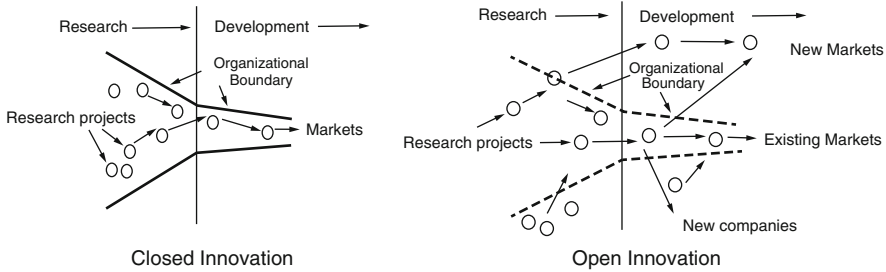
or intellectual property from other companies when it advances the business model . . .” (Chesbrough 2003).

The above dimensions of Innovation can be grouped into an InnovationCube which is helpful to look at when later discussing possibilities of Social Innovations (Fig. 1).

**2.2    *Open Innovation Leading to Collaboration***

Open Innovation as a source for creating new solutions is a key concept to look at, as it calls for significant stakeholder interaction to achieve the results. While the relevance of Open Innovation for Business is steadily increasing, Open Innovation is a *must* for Social Innovation. Even more than in Business, solving problems today in society requires a constant collaboration between all sectors to determine the most burning problems and approaches to resolve them. There are no serious issues today that can be solved by any of the sectors alone. Figure 2 shows a visualization of closed and open Innovation processes:

The concept of Open Innovation has two different focus directions of knowledge sharing that are offering significant relevance for cross-sectorial collaboration in Social Innovation:



**Fig. 2** Closed and open innovation processes (Chesbrough 2003)

**Outside-In Processes** integrate external knowledge into the Innovation process and thus enhance a company's internal knowledge base through the integration of external stakeholder knowledge. This can be through a loose collaboration or formal agreements.

**Inside-Out Processes** are focused on the externalization of knowledge, which is far less common than Outside-In. Here, companies can license or provide technology or knowledge to capitalize on potential economic benefits outside the firm. It can also be used to run processes of joint development.

Both directions of Open Innovation require significant collaboration between the stakeholders and, in Social Innovation, also among the different sectors.

### 2.3 Overcoming the Chasm

The theory of crossing the chasm relates to the difficulties that exist when trying to move a great idea or invention to a scalable and long lasting success (Moore 1999). Originally developed for the HighTech Industry, the concept can be applied to all Innovation processes, as the underlying findings can be generalized: It is not sufficient to invent and have a great idea; the challenge is how to implement it to really have an impact. This is where a lot of great ideas fail ultimately.

Mostly, different personalities are required to work on an Innovation during the early phases and then later on scaling and mainstreaming the solution. The Chasm simply is the point in a typical lifecycle curve where a lot of great ideas fail for various reasons: Either the customer doesn't see the value, the resources are not sufficient to scale, competitive solutions were not considered, etc. Especially in the area of Social Innovation, that is often dominated by passionate and enthusiastic Social Entrepreneurs who *burn* for their solutions, little attention is given to the next steps – how to implement, how to find needed resources, and how to build a network of collaborating organizations that help to scale (Fig. 3).

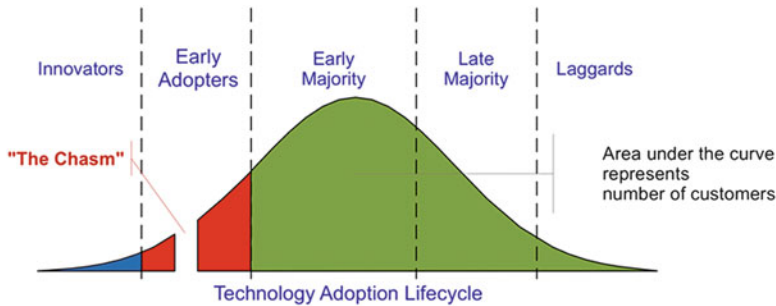


Fig. 3 The chasm in a typical lifecycle curve (Moore 1999)

### 3 Expanding to Social Innovation

#### 3.1 The Concept of Social Innovation

Adding the Social element to Innovation brings us then to Social Innovation concepts. Social in this sense is understood as a focused direction of Innovation (MacGregor and Fontrodona 2008). It usually implies a normative approach that something positive is created for the society. The EU Commission defines Social Innovation as “...Innovations that are both social in their ends and in their means. Social Innovations are new ideas (products, services and models) that simultaneously meet social needs (more effectively than alternatives) and create new social relationships or collaborations” (EU-Commission 2012a).

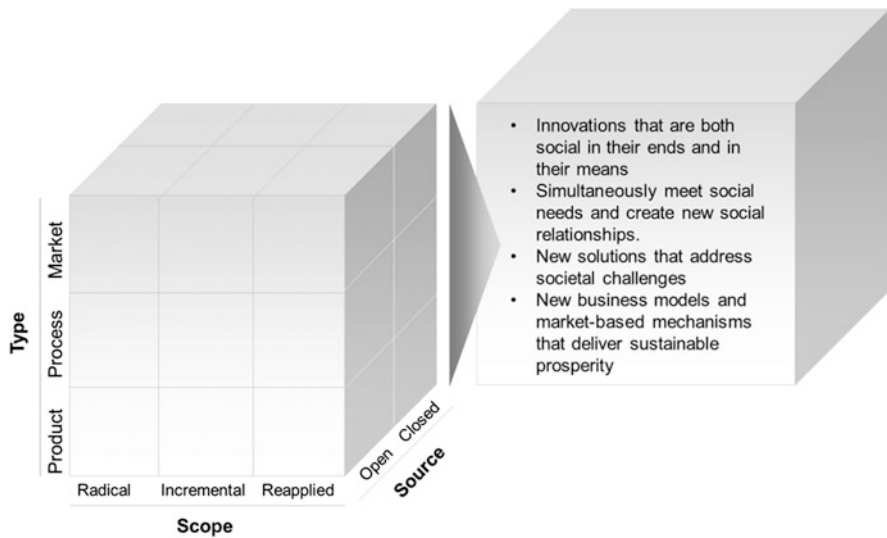
For the European Business School (EBS), Social Innovations are “... new solutions that address societal challenges in a way that is contextual, targeted, and promotes common welfare” (European Business School (EBS) 2012). The INSEAD Social Innovation Centre defines Social Innovation as the “... introduction of new business models and market-based mechanisms that deliver sustainable economic, environmental and social prosperity” (INSEAD 2012).

Within this understanding, Social Innovation is the applied theory of Innovation where a normative Social component is added (Fig. 4).

Wanting to do good is not enough. Social Innovation needs to be a process that is driven by Innovation and adds a goal and value system to it to create Sustainability.

#### 3.2 Social Innovation and CSR

Following the thinking that Social Innovation ultimately is an Innovation Concept that adds a social value and goal system to the process, it becomes clear that Social Innovation is not *the next CSR*. As Googins (2013) points out very clearly,



**Fig. 4** Adding social component to innovation

Innovation has always been in the DNA of firms, but it has never been an integral part of CSR. The traditional role of CSR supported and supports business in areas like Licence to Operate and basic Citizenship duties with all of its subcomponents. While this has worked well in the past, it might not be sufficient in a more and more complex future of today's world (Googins 2013).

We have seen over the last years a significant loss of trust in Business, which is nowadays often seen as part of the problem, rather than the solution to social problems. However, with a decrease in power and resources of the public sector in many countries, business is increasingly asked to contribute to solving burning social issues, which goes far beyond traditional CSR, even for the leading companies in this area.

The implications for the private sector seem obvious: A deeper contribution through its own operations to sustainable development calls for innovative Business solutions that go beyond the traditional goal of profit maximization. Thus, firms will be increasingly asked to root Social Innovation into the Innovation process and, with this, into the core business operations.

### ***3.3 Social Innovation and Corporate Sustainability***

Sustainability is usually defined as the capacity to endure from an environmental, economic, and social dimension. Contrary to common thinking that sustainability is closely linked mainly to ecologically focused *Sustainable Development* as defined by the Brundtland Commission (1987), it is highly important to understand

Sustainability in its holistic sense to link it to Social Innovation and make it relevant. Thus, Corporate Sustainability creates long term stakeholder value, not only by becoming *green*, but considering all ecological, social, and economic aspects of Business operations while, at the same time, upleveling communication through full transparency.

The definition given by the Brundtland Commission (1987) on Sustainable Development that *...meets the needs of the present without compromising the ability of future generations to meet their own needs* can easily be applied to businesses that thrive to stay around for the next decades. To concretise this approach, Elkington (1997) developed the Triple Bottom Line approach for company reporting, by assuming business goals are long-term inseparable from the surrounding environments and societies (in a short term, this might be possible, however).

Assuming the willingness of business to endure by meeting the challenges in the areas of the Triple Bottom Line, new innovative approaches are needed that go far beyond the traditional CSR concepts. Social Innovation could be the best known approach today to achieve the needed Corporate Sustainability.

## 4 The State of Social Innovation

The picture of how widely Social Innovation concepts are disseminated today is rather unclear, despite a lot of public focus and communication. Social Innovation is not yet mainstream, partially because of a lack of clarity for a majority of firms.

As Wikipedia notes: “The term has overlapping meanings. It can be used to refer to social processes of Innovation, such as open source methods and techniques. Alternatively, it refers to Innovations which have a social purpose – like microcredit or distance learning. The concept can also be related to social entrepreneurship (entrepreneurship is not necessarily innovative, but it can be a means of Innovation) and it also overlaps with Innovation in public policy and governance. Social Innovation can take place within government, the for-profit sector, the nonprofit sector (also known as the third sector), or in the spaces between them” (Wikipedia 2012).

As a result, only a few companies like Intel or HP have engaged in serious efforts to uplevel Social Innovation by linking it closely to the Business side. For example, HP has a Global Social Innovation group where the focus is to use Innovation to make a positive difference in the world. Intel has a similar Innovation approach with significant focus on the social impact of Business solutions (i.e. the World Ahead Program) to make it a more sustainable company.

In Academia, especially the leading (Business) Schools, have created Centres for Social Innovation over the last years. Examples are the European Business School (EBS) in Germany, INSEAD in France, and Stanford in the US. Leading research on this topic is nowadays done in most Business schools and a strong collaboration between universities and leading companies in this area, like Intel or IBM, is

underway. However, at the vast majority of Higher Education Institutions in Europe, Social Innovation is not yet a significant research focus.

At the political level, some scattered activities in about half of the European countries can be observed. In Germany, the Federal Ministry of Education and Research (BMBF) has confirmed, in 2011, its funding support for a 2-year basic research project that looks into “Social Innovation in Germany”. The project is carried out jointly by the World Vision Institute and its university partner, the European Business School, who, for this purpose, have collaborated to create the Centre for Social Innovation and Social Entrepreneurship.

At EU levels, the Directorate General (DG) Enterprise and Industry is leading the Social Innovation efforts, clearly linking it to Enterprise Innovation and the Europe 2020 Agenda (DG Enterprise and Industry 2012). Among others, a “Social Innovation Europe” (SIE) initiative was created in 2011 with three aims: Research and Publication of reports and recommendations, hosting an online exchange platform, and hosting one to two events in Europe per year. At the end of 2012, a European Social Innovation Competition was launched by Commissioner Barroso to showcase current successes and motivate more Social Innovation in Europe.

The current challenges for Social Innovation can be seen in these two areas: “Social Innovation is *Little known as a concept*: many social Innovations take place without them being known under that term, causing problems when asking for evidence in surveys and interviews” (EU-Commission 2012b). “The second issue is the *cross-cutting nature* of social Innovation. Social Innovation is not a specific sector; it is not an easily defined activity. Statisticians have yet to develop an agreed approach, and so we lack reliable measures of spending on social Innovation and indicators of its scale of activity” (EU-Commission 2012b).

## 5 Moving to Corporate Sustainability Through Social Innovation

Despite the many challenges outlined earlier, there is solid evidence in public discussion today that Social Innovation will be key for companies in the coming decade to achieve the needed Corporate Sustainability. However, a lot still has to be done:

**Management buy-in will be critical** in order to fully embrace the relevance of Social Innovation for the Business as a whole. If Social Innovation is considered to be the next CSR 3.0, the concept will remain within the CSR Departments and not get the needed attention from company leaders. The huge risk is that Social Innovation becomes a new buzzword that people think will go away in few years. Academia can play a leading role in that respect to drive the concept forward and make it last.

**CSR Managers need to become Change Agents** in leading the company towards transformation. This is a massive change from today, where most CSR

departments are add-ons or only slowly moving to align with the business. Speaking in Innovation terms – this is a radical Innovation on its own. CSR Managers today need to be the drivers helping companies to realize the potential of Social Innovation for a sustainable company future.

**Social Innovation needs to link more strongly to Corporate Innovation**

Initiatives and ultimately become the driver of it. As of today, most Social Innovation discussion focusses on doing-good-for-society. While this is a noble cause, it fails to tackle the core essence of Social Innovation – which is still Innovation. The *Social* component is adding a *triple-bottom-line* thinking to already established Innovation Strategies within the firms.

**Crossing the Chasm will be a key challenge** in achieving Corporate Sustainability through Social Innovation. A lot of initiatives and strategies driven by companies have a noble and honest background, but they will not lead to the needed results (both for Business and Society) if the scaling and diffusion is missing. The concept from Innovation theory of *how to cross the chasm* to reach a significant target audience is completely missing from today's discussion on Social Innovation. However, it is critically important for firms to become sustainable companies. As cynical as it sounds – doing good is not enough. It has to be scaled and put on a lasting level to become truly sustainable.

**Building coalitions and cross-sectorial partnerships** is more and more getting into the focus of business, for all the good reasons. Social Innovation depends on all sectors collaborating. By increasing the focus on Open Innovation, a close collaboration of knowledge sharing inside and outside the firm is crucial for success. Apart from Governments, private firms, and various NGO's, it is mainly the Social Entrepreneur who can become a strategic partner for the private sector by creating shared value.

To conclude, Social Innovation is closer to the core Business of what is generally thought of and the key for companies to achieve Corporate Sustainability and thus meet the needs of triple bottom line reporting. It is not the new CSR and it offers huge potential for the future. The companies who will fully embrace Corporate Sustainability through driving Social Innovations will be the ones leading the next decades. We are only at the very beginning now.

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# The Relation Between Ethics and Innovation

Joan Fontrodona

## 1 Introduction

At first glance it might seem that innovation and ethics are two opposing concepts. Ethics has a prescriptive element. It sets out what we can and cannot do, and therefore limits our scope of action. By contrast, innovation leads to doing things differently, breaking the mold, overcoming barriers. In this sense, there may be those who would believe that ethics could limit innovation.

But that view misinterprets what ethics is all about. Ethics cannot be reduced to a legalistic view of human behavior, much less to a negative view that defines ethics as a list of prohibitions. A positive, comprehensive view of ethics will make us realize that ethics and innovation are closely related: that innovation – like any other human activity – is deeply rooted in ethics, and that ethics inspires and encourages innovation.

In this chapter, we will put aside the ethical dilemmas that may arise with respect to innovation, and will move into a more conceptual and positive dimension. We shall start by offering an innovative definition of ethics. After that, we will reflect on the relationship between ethics and innovation – concepts that operate within separate but related spheres. Finally, we will discuss how ethics affects innovation, in terms of both the social dimension and the moral dimension of human actions.

## 2 An Innovative View of Ethics

Ethics is a field of knowledge that deals with human behavior from the point of view of how – through our actions – we can become better people. There are many fields that – like ethics – study human behavior. They differ, however, in the lens through which human behavior is analyzed. Physics, for example, analyzes activity through the lens of movement; physiology does so through the lens of how organs function; economics through the lens of efficient use of resources; and sociology

through the general patterns of collective behavior. Ethics is also concerned with human behavior, but its focus is on how actions influence the way we are.

This view of ethics stems from the observation that human beings – through our actions – not only do things but also “develop who we are.” It is quite obvious that we do things through our actions. What isn’t so clear, however, is this other dimension, which relates to an effect that remains within the subjects themselves: our own actions change us.

It is often said that human beings are, at birth, the most helpless of all species. Yet throughout our lives we acquire a degree of development that puts us in prime position among all living creatures. Throughout our lives we acquire a body of knowledge, a series of technical skills and character traits that make each one of us the person we are. We can therefore say that, although we all belong to the same species and have a common backdrop that unites us, we are all different, unique and unrepeatable.

Realizing that our actions not only transform the world but also transform who we are is how we introduce ethics into the evaluation of our actions. What ethics is interested in, therefore, is the impact of actions on our way of being, as those actions make us better or worse people.

Since humans naturally tend to relate to others (we are social by nature and cannot develop all our capacities in isolation; we need to relate to other human beings), this view of ethics cannot remain at a personal level. It must be extended to other human beings who, directly or indirectly, are related to the action. The idea that our actions also affect others and make them change too – for better or worse – is another non-obvious assertion. Such an assertion is particularly important within the realm of business activity, and fundamental for the appropriate conceptualization of what it means to manage businesses. Manufacturing products, providing services and generating economic benefits are the results of business activity, but they are not the only effects. I would even go as far to say that they are not the most important. Managing a company means being aware of what kind of people we are helping to develop through our decisions. Peter Drucker said in 1954 that “the purpose of business is to create a customer.” If we take this assertion in a broader sense, we can say that the decisions we make, the goals and incentives we set and the products we offer – for better or for worse – all lead to the creation of customers, employees and companies.

From this perspective, ethics is not just a list of prescriptions or rules that point to what we should do and forbids what we shouldn’t. Ethics, like all other sciences, has a normative aspiration (it does not just observe behavior, it tries to pass judgment on the value of each behavior), and a practical orientation (it doesn’t just theorize about human actions, it hopes for such actions to actually take place). Ethics not only reflects on what it means to become better human beings, it also gives us pointers on how to achieve it.

Having a list of rules that define right and wrong, good actions and actions that should be avoided, may facilitate ethical behavior. We should realize, however, that these rules do not appear out of the blue, nor are they justified by themselves. They are the result of prior reflections on what is good for humans and what actions make

us better. An overview of ethics must include a reflection on goods (things that don't just seem good but actually are), on virtues (habits acquired through the repetition of our actions), and on rules (that facilitate deliberation about what to do in each case) (Fontrodona et al. 2010).

Suppose we want to drive from one city to another. We must firstly know how to drive; then we have to decide what the end of the trip will be. Having set off, it is helpful to find road signs to help guide us and warn us of road conditions. These road signs would be useless, however, if we didn't know how to drive or where we were going. On the other hand, these signs (or even whatever the GPS tells us) shouldn't override our own decisions to change the route or to adapt our driving to our own conditions, regardless of general warnings we might come across. In the same way, ethics is a discussion, firstly, on the direction our lives are heading in (what goods we want to achieve, what we hope to achieve). Secondly, it is a learning process about how to conduct our lives (how our personalities develop, what life and moral attitudes we adopt). Finally, it is a debate on which rules of conduct allow us to move in the right direction.

If someone raised the challenge of reducing ethics to a single principle (something similar to the first axiom every science is based on and from which all other theorems are deduced), the answer would be relatively easy. The first principle of ethics says: "do good (and avoid evil)." Ethics encourages us to do good. There is a well-known classical adage that says "sapere aude" – "dare to know." Ethics poses another challenge: "agere aude" or "dare to act."

The first step towards doing good is not doing evil (the first step forward is to not move backwards), and that is, largely, why standards are useful. They help us to not do evil (do not go this way, go that way, do not exceed this speed, watch this bend, etc.). But, beyond a certain minimum we must all ensure, there is always a wide range of possible ways to do good. Which is why that first principle ("do good") leads to two important corollaries: one, "there is much good to be done" – there are no limits on how much good can be done, excellence has no limits, you can always excel more; and, two, "good can be done in many ways" – we don't all have to act in the same way, the same problem can be solved in different ways, all of which are acceptable, and some of which are better than others.

Ethics encourages us, in short, to act, to do good, to try to make things better each time, and to make us better people through the things we do. Apart from being an innovative approach to ethics, this viewpoint in itself has an element of innovation. Ethics inevitably leads to innovation. In line with the principle that "if you always do things the same way, you always get the same results," and assuming a goal of continual improvement, we cannot sit back and continue doing things in the same way. The pursuit of excellence, as defined by ethics, necessarily implies a tendency towards innovation and new behaviors in order to improve. Ethics is a process of continual improvement that necessarily implies an innovative attitude.

### 3 Technical Progress and Ethics: How and What For

It is easy to observe, however, how this process of continual improvement is frequently interrupted by actions that do not help to grow for better, but rather to change for worse. Just like in manufacturing the goal of “zero defects” is hard, in the field of human behavior (characterized by a greater difficulty in controlling variables, as we are dealing with subjects we cannot control, and by a greater uncertainty about the possible effects) it is practically impossible.

Throughout the history of humankind, the ability of human beings to transform the environment in which they live has grown exponentially. In recent decades we have seen scientific and technological advances which are truly spectacular. We must accept, however, that technical progress does not always produce positive effects, neither on the environment nor on the subjects affected by it.

For example, we often apply technical advances to our environment (thereby provoking a negative impact on the ecosystem), and environmental problems can result from careless behavior. New technologies allow us greater connectivity and access to information, but also cause conflicts over data privacy and pathological social behaviors. Societies’ economic development generates greater wellbeing, but can also degenerate into real social conflicts and human tragedies. We do business with products that are clearly harmful to humans, or cause damage to people due to defects in manufacturing or improper use.

Scientific and technical progress does not ensure, therefore, an improvement for people, or in social conditions. This is because science and technology are interested in how things could be done better (efficiency gains), but cannot answer the question of why we do things, which is the ultimate reason why we use scientific and technical progress. And that question is fundamental. Only with a clear answer to that question can we decide whether it makes sense or not to apply such progress, and how we should resolve the conflicts that will necessarily appear. Should we use nuclear energy? Should we use it for electricity generation? For medical purposes? For military purposes? We have the ability to intervene in human life, but how far are we willing to go? As far as cloning? As far as genetic manipulation for medical purposes? For other, nonmedical purposes? Technology allows us to track people. Should we allow body scanners at airports for security reasons? Should we place a chip on dangerous criminals to control their whereabouts?

These questions cannot be answered by the empirical sciences or by technology. Progress in these fields means that these questions are no longer an academic exercise, but real questions that demand an answer. But they must be answered by ethics. Therefore, the more we progress – in the sciences, the arts and technology – the more we need ethics.

There is another mistaken view of ethics, espoused by those who think that social problems are not ethical problems but simply technical errors, and will therefore be solved by applying better techniques. For example, according to this train of thought, the current crisis is a result of not having used the right techniques and calculations, not having anticipated the risks; the answer therefore lies in

improving our financial tools. A variation on this view is to think that the solution is to strengthen the legal framework in order to limit certain actions and behaviors. Such confidence in the power of science or in the power of the law has no basis, as experience tells us that the cycle will repeat itself, and that any scientific improvement will have unintended negative effects. In the same way, any new legal regulation will lead to new ways of avoiding the law. Paradoxically, cold scientific rationality and the legalistic mind rely purely on voluntarism, without any justification in experience.

Ethics does not disappear in the face of scientific or technical progress – ethics is not that which has still not been answered by science. Quite the contrary, scientific and technical progress always raises new ethical questions. And it is the answers to these questions from the sphere of ethics that lead to scientific and technical tools – generated by human reason – being used or not.

Innovation requires participation from the field of ethics, as all technical, scientific – even speculative – progress raises new questions with an ethical dimension. Technical progress is an aspect of human progress which, as such, includes many other dimensions (cultural, moral, social, etc.). In many cases, technical progress will contribute to comprehensive human development. In these cases, ethics – as we have seen previously – encourages the use of technical progress for human progress. But on certain occasions technical progress will conflict with other aspects of a comprehensive vision of human progress. True progress is recognized when, for reasons related to comprehensive human progress (in other words, for ethical reasons), we are willing to limit the use of such scientific or technological progress because other, more important reasons, justify it. This is another great principle that ethics offers to innovation: “not everything that is technically possible is ethically acceptable.” Innovation cannot be implemented at all costs.

## **4 The Collaborative Nature of Innovation**

Aristotle said that “man is by nature a social animal.” This idea is shared by most thinkers, and reflects something we have all experienced ourselves: human beings need to live with other people. Aristotle said that “contemplation is the highest activity that can make the man,” and from time to time we need our own personal space of silence and solitude. But, generally speaking, we need to relate to other human beings. Only in a social context can human beings realize their full potential.

This social dimension is also present in the field of research and innovation. It appears in two ways. Firstly, from the point of view of motivation, to the extent that a social motivation helps innovation. Secondly, from the point of view of implementation, in finding that teamwork fosters creativity.

Human beings act for different reasons, and motivation theory has offered different frameworks to explain such varying motivations. Here we will group them into three categories.

The first category of reasons is what we might call “extrinsic.” They have to do with the externally-obtained results – mostly tangible, sometimes intangible – which follow our interaction with the environment in which we act. Examples of this are a manufactured product, a financial gain, and obtaining more power.

The second group of reasons is known as “intrinsic,” and refers to those which originate within us. Rewards are not obtained from the environment, but from the same interiority of the subject. Examples of this are the personal satisfaction extracted from doing something we enjoy or consider to be good, or the acquisition of certain skills and abilities.

Finally, the third category of reasons looks at the environment – just like the extrinsic reasons – but is preoccupied with other people and not with tangible things – just like the intrinsic reasons. This last group of reasons we call “social” reasons, and they refer to the reactions our actions cause in other people, particularly those with whom we interact. Examples of this group would be improving social wellbeing or social conditions, or the acceptance or rejection that my actions generate in a particular group.

Most actions are caused by a mixture of all three types of reasons. We seek some external results (most remuneration systems in business are based on economic incentives), while we also prefer to do things we enjoy, and we might even think in terms of what we bring to the wellbeing of others. What varies from case to case is the relative weight each of these reasons has in our decision, and the priority we give to each one when conflicts arise. Should I get rich selling a product that is profitable but socially harmful? Should I quit my job in order to accept another one that pays less, but that I might enjoy more? What if I think it will give me the opportunity to develop a specific set of skills?

Studies on the impact of motivation on innovation also reflect the dynamics between the three types of reasons. Extrinsic motives may have an impact on innovation (Eisenberger and Rhoades 2001; Eisenberger and Byron 2011), but the generation of ideas does not seem to be directly correlated to economic incentives. Rather, experience leads us to believe that innovation and creativity are more closely related to intrinsic factors. Some studies, however, indicate that social motivation reinforces the relationship between intrinsic motivation – and, indirectly, extrinsic motivation – and creativity (Grant and Berry 2011a, b). Thus, concern for the wellbeing and development of others, along with interest in solving other people’s real problems, appears to be a factor that encourages innovation.

Notice that taking into account social reasons doesn’t mean that everybody has to think alike. Sometimes too much emphasis on what is socially acceptable or politically correct can discourage innovation. Arguments such as “things have always been done that way” or “company policy says that we should act in this way and there is no alternative,” can result in a monotonous routine and lower creativity. It is not so much about thinking like others but thinking of others, which will sometimes result in things being done in a different way. However, social motivation is opposed not only to a collectivist vision that forces everyone to act in the same way, but also to a selfish vision that looks only at one’s wellbeing. A

selfish outlook on life always involves a sense of immobility and, consequently, a lack of innovation.

There is another aspect of innovation that is related to the social dimension. The creation process is made easier when it occurs in a social context. Speaking about scientific research, Charles S. Peirce, founder of the American pragmatism, argued that it always takes place in the context of a scientific community (Peirce 1931–1958 – henceforth CP –, 5.311). He was not only referring to the fact that the investigation should be carried out by research teams; his reflection was deeper, focusing more on the conceptual than the physical aspect. Peirce said that even researchers who worked alone always carried out their work in the context of a scientific community, to the extent that their research was based on results obtained by others, and that their own results should be compared with those obtained by others, and put into a context of other scientific discoveries. Thus, as well as relying on a logic of discovery (Turrise 1990; Levin-Rozalis 2010), scientific advancement also requires communication conditions and interdisciplinarity (Nubiola 2005), insofar as the scientific community is made up of researchers from various scientific domains.

Innovation has a social character. In contrast to the opinion that innovative ideas come from great individual minds, an alternative theory is becoming more accepted, stating that innovation also emerges from collaborative webs in businesses, even involving other entities outside the company (Sawyer 2007).

Consequently, it is convenient that companies create the necessary conditions – formal and informal – to encourage an environment that favors innovation. In the changing environments where companies operate nowadays, it is necessary to replace the more hierarchical and closed organizational structures with more open ones, in the form of networks and communities (Hildreth and Kim 2004). Ease of communication and an ample diversity of origins, experience, and training among members of the group are factors which contribute to the promotion of innovation.

## 5 Ethics and Innovation: Looking at Things in a Different Way

We mentioned a moment ago that innovation involves certain “logic of discovery.” Peirce can also help us with this point. Challenging deduction and induction – two traditional forms of reasoning –, Peirce proposes a third option which he calls abduction. That, in his opinion, is “the only kind of argument which starts a new idea” (CP 2.96).

Abduction involves combining a data set in a new or different way, in order to discover a relationship between the data that was not previously evident, and proving that it makes sense. In contrast to induction, it is not about finding an overall conclusion from a series of individual cases, but explaining a particular case. In contrast to deduction, it is not about finding a rule that attempts to draw upon certain premises, but proposing an explanatory hypothesis which in itself is not necessary, but merely a possibility. By way of example, abduction is the mental

process that Sherlock Holmes follows to discover who is the murderer: a working hypothesis is quickly formulated following a series of events (“the murderer is the butler. . .”) that explains why all these facts appear simultaneously.

Abduction always contains an element of surprise since hypothesis is mere conjecture proposed as a plausible explanation of facts. One may achieve a discovery of this sort as a result of an intellectual process, and, if this happens, it takes place “like lightning,” and the thought process “is very little hampered by logical rules” (CP 5.117). Abduction is therefore a cerebral process, an intellectual act, a mental leap, that brings together things that one had never associated with one another (Reichertz 2009).

When considering the situations companies find themselves in and the decisions facing managers, it is good to remember that these problems can be analyzed taking different criteria into account. It is clear that in a given situation we must ask questions about financial issues: How much will it cost to start this project? How much will I earn from this product? Do I have the money for this investment? But it would be a mistake to think that all the company’s problems come down to economic issues. There are other factors that must be taken into account that people with an economic viewpoint are not sensitive enough to consider. These “other” factors that should also be present when making decisions concern the personal and social acceptance of various courses of action, and respect for ethical principles and values.

We did not invent these criteria; they are not created subjectively. They are dimensions, aspects of reality that are there. Making a good decision means taking all of these aspects into account and giving them the importance they deserve. Similarly, if we only consider one dimension of reality, it is logical that the decision made will be incorrect. If we focus only on the economic conditions, however sophisticated the calculations may be, the decision will be incorrect. It is enough to think about the causes of the financial crisis we have suffered in recent years to realize how important it is not to make decisions based only on financial aspects.

Adding an ethical dimension to the problems faced by managers means, in many cases, completely changing the way we focus on the problem, and therefore the way in which we try to solve it. In this regard, it is important to make two things clear. The first is that “there are no ethical problems; there are business problems that have an ethical dimension as well as an economic and psycho-sociological dimension.” The second is that the ethical dimension will not be important in all cases. However, experience dictates that “when the ethical dimension is important, it is very important” and, therefore, when faced with any problem it is a good idea to ask oneself whether there are any other aspects to be taken into account apart from the economic ones, because, if there are, it is better not to forget them. For these two rules of action to be effective, it is necessary firstly to show sensitivity towards ethical issues, and secondly, to have the right knowledge in order to deal with these issues as strictly and as seriously as economic issues are addressed. Ethics also has a scientific side, although it is a distinct science which uses different methods from the empirical sciences.



Some proposals, such as Patricia Werhane and her concept of “moral imagination,” have influenced this idea of expanding the perspective of the analysis of business problems. Moral imagination, according to Werhane, “helps one to disengage from a particular process, evaluate that and the mindsets which it incorporates, and think more creatively within the constraints of what is morally possible” (Werhane 2002: 34).

Introducing ethics in the decision-making process involves introducing a new angle, a different, innovative point of view, which means dealing with problems not only in a different way, but also more thoroughly. Similarly, moral imagination should be a fundamental ingredient in the way that people come to reason about business and in the way that managers make decisions (Werhane 1998).

Besides introducing something new in the way decisions are made, it also presents a different way of understanding what the company represents. The economist view behind most of the company’s theories understands the company as a more or less sophisticated mechanism of processes aimed at maximizing shareholder value. As we have suggested here, ethics, which places emphasis on the development of people, necessarily introduces a radical change in the conception of the company. It also questions whether the company’s goal can be reduced to the interest of one of the parties, and whether economic efficiency is the ultimate reference point by which to measure the company’s performance (Fontrodona and Sison 2006). On the other hand, these ethics portray the company as a community of people seeking both personal development and the development of the societies in which they operate. People must come before resources; economic efficiency is a necessary but insufficient condition for good business management. Development and personal excellence are common goals of business activity, not the generation of profit, which is a necessary means, but not an end in itself. Investor interest cannot be the only or the final reference of business activity.

In recent years we have seen some proposals that are in line with this change in model. The proposal of the stakeholders’ theory by Edward Freeman (1984), was the first attempt to break the monopoly of the company’s shareholder view. Recently, we have had other proposals of a groundbreaking nature that vary significantly compared to the traditional model. Porter and Kramer (2011) have coined the term “shared value” to indicate that “societal needs, not just conventional economic needs, define markets” (2011: 65). For these authors, the change is to stop viewing social aspects as simply peripheral matters of the company’s activity and integrate them into the company’s value creation proposal. Although this view shows certain progress, to my understanding, it is not really a change in the model. Basically, the company still thinks in economic terms but the maximization formula becomes more complex by adding a new variable, namely social aspects.

There are other proposals that, in this sense, are more innovative and more groundbreaking. For example, in the legal field in the United States they are promoting the figure of Benefit Corporations, a new class of corporations that are required to create a material positive impact on society and the environment, to expand the duties of directors towards the non-financial stakeholders as well as the

financial interests of shareholders, and to meet higher standards of accountability and transparency (Clark and Vranka 2012). These proposals do not only involve a change in the legal form of the corporations, but also the purpose of the company and, therefore, the responsibilities of the managers.

Another proposal is that of Muhammad Yunus (2007a) and his idea of “social business,” which he describes as “a cause-driven business,” where success is measured by the company’s impact on people and the environment rather than the profit generated. Social business is about making a complete sacrifice of financial rewards from business. So much so that in a social business, the investors can gradually recoup the money invested, but cannot take any dividend beyond that point. Purpose of the investment is purely to achieve one or more social objectives through the operation of the company, but no personal gain is set aside for the investors.

Social business is not about the accommodation of new objectives within the existing framework, but implies a total shift from the old framework of business. Yunus concludes that “soon a good part of business genius, creativity and innovation of the world will devote itself to this new goal of social good. A whole new stock market with its new indices will thrive in the financial capitals of the world motivated by this new incentive. It will accelerate the process of poverty eradication to an unthinkable pace using the same market mechanism which accelerated the global prosperity for the rich in the first place” (Yunus 2007b). Elements that already exist, when organized in a different manner, give rise to a new and surprising way to understand the company.

## 6 Summary

Contrary to what it might seem at first sight, ethics and innovation are two concepts that are closely related. Beyond the ethical issues that may arise in relation to the processes of research and development, the relationship between ethics and innovation is more profound and positive.

The first principle of ethics calls for doing good. It involves a deep innovative drive, as there are many ways of doing good, and people can always aspire to do better and to do better things. Moreover, ethics also provides scientific and technological innovation with reference points for advancement in knowledge, as the technical possibility of doing things does not replace, but rather forces us to question ethical adequacy and political expediency.

Innovation, like ethics, has a social dimension. Interdisciplinarity, the exchange of ideas, in a free environment and oriented toward the pursuit of knowledge, promotes creativity while avoiding getting caught up in a utopia that cannot be put into practice.

Ethics is, ultimately, innovation, because it helps address problems from a new perspective. It adds new dimensions which improve decision-making processes. Above all, it inspires a reflection on the nature and purpose of business more

aligned with the sensitivity and the demands of modern society. The value maximization model is now obsolete. We need an innovative business model adapted to the twenty-first century.

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# Humanitarian Perspective on Social Innovation

Michael Hopkins

## 1 Introduction

The business of business is business. So why should corporations be involved in development? The main proposition of this chapter is that Governments and their international arms, the international agencies grouped under the umbrella of the United Nations, have failed in their attempts to rid the planet of under-development and poverty. So saying, as development has to take place and given that the private sector, particularly large corporations with their power and economic strength, have now been given their head, then should the private sector take much more responsibility for development than ever before?

The paper will develop the argument that CSR provides a platform for corporations to be involved in economic development in ways that can be much more powerful than has been thought of hitherto. Economic development (also now transfigured somewhat curiously into sustainable development) means improving the well being of disadvantaged people wherever they may be. Most, of course, can be found in developing countries but many can also be found in developed countries or oil-rich countries – the deep south of the USA, the north west of England, the south of France around Marseille, the poor in Turkmenistan, Uzbekistan; refugees in Saudi Arabia etc.

## 2 The Meaning of Development

‘Development’ itself is a much aligned term. Until the late 1960s, development was considered by most economists to be the maximisation of economic growth. It was really only in 1969 that Dudley Seers<sup>1</sup> finally broke the growth fetishism of

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<sup>1</sup> This author was privileged to have had Dudley Seers as boss, friend and colleague during his own years at IDS at U f Sussex and later at the ILO. On the meaning of development see: <http://www.ids.ac.uk/files/dmfile/themeaningofdevelopment2.pdf>. Accessed 7 Aug 2012.

development theory. Development, he argued, was a social phenomenon that involved more than increasing per capita output. Development meant, in Seers's opinion, eliminating poverty, unemployment and inequality. Seers work at the University of Sussex was quickly followed by concerns with structural issues such as dualism, population growth, inequality, urbanization, agricultural transformation, education, health, unemployment, basic needs, governance, corruption etc. These all began to be reviewed on their own merits, and not merely as appendages to an underlying growth thesis.<sup>2</sup>

Despite Seers vigorous efforts, including the setting up of the influential Institute of Development Studies at the University of Sussex in the 1960s, Governments and their international arms, the international agencies grouped under the umbrella of the United Nations (which also includes the Bretton Wood's institutions the World Bank, International Monetary Fund and their newest recruit – the World Trade Organisation) have failed in their attempts to rid the planet of under-development and poverty. After half a century and \$1 trillion (1,000 billion) in development aid, more than two billion people still live on less than \$2 a day. Indeed, some of the poorest economies are going backwards.<sup>3</sup>

### 3 Can Corporations Fill the Gap?

Many corporations have adopted CSR, or variants thereof.<sup>4</sup> This adoption means that corporations are starting to address issues that, hitherto, they have ignored or, at best, paid lip service to.

However, there is no doubt that nation states will continue to be the power of last resort. Simply because they have the power to tax and allocate huge resources, they can veto MNEs more than the other way around (in industrialised countries at least) and they can pass laws that MNEs, at best, can only hope to influence but not create and implement. A further aspect is also worth re-iterating, and that is that one cannot compare revenues or sales of a company with the GDP (or GNP) of countries. Like with like must be compared. GDP is value added and the parallel with companies is revenue less costs. The main indicator of the latter is, of course, profits.<sup>5</sup> Yet even one company, Microsoft, for 2011, achieved revenue (sales) of \$70 billion – more than the \$43 billion that the world's pre-eminent development agency, the World Bank, lent in the same year and dwarfing the less than \$US1bn development funds of the United Nations.

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<sup>2</sup> See for instance the discussion in Michael Hopkins and Rolph Van Der Hoeven (1983).

<sup>3</sup> Simon Caulkin (2005).

<sup>4</sup> Michael Hopkins (2007).

<sup>5</sup> Not just profits since MNEs can allocate many 'costs' as they will – large payments to shareholders, director's remuneration, investment in assets both physical and human etc.

A large portion of world trade – figures vary but some estimates put this at 40–50 % – is conducted either within the walls of MNEs or at their behest. Their role in development has only recently been acknowledged since only until relatively recently corporations were thought to have as their main focus the maximisation of corporate profits. Surprisingly, corporations have been generous in philanthropic giving – for instance witness the large amounts dedicated and raised for the victims of the Asian tsunami. Around \$US400 million was donated by corporations in the USA in only a few weeks in early 2005.<sup>6</sup>

Size alone shows that MNEs can be a powerful engine for development if, of course, this can be shown to be in their interest *and* they have the wherewithal to go about development. Both topics will be discussed below, the former under the business case for MNEs in development and the latter under CSR.

Another curious fact is that the USA, for instance, only spends 0.16 % of its GDP on development and much of that goes to Israel and Egypt. Curiously, the US public are convinced, in general, that its Government spends 25 % of its budget on development aid! When Mayor Giuliani was elected for the first time in New York over a decade ago, he wanted to turn the UN building into an hotel. His aides pointed out very rapidly that if he did then the east side of New York would have to close many of the existing hotels and restaurants because the business from the UN was so important. Rough calculations show that for each dollar spent by the US on the UN, it receives \$US3 back in spending from all the conferences and international travel involved in the UN and its many meetings. Further, it was pointed out to Mayor Giuliani that the budget of the New York health department was bigger both in terms of people and expenditure than the United Nations overall budget serving over 200 countries around the world!

## 4 New Way Could Be CSR

Given the rise in prominence of CSR, is there now more mileage for corporations to be more involved in development than hitherto? There is more interest from corporations than even a decade or so ago in being involved in development. Although much of this interest to date has been in philanthropy (charitable giving) rather than development per se. As discussed next, development is a wider concept than purely philanthropy. Development projects are much more complicated than charitable donations that hand over cash directly to a school or hospital however welcome these seem to be. Development means working with local partners as well as public institutions to create sustainable projects. Much of development, and probably the most effective albeit unsung, is purely creating capacity since the best development projects are those which help people to help themselves.

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<sup>6</sup> According to tally on the Web site of The Chronicle of Philanthropy trade newspaper.

Clearly, corporations are not experts in ‘development’ and tend to make many of the mistakes that were made in the post-Second world war crusade against under-development by aid agencies. Stories are legion of companies providing direct grants to projects that are unsustainable or simply allow host Governments to feather the nests of the most corrupt among them. For instance, Coca Cola funded a hospital in Mozambique, it was beautiful, modern, latest equipment etc. When Coca Cola executives returned to the site a few months later the hospital was being used as housing for the many homeless people and much of the equipment had been ‘sold’.

Moreover, given the power and size of corporations, and the private sector, in general, coupled with the failure of public institutions, corporations *must* be involved in development. Clearly, to move the case forward, large corporations must also see that there is a business case to be involved in development. The business case for MNEs to be involved in CSR has been made.<sup>7</sup> But involved in development too?

To suggest this case let’s look at CSR in more detail. The attraction of CSR is that it is a systems approach, according to Clark et al. (1975) which states that the problem is defined and the systems boundary delineated so that all important influences on resolving the problem are taken into consideration to the issue of business in society. Many of the criticisms, as will be seen, stem from problems with concepts and definitions. Business, in general, is more concerned with staying in business and being profitable than with such seemingly academic discussions. This is unusual, since business is usually a stickler for detail – a company can hardly prepare accounts, sell pharmaceuticals, computer software, copper tubing or whatever without knowing exactly the definition of the product they are selling.

Yet, somehow, management concepts are manipulated at ease to fit in with one pre-conceived notion or other that will please the chairman or the companies’ shareholders. This translates into a confusing set of definitions for the same concept. For instance, some define CSR as a systems approach taking into account both internal and external stakeholders, while others define it as purely voluntary. This confusion leads to a proliferation of terminology in the business in society area – corporate sustainability, corporate citizenship, corporate responsibility, business responsibility, business social responsibility, business reputation, the ethical corporation, and so on. However, without a common language we don’t really know that our dialogue with companies is being heard and interpreted in a consistent way. These flaws lead some companies to consider CSR as purely corporate philanthropy while others dismiss the notion entirely. But there are some such as Shell, BP-Amoco, Co-operative Bank etc. that see CSR as a new corporate strategic framework.

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<sup>7</sup> See for instance, Michael Hopkins and Roger Crowe (2003).

The definition that is appealing is the stakeholder definition:

CSR is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. The aim of social responsibility is to create higher and higher standards of living and sustainable development, while preserving the profitability of the corporation, for its stakeholders both within and outside the corporation.<sup>8</sup>

Indeed, this definition begs the question what is meant by ‘ethical’ and what is meant by ‘stakeholder’. Without going into a long discourse on ethics, ethical behaviour is clearly in the eye of the beholder and, like beauty, we know it when we see it but find it difficult to define. The question of who the stakeholders of a company are has also sparked intense debate but, at minimum, they include those *within* the company: the board of directors, shareholders, investors, managers and employees; and *outside* the company: suppliers, customers, the natural environment, Government, and local community.

The definition, of course, does not link directly into why corporations should be involved in development. Although it does note that the key stakeholders outside of a company – the Government, the environment, the community, its customers and suppliers – must be involved as much as its own employees or shareholders. So why should corporations be involved in development?

## 5 Corporations Have Always Been Involved in Philanthropy (Development?) So What’s the Difference with CSR?

Corporations have always been involved in one aspect of development, that of philanthropy. One of the leading thinkers in corporate strategy even believes that CSR is simply philanthropy. Michael Porter wrote<sup>9</sup> *Corporate philanthropy – or corporate social responsibility – is becoming an ever more important field for business. Today’s companies ought to invest in corporate social responsibility as part of their business strategy to become more competitive.* However, the view expressed here is that even Michael Porter is not on the right track. When an internationally respected management guru mentions philanthropy and Corporate Social Responsibility as being the same, it is hardly surprising that business leaders, academics and politicians confuse them. Corporate social responsibility (CSR) is **NOT** the same as corporate philanthropy.

As stated above, CSR is a system-wide concept that touches all the stakeholders of a corporation. CSR, as defined here, does not concentrate on only one stakeholder whereas philanthropy, “the practice of performing charitable or benevolent

<sup>8</sup> Michael Hopkins (2003) updated since by author see also [www.mhcinternational.com](http://www.mhcinternational.com). Accessed 7 Aug 2012.

<sup>9</sup> <http://www.eventnews.info/general/you-dont-get-giving-till-you-get-giving/>. Accessed 7 Aug 2012.



actions” does. Most, if not all, philanthropy is devoted to items that Governments should be doing [health grants to developing countries, help to the handicapped, drugs for HIV/AIDS for example]. Their failure should not be the preserve of corporations. However, since Government is one of the stakeholders of a corporation there is nothing to stop corporations offering their management and technical skills to Government to improve or introduce programmes to help vulnerable groups. Corporations exist to make profits. There is nothing wrong with that, only the way profits are made is the concern of CSR practitioners. Philanthropy does little or nothing to help companies make profits, while *all* CSR activities are linked to improving a company’s bottom line.

### **5.1 CSR Is Before Profit**

One of the confusions over defining and acting upon corporate social responsibility (CSR), according to Professors Young-Chul Kang and Donna Wood of the Katz school of business in the USA, results from a flawed assumption that CSR is an *after-profit* obligation. This means that if companies are not profitable they do not have to behave responsibly! They say *‘in the extreme, if all firms are affected by severe economic turmoil or are run by lazy, short-sighted managers, then societies would have no choice but to accept pollution, discrimination, dangerous working conditions, child labour etc.’*

Embedding socially responsible principles in corporate management is what the two authors call a *‘before-profit’* obligation. They cite corporations who embody these ideas and see the trend accelerating. For instance, in 1950 Sears’ CEO listed four parties to any business in order of importance as ‘customers, employees, community and stockholders’. For him, profit was a ‘by-product of success in satisfying responsibly the legitimate needs and expectations of the corporations’ primary stakeholder group’. By the 1980s, Levis even repurchased its stock in the public market under the rationale that stockholder’s interests might limit the firm’s effort to be a socially responsible organisation. And, Migros, of Switzerland, funds its cultural and social programmes not by profits, but by gross sales, so that profitability does not influence the firm’s level of involvement.

### **5.2 CSR Is Sustainable, Philanthropy Is Not**

CSR is sustainable in that CSR actions become part and parcel of the way in which a company carries out its business. Its links to the bottom line of a company must be clearly laid out simply because, if it does not contribute to the bottom line, it will eventually be rejected by hard-nosed directors and shareholders.

Philanthropy is whimsical. It simply depends on the whims of the company directors at a particular time. Many NGOs receive their funds from corporations

and carry out excellent work. Rather like Heineken beer, most NGOs carry out programmes that other programmes (mainly Government ones) can't reach. But NGO interventions are based on a scatter gun approach and are *spotty*. They can intervene wherever they like. Governments, on the other hand, have to intervene everywhere or nowhere. It is better, much better, for a company to assist a Government in making its contributions either nationally, or internationally, more efficient and appropriate. This ensures widespread, and even coverage.

### 5.3 *Is Sponsorship Philanthropy?*

Corporate sponsorship is different from corporate philanthropy. Sponsorship is a business tool used by companies as part of their communication, advertising or PR budgets to associate the corporation's products and services with dynamic images for their customers' consumption. Sponsorship usually requires a service, or action, in return for financial support, so this frequently has clear marketing benefits and is therefore directly linked to a company's bottom line. Sometimes, this may indeed be for good causes such as supporting UNICEF to associate the company's products with reducing child labour around the world. Philanthropy does not necessarily ask for a definite service or action in return and it is certainly not usually based on a business relationship or partnership. On a personal level, this is like responding favourably to the postal requests made by the major charities. Yet the line between philanthropy and sponsorship is difficult to draw and there are many grey areas – but better to have a clear sponsorship potential than a fuzzy charitable action that is more than likely to be unsustainable.

In concluding this section, here are some actions that could be considered:

1. Companies should abandon all philanthropy which is outside of a CSR framework or sustainability.
2. Companies should work hand-in-hand with Governments to promote economic and social development.
3. Government should help those people who cannot be helped to help themselves through a subsidy. Government should look after vulnerable groups and not just await the whim of corporate philanthropy: if a charity fails because a company fails then this is a disaster for all the vulnerable groups and people concerned.

In the end, a company that is philanthropically generous but is not aware of, or engaged in, its broader CSR role will not be in business for very long. In this I agree fully with one point of Michael Porter:

If companies are just being good and donating a lot of money to social initiatives then they will be wasting shareholders' money. That is not sustainable in the long-run, and shareholders will quickly lose interest.

## 6 But Why Corporations and Development?

Obviously one can define what one wants, and CSR has been defined in many ways. Yet the key issue for corporations is why should they be interested in *development* as defined above? A sub-issue is if development is so important for companies why go the CSR route?

The subject is controversial and even supporters of CSR draw the line at companies being too greatly involved in development. Indeed, even prominent development experts such as Paul Streeten, argue that companies are best left to their own devices. Streeten says: *only companies operating under near monopoly conditions could accept social responsibilities and continue to remain in business, unless they were able to put sufficient pressure to bear on their suppliers, competitors and contractors to follow suit.* This view is supported by right wing think-tanks such as the Institute for Economic Affairs in the UK, and its Director General, John Blundell, wrote: *when it comes to issues vital to business, such as deregulation or liberalization, CSR advocates are uniformly silent, leaving one with the sense that the concept is nothing other than the ashes of the debunked and defunct view that the state should direct the economy.*<sup>10</sup>

As CSR gradually becomes embedded in large companies, the mixture of prediction and advocacy I made 15 years ago in my book *The Planetary Bargain* are gradually being achieved, much quicker than I could have imagined even those short years ago. In my book, my thesis was that CSR represents the decent treatment of stakeholders by the company. Nothing revolutionary in that but the main point was that beggar thy neighbour policies by companies racing to the bottom to site their production in the location with the lowest common denominator in terms of wages, worker conditions, shoddy products, outrageous demands on the environment, willy nilly corruption of local officials, disrespect for the human rights of its workers and local communities would simply be a poor strategy.

The obverse strategy where CSR was observed would mean that everyone would benefit – consumers would be able to earn adequate wages to purchase the products they produced, the environment would improve and create less drag on the company and its surrounds, improved governance would reduce transaction costs, human rights policies would provide dignity to workers and communities and improve productivity in local outlets and facilities etc. Thus companies who refused to follow the socially responsible path would be ‘outed’ by a massive response from the invisible hand of consumers all over the world. This response would be fuelled by globalising technologies and the spread of information whereby few secrets can be held for long, even in the remotest locations.

The CSR route can be attractive simply because the CSR movement has shown companies that their responsibilities do not lie simply in making profits, what is important is *how* profits are made. Once responsibility is accepted, the anticipation is that companies will move to *Corporate Social Development*. Such a concept is

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<sup>10</sup> John Blundell (2004).

more action orientated than CSR per se, and includes social actions for all stakeholders. Note that my CSR definition has a wide definition of social that also includes environmental, financial, governance and economic concerns as well as those that are also normally considered 'social'.

There are at least nine benefits from CSR that will both improve their bottom line *and* help to resolve the problem of under-development and poverty.

CSR benefits from corporations being involved in development are:

1. Reputation is improved since it is built around intangibles such as trust, reliability, quality, consistency, credibility, relationships and transparency, and tangibles such as investment in people, diversity and the environment.
2. Access to finance is greatly improved as socially responsible investment (SRI) becomes more and more important. The creation of new financial indexes is also supporting these trends for example FTSE4Good and the Dow Jones Sustainability Index (DJSI) are publicly ranking the major international companies according to their environmental and social performance.
3. CSR is an important factor for employee motivation and attracting, motivating and retaining top quality employees.
4. Innovation, creativity, intellectual capital and learning are helped by a positive CSR strategy. Given that 80 % of the value of many new economy companies is now their intellectual capital its preservation through the positive treatment of internal stakeholders is becoming more and more necessary.
5. Better risk management can be achieved by in-depth analysis of relations with external stakeholders. Factors such as new technologies, changing societal, regulatory and market expectations, drive companies to take a broader perspective when analyzing the range of risks they may encounter.
6. CSR positively helps in the building of relationships with host governments, communities and other stakeholders and can be of vital importance should the company encounter future difficulties with regard to its investment decisions. CSR gives a company a 'competitive' advantage over companies with poorer images.
7. Greater corporate social responsibility is linked to the heightened public debate on the benefits and shortcomings of globalisation and the perceived role of business in this process. Those companies perceived to be socially responsible are, more and more, those companies of consumer choice.
8. The energy, technology and management skills learned and honed in large companies are increasingly being made available for the management of poverty alleviation through such instruments as the UN's Global Compact, Business in the Community, private and public partnerships etc.
9. There is a growing consensus of a *Planetary Bargain* whereby beggar-thy-neighbour policies of companies through using the cheapest labour, the most polluting industries etc. are neither in the interests of the companies concerned nor their consumers.

Of course, there are costs and limitations of the CSR approach and the idealisms behind the approach can also hinder its spread as hard-nosed businessmen try and

squeeze every ounce out of cost cutting and profit maximization. But, as the classic study *Built to Last*<sup>11</sup> has shown, CSR companies perform better for shareholders in financial and market terms, carry less debt, and are long stayers.

## 7 What Are the Main Actions that Corporations Could Take to Enhance Corporate Social Development?

There are actions both within the MNE itself touching its internal stakeholders and actions outside of the MNE reaching toward its external stakeholders. Most, if not all, of a MNE's actions affect development in some way. Some more than others, of course. For instance, good governance of a company written and applied in a code of conduct for boards of directors will impact development more marginally than direct community level interventions. Although, clearly, a company policy at board level to assist development would be no bad thing.

An MNE looking at its involvement in development could approach the issue in one or more of three main ways. It could:

1. Simply say that it is focusing on profit maximisation for its shareholders and claim that development is none of its business.
2. Work on a partial approach such as with the UN Global Compact and support that process
3. Engage fully with its stakeholders and explore options for furthering development efforts while ensuring that the actions it takes are fully in line with preserving shareholder value

The argument in this chapter is that the third approach is in the long-term interest of MNEs and, of course, is crucial for development to move faster than it has to date.

So, what could the key areas of MNE involvement in development be?

### 7.1 *Development Actions Inside the Company*

1. The adoption of a fully-fledged approach to CSR within a company has a number of benefits. The demonstration effect of good internal CSR policies should not be forgotten even though these are indirect and hard to measure. CSR policies inside a company can be a lightning rod for other companies both in the location where the MNE is based as well as its overseas locations. CSR also makes good business sense in multifarious ways. For instance, consumers develop a higher degree of identification with companies having good policies and practices.

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<sup>11</sup> James Collins and Jerry Porras (1994).

2. Companies which maintain environmental and health standards; propagate transparent business practices; protect human rights at the workplace; and work against corruption are widely respected and appear as more attractive to shareholders, reduce the possibility of industrial action and maintain a working environment that leads to higher worker productivity.
3. A strong anti-corruption culture needs to be built within the organisation through active support from the senior management. Today, anti-corruption is widely discussed both inside companies and in their dealings with the outside world. Companies, too, see the overwhelming advantages of good governance in the countries where they work overseas and, in particular, the advantages of working with a Government that is implementing anti-corruption policies. Much corruption occurs between external sources of finance and the host Government. Thus it takes two to tango on the anti-corruption front. The line between corruption and accepting small gifts or hospitality is sometimes blurred. On the larger stage, many companies are almost forced to pay bribes of kick-backs to win contracts. This is not only the case in developing countries, industrialised countries have also not been blameless as we know with the Enron scandal, the Credit Lyonnais scandal affecting top Government officials in France, Volkswagen in Germany and so on. Even a single dubious payment can come back and haunt a company down the line. Just like payments to blackmailers, once started, the web of deceit and intrigue can be hard to break. Thus, each company should have a set of guidelines and business principles which must be followed by all staff. This code of conduct needs to be followed at all national and international offices which the company may have. Local business practices and culture must not influence or change the organisation guidelines. The system of internal communication and training has to be strengthened to keep all staff aware of the policies and principles.
4. Create a vision statement of how the MNE can (and does) assist in development. This does not mean simply listing a number of philanthropic activities that the company intends to carry out. Development requires careful thought on how, once an injection of funds has been made, development initiatives can be sustainable i.e. continue without the requirement for additional funds. Too often, company development initiatives have been dominated by generic global initiatives that are not tailored to suit specific circumstances.

## ***7.2 Development Actions Outside the Company***

1. Private Sector Participation for Poverty Alleviation: There is not an awful lot a company can do to reduce national poverty itself.<sup>12</sup> However, working with National Governments to work out how best the private sector can stimulate

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<sup>12</sup> Global Compact (2005).

economic growth for poor people is in the interest of both the Government and the company. In addition, public-private partnerships for tackling man-made or natural disasters can also speed-up reconstruction activities.

2. Improving people's skills in a myriad of ways is undoubtedly the best way to create development. Education, training, skill development, capacity development are all aspects of the same issue – improving human skills. MNEs with their wealth of experience in in-house training, have an enormous amount to contribute. At minimum MNEs could be involved in national training policy to ensure the private sector needs are incorporated in Government training plans. It may be surprising to some but many Government training schemes in developing countries have little contact with private sector needs. MNEs can also set up, perhaps in partnership with others, courses and organisations to create sorely needed skills.

In the real world, this can be best illustrated by the *Intel® Teach Program* ([www.intel.com/content/www/us/en/education/k12/intel-teach-ww.html](http://www.intel.com/content/www/us/en/education/k12/intel-teach-ww.html)). For over 10 years Intel has helped teachers around the world integrate technology into classrooms and promote student-centered approaches to engage students in learning. Clearly in Intel's interest and why not – as it prepares students with critical skills for success in our digital world. Today, more than 12 million teachers have been trained through Intel Teach in 70 countries thereby preparing the next generation to learn, lead, and succeed in the global economy. This was mainly possible by creating a network and coalition of governments, NGO's and private firms.

I have often recommended that any project between rich and poor world should have a 3M dimension, i.e. Macro (the Policy Dimension), Meso (Institutional support also known as Capacity Development) as well as the often seen Micro Dimension where we see the project on the ground. Involving government, as the Intel Teach Program does, is essential to get good results and replicate the experience right through any given country.

3. Small & Medium Sized Enterprises (SMEs) are where most new employment occurs in developing countries. MNEs have a role to play either directly through assisting SMEs to improve their management, marketing, technological and financial skills. Or indirectly through ensuring that SMEs as suppliers are not subject to complex contractual paperwork and, once hired, are paid rapidly.
4. Helping people to help themselves is a key mantra to encourage development. Assisting budding entrepreneurs, or even existing ones through mentoring can help launch new businesses, improve existing ones or even assist Government departments to improve their efficiency.
5. Essential, of course, is to invest in developing countries and work toward allowing their exports to be freely imported into the rich countries – a huge and controversial issue that will play out for many decades to come. Will these new imports hurt local markets in industrialised countries where the MNEs and many of their staff are located? Again, an issue that is being discussed vigorously in development literature right now. The author's view is that the rich countries will innovate quicker than the LDCs simply because of their

higher level of skills and will continue to move into brain intensive knowledge industries. As the LDCs start to move into these markets too, the economic growth that is being created will allow room for many and there is no particular reason for unemployment to rise drastically, but that is another story.

6. To many, CSR is simply working with the local community. Clearly, improving local conditions is in the interest of MNEs to enhance reputation and preserve harmony. Assistance to local communities can also help to improve purchasing power that leads to an expansion in the market size. But these actions are not as easy as they seem on the surface. Three questions not easily answered are: Where does the role of the MNE start and stop vis a vis the local community? What are the key issues to be involved in? Should MNEs be involved in human rights and, if so as many think, what are the limits?
7. Philanthropy has always been a big part of MNEs actions in LDCs. But few philanthropic actions are sustainable – not to be confused with environmental sustainability – in the sense of once the project has finished will the project and its related activities continue? As discussed above, this author is very skeptical of philanthropic activities. The test of a ‘philanthropic’ project is that the intervention must lead, as far as can be judged, to a sustainable i.e. developmental result.
8. Development assistance is key in many countries. This would best be done with existing development agencies such as the UNDP who have vast experience in development. Clearly, MNEs should not replace the UN nor Government’s own efforts. Simply, the power and wealth of MNEs needs to be harnessed in positive development efforts. Should these efforts be in addition to the taxes that MNEs pay anyway? There is no easy answer. But many taxes that MNEs pay in developing countries are misused. A democratic Government will tend to use tax revenue in ways that benefit its electorate so as to ensure re-election next time around. Yet most Governments in developing countries are not democratic. So should MNEs be involved in those countries and, if so, what should they do exactly? First, MNEs should evaluate their position based on existing relations with the Government. Clearly, if a host Government simply says how we use your taxes is none of your business then the MNE can decide whether to stay or leave. Second, where possible the MNE can, at least, assist the Government in ensuring that tax revenue is used effectively to promote development. MNEs have vast experience in tax issues and could well lend some of this experience to develop capacity (better governance) within Government. Third, when MNEs carry out their own development projects these should draw upon the development experience available in NGOs and local UN offices such as the UNDP. Fourth, MNEs are not the Government and obviously cannot, nor should not, carry out the major programmes of the Government such as education, health, security or employment systems. But MNEs can be involved as an agent of positive change through lending their expertise to improving efficiency in Government programme delivery. Fifth, if more than one MNE is involved in



a developing country they should work together to ensure increased efficiency of development programmes in the host country.

9. But how much will all this cost? How much of its time and money should an MNE invest in any of the above-mentioned activities? There is no easy answer to this question. It is worth bearing in mind, however, that an MNE is involved in many of the above-mentioned processes as much as by default than a clearly thought out strategy. An MNE has to be continually involved with the host Government negotiating all sorts of deals from land acquisition to taxation to import and export. Often these discussions will influence Government policy and changes will be made. So what I am suggesting here, at least as a first step, is to place the myriad of discussions with Government in an overall development framework. The more transparency the better since the MNE will then be seen to be working in the country's best interest rather than colluding in smoke-filled darkened rooms. Thus, the MNE strategy in any particular country could be framed with a clear idea as to the benefits and costs of its intervention in terms of its own bottom line and, also, in terms of its benefit to development. Some of these are highlighted in the table below (Table 1).

In a nutshell, what could a ten point programme for MNEs involved in developing countries (and just about all MNEs are involved either directly or indirectly) be?

### ***7.3 Inside the Company***

1. Develop a CSR strategy that includes an overall vision for the company's place in development. Decide what benefits and costs emanate from involvement in international initiatives such as the UN Global Compact, SA8000, ISO9000 etc.
2. Investigate whether the company is paying a 'living wage' within the company and that it is paying its main suppliers properly and on time. If not, why not and then ask what steps should be taken to move toward this.
3. Work with trade unions to ensure proper environmental and safety regimes within the company.
4. Monitor and evaluate the company's anti-corruption policy on a regular basis.

### ***7.4 Outside the Company***

5. Work with the Government in host country to see how the Government's anti-poverty policy can be enhanced. Work with local UN and NGO organisations to increase efficiency of development initiatives, including ensuring its tax contributions are used wisely.
6. Be pro-active in lending in-house training skills to a wider public.

**Table 1** Corporate social development in LDCs

Actions	Benefits to MNE	Disadvantages to MNE	Benefits to development
1. Anti-corruption culture embedded throughout organization	(a) Reputation enhanced (b) costs of delivery of services and products reduced	More difficult to win contracts	Increased efficiency as poorly managed projects are eliminated and good projects properly monitored
2. New investment in LDC	1. Take advantage of cheap labour 2. Closer to raw materials	1. Increased costs of ex-patriate managers and local training 2. Increased costs in management 3. Need to deal with host government and local institutions	1. Increased employment and incomes 2. Enhanced external trade position
3. Improving community relations	Reputation enhanced	1. Increased costs 2. Increased criticism if badly designed	Well designed projects can create sustainable development
4. Philanthropic actions	Reputation enhanced	1. Increased costs 2. Will need to continue pay-offs if project design is non-sustainable	One off actions are rarely sustainable
5. Development assistance	International reputation enhanced	1. Accused of becoming a new United Nations 2. Entering unfamiliar territory	1. Obtain expertise from practical managers 2. More resources available than from international public sources 3. Less strings tied to development assistance
6. Capacity development	Reputation enhanced	Few, if existing skills are used but there is management cost	Sustainable training can never be lost, essential for development

7. Assist the creation and improvement of SMEs through the setting up of an advisory office and/or joining with other private sector or NGO partners.
8. Be involved in mentoring budding entrepreneurs.
9. Invest so as to support wider development objectives of host country.
10. Ensure community or philanthropic company initiatives are sustainable in the development sense.

## 8 Doing Business in Regions of Conflict: Can CSR Help?

Business continues even in regions of conflict.<sup>13</sup> But what does corporate social responsibility really mean under conflict conditions? How can business not make the situation worse and how far can private enterprise go in actively building peace?

There have been many failures. One of the biggest in recent years has been the almost total lack of social responsibility of our financial organizations (not necessarily our banks). . .with AIG, for instance, only now thinking about doing something on CSR, Lehman Brothers was only interested in Philanthropy as was Enron, believe it or not. . .and we know what happened to them! While the rating agencies such as Standard & Poors, and Fitch lamentably have nothing on their websites and seem to do whatever they wish without regarding the implications of their decisions – for instance downgrading US debt during the discussion over the US budget ceiling simply raised borrowing costs and lowered confidence. When what was (and is) needed in the US to re-invigorate its economy is greater confidence and greater spending to help unemployment. With interest rates low, creating debt is practically free. Standard and Poors simply raised the cost of debt while ignoring its impact on unemployment which remains stagnant.

Another major failure and strongly related to the topic of conflict, as President Eisenhower warned us in 1961, is the military-industrial complex. In his last speech, as President, he said *‘In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military industrial complex. The potential for the disastrous rise of misplaced power exists and will persist.* Since the fall of the Berlin wall the hope for peace dividend materialized only slightly as US defence expenditure fell from 6 % of GDP in 1990 to 3.5 % at the end of the Clinton administration but climbed rapidly to 6 % again by the end of the Bush era in 2008. . .now standing at around \$US900 billion and dwarfing the amount of about \$150bn spent on education in 2012.<sup>14</sup>

In conflict situations of which there are far too many – Somalia, Syria, Congo, Yemen, Pakistan, Afghanistan, Iraq. . .the list seems to go on and on – the private sector has four options in conflict situations:

1. Deliberately create conflict to benefit themselves
2. Lobby to benefit from conflict
3. Actively reduce conflict to benefit themselves
4. Actively reduce conflict to enhance their own reputation even if not directly involved

Let’s look in more detail.

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<sup>13</sup> Revised version of a speech given at an event in London on May 9th 2012 organized by International Alert and moderated by BBC presenter Zainab Badawi.

<sup>14</sup> [http://www.usgovernmentspending.com/us\\_defense\\_spending\\_30.html](http://www.usgovernmentspending.com/us_defense_spending_30.html). Accessed 21 May 2012.

## ***8.1 Companies Create Conflict to Benefit Themselves***

One of the most brazen of all interventions by the private sector occurred 60 years ago, when BP was called the Anglo-Iranian Oil Company (AIOC). AIOC was complicit in helping and convincing the UK Government, with the help of the US, to overthrow the democratic Iranian Government of Mohammad Mosaddegh. BP was formed shortly after the coup. That coup led directly to the Iranian revolution of 1979, which launched an era of Middle East anti-Americanism whose repercussions have since been felt in deadly ways. The coup, led by the CIA's Kermit Roosevelt, Theodore Roosevelt's grandson, was successful. The Shah, installed as leader, turned tyrannical, leading directly to the Iranian revolution of 1979. Arguably, BP was not responsible since it was mainly owned by the UK Government at that time and, given subsequent events, it is hard to imagine that BP would condone such behavior today...or would it? BP is very active in Azerbaijan and needs an acquiescent Government to profit there today.<sup>15</sup>

Chiquita too, no doubt contributed to conflict. In March 2007, the Cincinnati banana company stunned investors, employees and the local business community by admitting it made regular payments to Colombian paramilitary groups for 15 years, ending in 2004. It said it had no choice – the lives of its employees were at risk.

## ***8.2 Companies Benefit from Conflict: Blackwater, Now Xe, in Iraq/Afghanistan***

Do companies such as Xe or even Lockheed, General Dynamics or BAE encourage conflict to profit? They certainly lobby the US congress strongly to increase Defense expenditure which, in the USA, is much the same as it was at the end of the cold war. There is not much doubt that Eisenhower's military industrial complex (MIC) is still very powerful today. In his last speech as President, Dwight Eisenhower warned the USA about the disastrous rise of misplaced power in the

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<sup>15</sup> According Stephen Kinzer (2003), the former New York Times bureau chief, author of *All the Shah's Men: An American Coup and the Roots of Middle East Terror*, told the story of the Anglo-Iranian Oil Company's role in the 1953 CIA coup against Iran's popular progressive prime minister, Mohammad Mosaddegh. Kinzer states that 'At the beginning of the twentieth century, as a result of a corrupt deal with the old dying monarchy, one British company, owned mainly by the British government, had taken control of the entire Iranian oil industry. So, this one company had the exclusive rights to extract, refine, ship, and sell Iranian oil. And they paid Iran a very tiny amount. But essentially, the entire Iranian oil resource was owned by a company based in England and owned mainly by the British government'.

military industrial complex. He warned that defense spending levels and even the wars the USA would fight were disconnected from actual security needs. They were driven instead by the profit and power interests of the MIC who benefited from militarization and war.

Evidence, as compiled by the Minnesota Arms Spending Alternatives Project<sup>16</sup> found:

- In 2011, the defense Industry spent \$131 million lobbying Congress and devoted nearly \$23 million to congressional campaigns
- Lockheed Martin led the way—spending \$15 million on lobbying. This was a great investment as Lockheed received more than \$40 billion in defense contracts
- The top ten recipients of U.S. government contracts are all defense industries
- The U.S. Congress in 2012 devoted 59 cents of every dollar it appropriated (Congress controls the discretionary budget) to war or national security.
- There are front groups for defense contractors such as “The Coalition for the Common Defense” working tirelessly on behalf of industry to prevent cuts in military spending.

### ***8.3 Companies Need to Reduce Conflict to Operate Normally***

According to a private source, Shell estimates that around 80 % of its costs are above ground. Certainly in Nigeria, Shell’s reputation has run aground due to perceived insouciance in local communities. In Somalia, Shell has several blocks where oil is suspected but they have not done any exploration as yet because of security issues. Many suspect that the increase in interest in Somalia is due to perceived availability of oil riches. The Guardian reported<sup>17</sup> that The Somali prime minister, Abdiweli Mohamed Ali, after meeting Hillary Clinton and David Cameron at the London Somalia Conference held in February 2012, said that in the future a share of natural resources would be offered in return for help with reconstruction. “There’s room for everybody when this country gets back on its feet and is ready for investment,” he said.

But the majors are keeping their powder dry. When I asked Shell if they would help to preserve the democratic Government in Somaliland<sup>18</sup> and thereby gain

<sup>16</sup> <http://mnasap.org/news/18/82/Saint-Paul-City-Hall-Jack-Nelson-Pallmeyer-Speaks-on-Military-Spending-and-Corporate-Personhood.html>. Accessed 15 July 2012.

<sup>17</sup> <http://www.guardian.co.uk/world/2012/feb/25/somalia-alshabaab-oil-west>. Accessed 10 May 2012.

<sup>18</sup> Although recent events show that even that previous island of stability is suffering from dictatorial tendencies of its President and his wife.

preferential access to various possible areas of oil exploration. . .there was a deafening silence.

#### ***8.4 Companies Reputation Improves if They Help to Reduce Conflict***

Is there evidence for this. . .as asked in the title of the debate for which these thoughts were prepared? Certainly many companies now emphasize helping local communities and offer assistance in all sorts of development projects. They gain customers, for instance Coca Cola signs are everywhere in Africa and they gain from advertising. There is also some evidence that they gain reputation for helping local communities. Yet, as Warren Buffett once said, reputation takes 20 years to obtain and five minutes to lose – e.g. Apple using poorly paid labour to produce iPhones in China.

So which one of the above four is it to be? We can be cynical and say that our companies if left to themselves will become, as Terence Ratigan, a well-known Zeinab Badawi figure on MSNBC in the USA, states in the title of his latest book ‘Greedy Bastards’. There is plenty of evidence for that. But I am more positive, and the increasing move toward social responsibility, encouraged by NGOs such as International Alert, Social media and activist movements such as Occupy. . .will make companies much more careful in the future.

In Somalia (according to a World Bank study), the economic sectors which have benefited most from the absence of state regulation – financial services, telecommunications, and the commerce in consumer goods across national boundaries – have also profited the warlords and spoilers, and have not done much to develop Somalia’s critical infrastructure (roads, power grid, water supplies). The latter can only attract private investment when a stable national government (or regional authority) with reliable security forces at its disposal is in place to ensure their maintenance and protection from extortionists or rent seekers.

So where next? I think we all agree that our economies must have a private sector. We know that we cannot regulate everything. Thus, social responsibility of our industries is key for the future. For instance, when former UN secretary general Kofi Annan launched the UN-backed PRI on 27 April 2006, during the iconic opening bell ceremony at the New York Stock Exchange (NYSE), he was joined by executives from 11 institutions representing \$4 trillion in assets. These founding PRI signatories understood that global threats being addressed by the UN – such as climate change, resource depletion, ecosystem destruction and water scarcity – also have the potential to threaten their own investment returns. For these globally significant investors, the challenge is to make investments that do not, over time, undermine the value of their entire portfolio.

## 9 Concluding Remarks

So, can CSR pave the way for humanitarian development? The short answer is yes. CSR has paved the way for corporations to examine their wider role in society in ways that have never been done before. CSR is a systems concept that touches every part of a company and has both positive and negative effects. The wide role of CSR coupled with the power and technological capacity of corporations coupled with the failure of most development efforts to date, provides additional impetus for corporations, and the private sector itself, to be more involved in development than ever before. Clearly, Governments will be the overall arbiter of development through the public purse. But their failure in many developing countries has provided an empty space that must be filled by another entity, and the only one around is the private sector and its champions, the large corporations. It is relatively easy to argue the obverse that corporations should stick to making profits and leave development for Governments. But this is a dance to the death, since the market left to purely profit maximisation has been unable to fulfil social roles such as reducing unemployment, creating primary and secondary education for all, tackling the major diseases of the Third World and so on. Only time will tell whether corporations will take on this new challenge. To a certain extent, MNEs will engage in development simply to ward off problems such as rising energy prices, resentment at off shoring, consumer boycotts and the like. But whether they will take on the wider challenge of development and how they will do this if they decide to go forward are still subjects of intense discussion.

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<http://www.guardian.co.uk/world/2012/feb/25/somalia-alshabaab-oil-west>. Accessed 10 May 2012



# Knowledge Creation and Transfer Effects on Decision Making

Waymond Rodgers and Arne Söderbom

## 1 Introduction

Our economy has been moving towards an Information Age that relies upon intangible asset utilization that has not been fully captured in the financial statements of organizations. Between 1978 and the present, the non-book or intangible asset value of all companies rose approximately 70 % of market value (Rodgers 2007). Hence, today tangible asset value for companies in general reflects less than 30 % of market value. In this information/knowledge dominated environment, evidence on the employment of intangible or knowledge assets is becoming quite apparent. With the move of sophisticated economies from resource-based to knowledge-based production, many national governments are increasingly recognizing “knowledge” and “innovation” as momentous driving forces of economic growth, social development, and job creation. In this context the elevation of ‘knowledge transfer’ has increasingly become a theme of public and economic policy.

Where information is viewed as facts or understood data; knowledge has to do with flexible and adaptable skills, that is, an individual’s distinctive ability to wield and employ information. This fluency of application is in part what distinguishes information from knowledge. Knowledge is likely to be both tacit and personal; the knowledge one individual has is difficult to quantify, store, and transfer for someone else to use.

Hence, knowledge transfer is the challenge of transferring knowledge from one part of the organization to another (or all other) part(s) of the organization (Argote and Ingram 2000). Hargadon and Sutton (1997) and Weick (1979) argue that knowledge transfers enable organizational units to combine knowledge differently and assimilate new knowledge that helps foster novel ideas. Since knowledge has some of the properties of a public good<sup>1</sup> there should be no restrictions to

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<sup>1</sup> There are zero marginal costs of further utilization of knowledge because it is not worn down as it is used in more value creating activities in organizations.

knowledge transfers apart from those obligated by the cost of transferring knowledge across unit boundaries (Szulanski 2000; Hansen 2002). On the other hand, scholars like Walsh and Ungson (1991) and Casey (1997) indicate that knowledge transfers may contribute to the maintenance of path dependency in organizations since knowledge transfers lead to shared interpretation among units of an organization's strategic position and strengthen common beliefs and patterns of knowledge acquisition. However, when organizations refrain from recycling their already accrued knowledge they may under-employ some knowledge resources and sacrifice the competitive advantages that arise from increasing returns to knowledge acquisitions that surface from the often cumulative nature of knowledge (Cohen and Levinthal 1990).

Social innovation is becoming critical for organizations to determine how to transfer knowledge in order to improve their performance. *Social innovation* can be described as “the process of inventing, securing support for, and implementing novel solutions to social needs and problems” (Phills et al. 2008).

Nonetheless, Szulanski (1996) argues that knowledge transfer within an organization is subdued by factors other than a lack of incentive. How knowledge about best practices remains broadly accessible within an organization depends upon the nature of that knowledge, from where (or whom) it comes, who gets it, and the organizational context within which any transfer occurs.

Therefore, to be successful, social innovation must transcend sectors, levels of analysis, and methods in order to discover the processes such as the strategies, tactics, and theories of change for a long term effect. In this chapter, we provide a knowledge transfer model that helps depict social innovation more clearly in the context of a decision-making model. Innovation can be viewed as both a process and a product. As a process, innovation involves the organizational and social *processes* that produce innovation, such as individual creativity, organizational structure, environmental context, social and economic factors (Kanter 1983). Viewed as a product, innovation is an *outcome* that manifests itself in new products, product features, and production methods. This branch of research examines the sources and economic consequences of innovation (von Hippel 1988). Moreover, Phills et al. (2008) claim that innovation also includes the *diffusion* or *adoption* of the innovation and, the ultimate value created by the innovation.

The remainder of the chapter proceeds first with a review of the knowledge-based theory of the firm. Next, this theory provides a context for a proposed knowledge transfer decision-making model that can be used to understand and explain decision-making involving social innovation issues. Finally, we conclude with implications for future research and practice.

## 2 The Knowledge-based Theory of the Firm

There is a stream of research that discusses the resource and knowledge view of the firm. The traditional “theory of the firm” (Coase 1937) addresses the issues of existence, boundaries, production, and internal organization of the firm. This theory explains that the firm not only has a contractual nature, but also functions as a repository of distinct productive knowledge such as technological and organizational advancements. The firm, in this interpretation, exists as a distinct social-historical entity that can learn and grow on the basis of this productive knowledge (Dosi et al. 1992; Kogut and Zander 1992).

The theory of the firm addresses at least three questions pertaining to organizations’ existence, how they differ, and what determines their scale and scope (Coase 1937). Williamson (1999) observes that these issues can be related to transaction cost economics (governance). Governance is centered on the transaction as the basic unit of analysis. The resource-based (competence) perspective is more concerned with processes (especially learning) and the lessons for strategy. Williamson concludes, “both are needed in our efforts to understand complex economic phenomena as we build towards a science of organization” (1999: 1106).

Consequently, the resource-based view examines an organization in regards to its resources rather than its products and aims to identify strategic options through the exploitation and development of these resources (Wade and Hulland 2004; Wernerfelt 1995). Such a knowledge-based view of the firm is becoming more critical today as we increasingly deal with the strategic management and development of competitively differentiating knowledge.

The study of non-traditional information has been an accounting problem since Flamholtz’s (1974) accounting for contributions of human assets, even though such non-financial performance information may be critical for investors.<sup>2</sup> Becker’s Nobel prize winning work (1993) takes an even broader perspective in focusing on the relationship of human capital on earnings, costs and rates of return. His research findings point to a strong relationship between investment in human capital (e.g., college and high school education) and the resulting value of the knowledge acquired. Following Flamholtz and Becker’s work, we view knowledge-based information as including institutional intangibles (e.g., reputation, brand value, etc.), human resources and synergistic relations among organizational stakeholders. In this view, knowledge-based information includes intangible assets such as the knowledge embedded in computer systems processes, know-how, trademarks, patents and licenses.

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<sup>2</sup> However, the origins of the problem can be traced to the early part of the twentieth century. For example, Paton (1922) stated, “In the business enterprise, a well organized and loyal personnel may be a more important asset than a stock of merchandise. . . . at present, there seems to be no way of measuring such factors in terms of the dollar; hence, they cannot be recognized as specific economic assets. But let us, accordingly, admit the serious limitation of the conventional balance sheet as a statement of financial condition” (pages 486–487).

In accounting for knowledge-based information, one of the problems confronting organizations is the measurement of the performance of knowledge-based information in terms of their relative returns. The problem is exacerbated by the fact that some forms of knowledge are more measurable than others. That is, some researchers advocate that knowledge may be viewed as either explicit (measurable) or tacit (difficult to measure or transfer). Explicit knowledge has the properties of a public good (with the exception of copyrights, patents, or trademarks). However, only part of our knowledge is explicit because we know more than we can tell (Polanyi 1966, 4).<sup>3</sup>

Tacit knowledge is associated with one's experiences. This knowledge is acquired and stored over time by people, thus it cannot be transferred or traded as a separate entity. However, this kind of knowledge can provide a sustainable competitive advantage since it is difficult for competitors to imitate. It is this intangible competitive advantage that places a value on "knowledge-based information" which presents an important source of supplemental information to traditional accounting information.

Knowledge-based information provides decision makers with additional information about whether an organization is increasing its knowledge-based information (Dosi et.al. 1992). This information also supports the notion of the knowledge-based theory of the firm as suggested by previous researchers (e.g., Foss 1996; Kogut and Zander 1992).

### 3 Knowledge Transfer Decision-Making Model

The knowledge transfer decision-making model discussed in this paper provides a broad conceptual framework for examining interrelated processes that impact social innovation decisions. It incorporates the constructs of perceptual processing (framing of a problem), information (both traditional financial and knowledge-based), judgmental processing (analysis of framing/information), and decision choice. This decision-making model is useful in conceptualizing a number of important issues in organizations (Rodgers 1991, 1992, 1999). This model clarifies critical pathways in investor decision-making that are influenced by knowledge and information. Further, the model captures unobservable (latent) variables of decision-makers' tacit knowledge that are instrumental in rendering decisions.

Decision-making in this model is defined as a multi-phase, information-processing function in which cognitive processes are used to generate a set of outcomes. There have been differences of opinion about how many phases and subroutines exist within the phases and the order in which the phases occur

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<sup>3</sup> Polanyi clarified the notion of tacit knowledge with the following: "You can identify one face out of thousands, but it is nearly impossible to give an adequate description of this face to another person, so that she is able to identify the face" (1966: 4).

(Hogarth 1987). However, the use of perception, information, judgment and choice in the proposed model appear with some consistency in the literature.

The model is presented in Fig. 1. Arrows from one construct to another indicate the hypothesized causal relationships between the concepts.

In Fig. 1, perception and information are depicted as interdependent because information can influence how the decision-maker frames a problem (perception) and perception in turn can influence how he/she selects the evidence (information) to be used in the decision-making process. The double-ended arrow linking perception and information in Fig. 1 represents a knowledge creation process, which in Kahneman's terms (2003: 699) is called a dual-process.

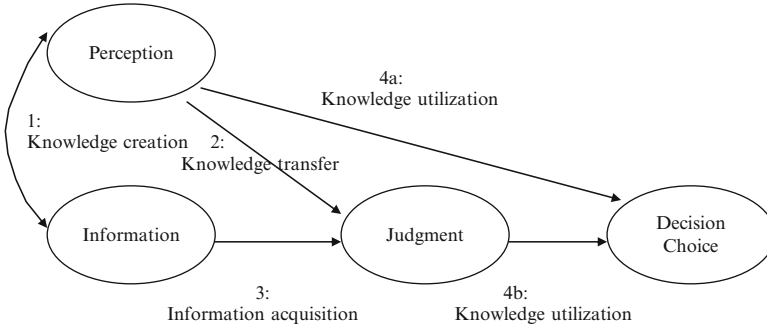
Further, information affects perception and judgment, which represents a knowledge transfer process. For example, information stored in memory affects decision-makers' evaluations of framed scenarios. Typically, before an individual can make a decision, that individual encodes the information and develops a knowledge representation of the problem. Finally, perception and judgment can affect decision choice, which represents a knowledge utilization process. Some researchers, notably Kahneman and Tversky (1979), suggest that both automatic, perception-like heuristics and more deliberate information processing strategies (judgment) are involved in most decision choices. Errors, biases, and context-dependent heuristics may result from cognitive mechanisms of which decision makers are largely unaware, and these may have a direct impact on decision choice (Rodgers 1999). The strategies of judgment that influence decision choice are under an individual's deliberate control.

Based on Fig. 1, the decision-making processes of individuals can be represented in an organized manner as the following five pathways:

1. **Knowledge creation**  $P \leftarrow \rightarrow I$
2. **Knowledge transfer**  $P \rightarrow J$
3. **Information acquisition**  $I \rightarrow J$
- 4a. **Knowledge utilization**  $P \rightarrow D$
- 4b. **Knowledge utilization**  $J \rightarrow D$

In order to study these decision-making processes, it is necessary to break up all the paths marked with arrows in Fig. 1 into these five sets of individual pathways. The more intuitive type of knowledge creation is an important aspect of the first stages of decision-making when individuals/organizations use information and creative strategies intuitively. An individual processes information in an intuitive manner such that the information that is available is influenced by a-priori formed perception while at the same time influences and shapes the perception of the decision problem. The knowledge that is created through the interaction between the individual's perception and the presented information depends on whether the individual perceives a high degree of coherence between the information and his/her prior expectations or beliefs about the relevance of the information.

The initial processing stage can influence latter stages of decision-making processes by providing a fresh look at a social innovation problem or creating new knowledge to assist in problem solving. For example, the knowledge that is



**Fig. 1** Knowledge-transfer process model

created through the initial intuitive creative processes can bring about new methods and practices, which can be integrated into and used in subsequent decision stages.

Individuals typically utilize information in their analysis (judgment stage). That is, before an individual can make a judgment they encode the available information and develop a representation of the problem as presented in Fig. 1, by the influence of information<sup>4</sup> (or more precisely their information acquisition) on judgment ( $I \rightarrow J$ ). In social innovation, strategies are essential when there are gaps between new knowledge and existing knowledge. A complete knowledge creation strategy manifests itself in the final stage of decision-making, which is the decision choice. Decision choice can be affected directly by perception judgment ( $P \rightarrow D$ ;  $J \rightarrow D$ ). However, perception always impacts judgment as perception-like heuristics and more deliberate information processing strategies (judgment) are involved in most decision choices (Rodgers 1992; Foss and Rodgers 2011). Also, both the  $P \rightarrow D$  and  $J \rightarrow D$  pathways involve knowledge utilization which can be influenced by creative knowledge, knowledge transfer ( $P \rightarrow J$ ), as well as the information acquisition phase ( $I \rightarrow J$ ).

## 4 Conclusions and Future Research

Research on the knowledge-transfer view has focused primarily on knowledge production and little on knowledge dissemination and impacts on decisions affecting social innovation. This paper offers an approach to depicting the interactions of creative knowledge, knowledge transfer, information acquisition, and knowledge utilization in arriving at a decision. The different types of knowledge and

<sup>4</sup> Alavi and Leidner (2001) support the notion that information is converted to knowledge once it is processed in the minds of individuals. Further, knowledge becomes information once it is articulated and presented in the form of text, graphics words, or other symbolic forms. In some of the management literature, data is considered as facts and information is processed, interpreted data. Finally, knowledge can be viewed as personalized information.

information are divided into several parts in the knowledge-transfer processing model. Knowledge transfers develop from the first processing stage to knowledge utilization in the second. The first stage process helps illustrate how individuals transfer knowledge (using creative strategies) and acquire information in their second stage of processing (i.e., judgment). Jointly, first stage and second stage processing helps analysts arrive at social innovation decisions.

Future research may also include the effects of training individuals in social innovation decision-making. Further, such research should consider the inclusion of decision-making models to account for the various paths that individuals follow to make their decisions in order to assist in developing meaningful knowledge-based information for social innovation projects.

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# A Social Capital Approach Towards Social Innovation

André Habisch and Cristian R. Loza Adauí

## 1 Introduction

In June 2012, the American political scientist Elinor Ostrom died in Bloomington, Indiana. Only three years before, in 2009, she was awarded the Nobel Prize in Economics. Lin (how her friends and students called her) was not only the first female Nobel Prize winner in the field of economics; she was also the first trained political scientist to receive that most prestigious award. These rather outward traits, however, were not the only aspects of her ‘uniqueness’. In the context of a sometimes superficial research practice in economic and social sciences, whose progress is shaped by imperatives to publish in highly specialized scientific journals, the work of Elinor Ostrom – which she pursued together with her husband, political philosopher Vincent Ostrom – chose some very basic and elementary questions as points of departure.

Her most central research focus was on common property, on collective assets and why they are not degrading (e.g. in traditional societies) even if the concept of ‘economic man’ would predict that. What economic theory models as a ‘prisoner’s dilemma’ – i.e. individual and collective rationality contradicting each other in certain situations – is a living experience for every human actor. The fear of getting the sucker’s payoff (cooperation by the participant and defection by the other players) may inhibit rational actors from contributing to a public good (Bougherara et al. 2009; Fehr and Gächter 2000). If this is an obvious fact, we may continue to ask with Elinor Ostrom: Why are some communities working together and others are not? Answers to this simple question are of crucial importance for local and regional development, for sustainable economic success of a company or national economy and ultimately probably even for the (ecological) survival of mankind. The answers to this question can be analyzed at three different levels:

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In Memoriam Elinor Ostrom

1. The question poses itself on a face-to-face level. For example, one of Elinor Ostrom's research objects were beneficiaries of irrigation projects in developing countries (Ostrom 1990, 1992). In order to produce sustainable effects, the irrigation channel needs to be sustained by maintenance work, which has to be carried out by the adjoining tenants themselves. However, if the water comes for free and the maintenance work is annoying and arduous: Why do some tenants voluntarily contribute and fight against the draining of the channel and others are not?
2. The question, however, also poses itself on an inter-organizational level. When the garment factory 'Ali Enterprises' burned down on September 17th, 2012 in Hub River Road, Sindh Industrial Trading Estate (SITE) in Karachi, Pakistan, more than 289 workers died: they had been trapped and were unable to escape from the latticed windows of their production site. The local population, media and NGOs but also powerful consumer organisations in developed countries held western clients of 'Ali Enterprises' like the German brand KIK responsible for this tragedy (IndustriAll Global 2012). In the international supply chain of large textile brands, there are no effective mechanisms in place to prevent suppliers (first, second, third tier) from ugly exploitation, exposing their employees to lethal risks by saving on elementary safety devices. In order to safeguard their brands, clients have an interest in creating organisational mechanisms to prevent those disasters from happening. Why are some more successful than others?
3. The question ultimately also poses itself on an international level. In global conferences taking place at Copenhagen, Rio and elsewhere in the World, politicians and representatives of international organizations like the United Nations Environmental Program struggle to achieve common environmental goals like effective reduction of CO<sub>2</sub> emissions in order to overcome global warming. However, achieving these goals always comes at a cost – which politicians have to bear nationally: additional investments in resource saving production may slow down growth, increase in taxes and fees for consumers hamper the international price competitiveness of companies, threaten jobs and ultimately satisfaction of citizens with their political leaders. Mutual enforcement mechanisms – and sometimes even basic observability – of compliant behaviour are absent in many cases. Why did coordinated efforts sometimes succeed – like ozone killer prevention in the early 1990's – and in many others not?

In a national context we are relying on legal rules and institutional enforcement mechanisms (institutional capital) to assure general cooperation for public goods. However, as the contemporary European debt crisis clearly demonstrates, this already holds true to a rather limited extent in some nations, which prove their inability to effectively coerce powerful groups into bearing their share. Moreover, effective control and enforcement mechanisms are even more absent on an international level, where only sparse institutional capital exists.

Thus, in a situation where no cooperation exists even if obvious potential gains are looming from it, the crucial role of 'social capital' for the provision of public goods and social development (in the widest sense of the word) has become obvious.

Social capital includes ‘soft’ elements like mutual trust (Ostrom and Walker 2003) but also ‘hard’ ones like mutual enforcement mechanisms (i.e. ‘covenants with a sword’, Ostrom et al. 1992), here: It is their social capital, which allows individual actors to overcome social dilemmas and achieve gains from cooperation.

Summing-up, according to Ostrom and Ahn (2009: 20), social capital can be understood “as an attribute of individuals and of their relationships that enhance their ability to solve collective-action problems”. From this point of view, social capital can be considered an asset and a resource for social innovation but this is a risky assumption. In the following, we will analyze in depth the three different levels already mentioned (individual, organizational and global) of social capital and its relation with the social innovation discussion from a systemic point of view (Habisch and Moon 2006).

## 2 Three Levels of Social Capital in Social Innovation

M. Yunus, the Nobel Peace Prize winner of 2006, is probably one of the best-known examples of a successful social innovator. At the same time, the Grameen Bank as his major organisational achievement is a very obvious example of a social enterprise based on the transformation of social and cultural capital; and finally the microcredit movement born after the escalation and replication of Grameen Bank’s business model can be considered a social innovation at a global level.

Yunus provided the Bangladeshi women with a rather small amount of money. But much more importantly, the Grameen experience emerged from a basic transformation of the social and cultural capital among the group. Already existing networks of mutual solidarity among the women were extended and used in such a way that they were able to substitute their access to financial capital (they found themselves notoriously deprived from). Evenly important, however, (and often overlooked primarily by the social scientist perspective) is the cultural capital, which the creation of Grameen Bank brought about for a cooperative culture among very-low-income women in Bangladesh. With their becoming a co-responsible subject of the rotating credit association they formed, women experienced increased self-esteem and acceptance of their human dignity, which beyond group monitoring and enforcement, formed another powerful motivator for compliance.

The impact of the microcredit business model can be exemplified in the multiplication and increasing growth of the number of microfinance institutions (MFIs) around the world. For an overview, it is sufficient to take a look at the Forbes list of the 50 most important MFIs in the world (Swibel 2007). This list was created using the information the microfinance institutions deliver to the Microfinance Information Exchange, Inc. – more than 2,000 of them did it in 2011 (Microfinance Information Exchange, Inc. 2012). However, while the empirical research on microfinance shows a positive contribution to the development of micro-businesses, their impact on the alleviation of poverty is less evident (Chowdhury 2009; Gibbons and Credit 2011; Goldberg 2005; Islam 2007; Odell 2010).

## 2.1 *Micro-Individual Level: The Role of the Social Innovator*

At an individual level, social innovation is driven by the crucial intervention of social innovators or social entrepreneurs. According to the Skoll Foundation, “social entrepreneurs are society change agents, creators of innovations that disrupt the status quo and transform our world for the better” (Skoll Foundation 2012). In a social capital perspective, we can formulate more precisely: *A social innovator is a person who changes the collective action situation of a relevant group in such a way that their social or cultural capital is either modified or extended in order to achieve mutual cooperation in the production of public goods.*

According to Phills et al. (2008: 37), literature that focuses on social entrepreneurs highlights some personal qualities like boldness, resourcefulness, ambition, persistence. Others include ‘unreasonableness’ (Elkington and Hartigan 2008) and allude to a certain long-term, ‘prophetic’ perspective. From our perspective, it is not occasionally that this often goes together with highly humanistic and even religious motivations (Habisch and Loza Adaui 2012). But even if the role of social innovators as persons is crucial for the emergence of social innovations, a concept of an enlightened ‘hero’ who accomplishes everything on his own is not a realistic one. On the contrary, the establishment and successful implementation of social innovations depend on a variety of factors (some of them being of organizational and institutional character) but all have to be co-involved in a complex process that permits social change. In our words: the innovation must fit into the existing endowment of social and cultural capital in order to enfold a sustainable impact.

According to Landry et al. (2002: 683), there are two important points to be taken into consideration, here: “first, research on innovation is no longer conceived as a discrete event only involving the development of technical solutions, but as a process also involving social interactions” and “second, innovation is no longer explained by the sole combinations of tangible forms of capital (physical, financial, ...), but also by combinations of intangible forms of capital, especially social capital”. While Landry’s et al. first point is constantly stressed by scholars in the field of social innovation (Mulgan 2006; Nicholls and Murdock 2012; Phills et al. 2008), his second point i.e. the particular reference to social capital is somewhat less clearly expressed. A careful analysis of social capital creation as “the collection of resources owned by the members of an individual’s personal social network, which may become available to the individual as a result of the history of these relationships”, (van der Gaag and Snijders 2004: 200) is crucial to understand the dynamic of social innovation. Unfortunately, *research on the individual social capital of social innovators is practically inexistent.*

## 2.2 *Meso-Organizational Level: The Role of Social Organizations*

At an organizational level, a social capital perspective refers to the role of ‘business models’ (Sommerrock 2010): How is an organizational arrangement capable of structuring interactions in such a way that contributions to public goods are made on a sustainable basis? What role do the different social actors (companies, NGOs, public organizations etc.) play in that process? This analysis does not necessarily limit itself to social enterprises – for two reasons: First, social innovation can take place in any kind of organization, even if social enterprises are the most representative drivers of social innovation; and second, the social innovation phenomenon has proven that some of our categories are indeed outdated.

In the literature, there seems to emerge an agreement that social innovations go hand in hand with blurring limits between market, state and civil society differences. Other authors question even more radically, whether a distinction between the –so called– “profit” and “non-profit” sectors does make sense at all; they search for new and more adequate categories such as ‘hybrid organizations’ (Battilana, et al. 2012; Grassl 2011; Haigh and Hoffman 2012) or the concept of ‘metaprofit’ (Loza Adaui 2012; Mion and Loza Adaui 2011).

In the organizational literature, there is no general agreement about the role of social capital for innovation. On the one hand, some dimensions of organizational social capital contribute to product innovation, (Tsai and Ghoshal 1998); on the other hand, Leana and van Buren (1999: 551) argue that social capital can also hinder the diffusion of innovation in organizations: “social capital, while encouraging risk taking through trusting relations, may also hamper innovation through its detrimental effect on the introduction or consideration of new information by members”. On the contrary, McElroy (2002: 30) develops the concept of “social innovation capital” as the “collective capacity of a firm to innovate”. In this approach, the word social is not charged with a normative connotation and refers to firms as “social systems that organize themselves around –and carry out– the production and integration of new knowledge” (ibid, 2002: 32). Screening the literature, however, Zheng (2008) underlines the inconclusiveness of the research on the relationship between social capital and innovation. He deplores the ‘elasticity’ of the concepts and forms of social capital and in particular raises concerns regarding the relation of causality between social capital and innovation from a holistic perspective. What becomes obvious from these authors is the lack of a precise definition of what is meant by social capital – a problem we try to overcome following E. Ostroms perspective on collective action.

The research on social innovation at an organizational level seems to follow two streams of analysis. One studies social innovation taking place in normal companies and the other focuses its attention on innovative organizational models.

The first of these two research streams is better known as corporate social innovation. Rosabeth Moss Kanter built the concept of corporate social innovation on the experience of companies that consider “community needs as opportunities to develop ideas and demonstrate business technologies, to find and serve new

markets, and to solve long-standing business problem". She identifies how "tackling social sector problems forces companies to stretch their capabilities to produce innovations that have business as well as community payoffs" (Kanter 1999: 124). An extension of this line of thought can also be found in the research focus on business opportunities in low-income markets, i.e. the bottom of the pyramid (BoP) (Prahalad and Hart 1999). Moreover, even M. Porter's recent focus on 'shared value creation' may be attributed here (Porter and Kramer 2011). A rather limited set of literature focuses on the role of small and medium companies and inquires the specific way they economize their social capital (Spence et al. 2003).

A second research stream on social innovation at an organizational level focuses on social enterprises, more precisely on organizations explicitly oriented towards the provision of public goods (Sommerrock 2010). The research on social enterprises is gaining momentum; however, research on organizational social capital in social enterprises or studies linking organizational social capital with social innovation are a practically nonexistent.

### ***2.3 Macro Level: Social Capital and the Drivers of Innovation***

The empirical evidence on the impact of social capital on innovation at more macro levels is the most intriguing. We understand macro levels as national but also as regional or community analysis, here. There is no clear evidence on which of the multiple elements of social capital on a macro level encourages or discourages innovation.

Following the traditional approach of the American political scientist Edward Banfield on the 'moral basis of a backward society' (1958), some research on social capital and innovation states that more social capital hampers innovation. For example, for Florida et al. (2002) what stifles innovation is not commonality but difference. Others find innovation as the way in which social capital contributes to economic growth (Akçomak and Weel 2009). With the influential work of R. Putnam (1992) who in his famous empirical study stresses the role of social capital for the economic success for Italian regions, even this line of thought has a point of reference in political science analysis. Summing-up, however, there is no clear path to take in the analysis of social capital as driver of innovation at regional and more aggregated levels.

For example, for the relation of social capital and innovation, the study from Hauser et al. (2007) covered 51 territorial units from six European countries to see if "social capital plays an important role in the diffusion of knowledge and regional innovative capacity" (ibid: 83). The authors concluded with two important points: first, "independent components of social capital have a joint significant impact on innovation measured by patent applications that corresponds to the influence of human capital" (ibid: 84); second, they affirm to have found "robust empirical evidence for the significant role of weak ties in social interaction and innovation on a regional scale" (ibid: 84). Proving the reasoning from Granovetter (1973) about

the strength of weak ties: “close friends know the same people you do, whereas acquaintances are better bridges to new contacts and non redundant information” (Castilla et al. 2000: 220).

Research on social innovation at an aggregated level focused on neighbourhood and communities are better known as community development projects. These are forms of social innovation within certain communities. According to Moulaert et al. (2010: 5), community development projects are “locally based initiatives ... [that] can galvanise a range of publics to engage in activities that have city-wide (if not greater) impacts on the dynamics of urban cohesion and social development”. The results of the *Social Innovation Governance and Community Building Project* –funded by the European Commission– shows through several case studies what social innovation (intended as community development at a local scale) can reach. The project interprets social innovation as a “dialectical process between exclusion conditions. . . and collective processes and practices deployed to overcome them” (Moulaert et al. 2010: 2). For these authors, the lack of resources –including social capital – is a factor that somehow motivates social innovation at a communal level (Moulaert et al. 2010).

According to Moulaert (2009: 14), “within the social sciences literature some authors emphasize opportunities for improving social capital, which allow economic organizations either to function better or to change, thereby producing positive effects on social innovation”. While he doesn’t mention which authors he is talking about, he adds an important suggestion to our topic: “the price paid for. . . sharing social capital concepts across disciplines is that it has become highly ambiguous, and its analytical relevance is increasingly questioned” (Moulaert 2009: 14, for a development of this, see Moulaert 2005). In our perspective, he calls for a conceptual underpinning of the social capital concept, which might be provided by the reference to collective action.

In a study that covered 59 different countries, Dakhli and de Celrq (2004) found only limited support for the positive effect of trust and associational activity on innovation; moreover, he notes a negative relationship between norms of civic behaviour and innovation. The authors explain this negative relation, affirming that a “general tendency of ‘being a good citizen’ is generally contradictory to the general willingness to deviate from existing rules and procedures that has often been shown to be necessary for innovative activities” (ibid: 124.) The question whether this notion is also valid for social innovation, which requires a certain degree of open cooperation, remains questionable.

In that sense, Akçomak and ter Weel (2009) in a study covering 102 European regions from 14 countries during 12 years (1990–2002), identify innovation as an important channel by which social capital influences per capita economic growth. For these authors, a higher stock of social capital clearly yields more innovation. The main reason they provide is that innovation will profit from (risk-avoiding) trust between venture capitalists and researchers. In other words, innovation “is easier in an environment in which people trust each other more” (ibid: 562).

Summing-up this body of rather contradictory evidence, we may state that a macro level analysis of the relationship between social capital and innovation is far

too abstract. In fact, not all social innovations have global impact. Rather it seems that the way in which social innovations influence society is quite particular; most of them tackle specific problems in an innovative and border-spanning way but show only indirect impact on certain aggregate indicators. The specific impact of social innovations result more from its replicability, for example, via social franchising or via scalability strategies such as crowdsourcing. Whether social capital contributes to or hinders the replicability and scalability of social innovative projects should certainly be a question to be tackled by further research.

### 3 Conclusion

The literature on social innovation refers to social capital only exceptionally, even if the need of networks and inter-organizational and cross-sectorial collaboration is stressed as an important element (Mulgan 2006; Mulgan et al. 2007; Nicholls and Murdock 2012; Phills et al. 2008; Rüede and Lurtz 2012). While the theoretical research regarding the relations between social capital and innovation has received increasing attention, the empirical evidence remains still scanty.

Upon this background, we claim that – in the tradition of Elinor Ostrom – a collective action orientated concept of social capital lends itself as a fruitful analytical tool to better understand the structure and role of social innovations. Not unlike technical innovations, social innovations do not form a punctual achievement of an individual; rather they owe themselves to a recombination of relationships among different actors, which are grounded in an extension or transformation of their social or cultural capital. Very specific case studies (type organizational learning), which carefully analyse how these social capital investments are achieved and in exactly which form they have been able to transform the relationship structure of relevant social actors, seem to be of crucial importance here for the narrow future.

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## **II Related Business Concepts to Social Innovation**

# The Interdependence of CSR and Social Innovation

Stefan Crets and James Celer

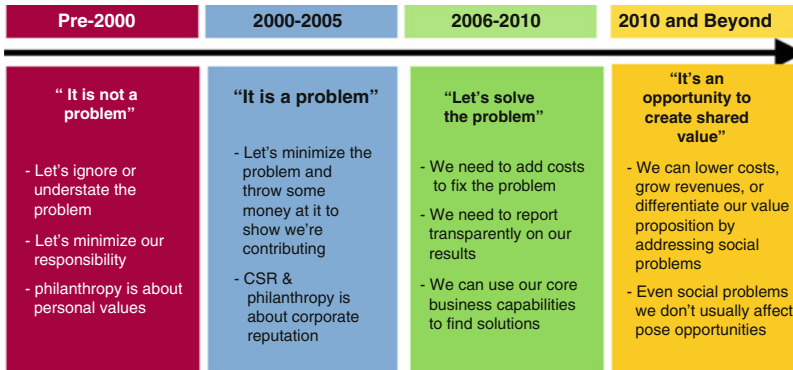
## 1 Introduction

This chapter aims to explore the interdependence of Corporate Social Responsibility (CSR) and Social Innovation and identify the extent to which, if any, CSR has been driving business to become pioneers in social innovation. Given the ambiguity surrounding the definition of the term, ‘Social Innovation’, this chapter will be written according to the CSR Europe definition of the term;

Social innovation refers to new ideas, business models, products and services, which resolve existing sustainability challenges and create new social collaborations between business sectors and stakeholders. Social innovation is increasingly seen as a sound business strategy to solve some of society’s most difficult problems at local, regional, national and global level. (CSR Europe 2012)

Over the years, European businesses have undoubtedly come a long way in their CSR achievements. In the early and mid-1990s, CSR was still a fairly new concept for many companies. Today, CSR is part of the corporate vocabulary, and companies are increasingly aware of the business impacts of environmental and social issues. CSR, a term believed to have been coined in the 1950s, was once considered as a practice of reputation and risk management. However, it is well argued that this has now changed and today’s companies now appreciate that CSR is no longer just a “nice-to-do” add-on to their core activities but, on the contrary, a more fundamental part of their approach to sustainable competitiveness.

It is thus recognized that responsible business practices can help build a more sustainable basis for competitiveness, by strengthening brands and reputation, attracting and retaining talent, achieving efficiency gains and cost savings, meeting societal expectations and perhaps most importantly by creating new business opportunities through social innovation. As a result, businesses are now setting the ambitions to benefit from the window of opportunity that involvement in social innovation presents. The challenges that the coming decade and beyond present will offer businesses around the globe the opportunity to reshape their business models towards the concept of shared value, thereby incorporating the interests of all



**Fig. 1** FSG (2011). Creating shared value in action, Webinar Presentation (Source: FSG 2011)

stakeholders within a companies' sphere of influence and increasing the connection between societal and economic progress. Notable business experts, Michael Porter and Peter Kramer (2011: 17), propose that the concept of *shared value offers corporations the opportunity to utilize their skills, resources, and management capability to lead social progress in ways that even the best-intentioned governmental and social sector organizations can rarely match. In the process, businesses can earn the respect of society again.* This concept, society which aims to transform businesses into actors that take a leading role in combating the problems faced by society has been defined by Michael Porter and Mark Kramer (2011: 6) as *policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social condition in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress,*

As illustrated in Fig. 1, companies at the forefront of CSR are now crossing the bridge towards the creation of shared value, whereby the development of business opportunities goes hand in hand with addressing social problems.

Although still in their early phases, we are starting to see a huge divergence from the traditional PR led initiatives that CSR was founded upon and it would be fair to acknowledge that companies with the most advanced, sustainability encompassing, business models are shifting towards a new, more integrated approach whereby stakeholder engagement serves at the forefront of decision making. As Xueming Luo and Shuili Du indicate in a recent article for the Harvard Business Review, *CSR is not a peripheral activity but can become a pivotal component of competitiveness and growth* (2012: 28) and it is evident that many of today's companies are beginning to see the window of opportunity to remodel their business plans to focus on creating shared value.

Throughout the past century, developments in healthcare and the rise of new technologies such as the car, electricity and the Internet have all depended on social innovation as much as they did on the innovations of business. Today, the need for

innovation is becoming ever more crucial for economic growth. Furthermore, social innovation is increasingly seen as the process and strategy to solve some of society's most difficult problems. This is partly because some of the barriers to sustainable growth (such as climate change, demographic change, poverty, urbanization and ageing populations) can only be overcome with the help of social innovation. New markets are opening for business around the globe as a result and the outcome is the simultaneous creation of business and social value. Product and service innovation are key drivers in such a strategy.

Therefore, this leads to the notion that a new approach to competitiveness is required where companies no longer *continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs* (Porter and Kramer 2011: 4). As a result, long term value creation is the necessary primary target for business to aspire to and it could therefore be argued that CSR is increasing not only the awareness of this but also serving as the catalyst in orientating business thinking towards the value of long term creation.

In order to ensure competitiveness in a period where companies are faced with an array of emerging societal challenges, businesses need to react with the force of dynamism unseen before. For business to achieve this goal, it will require the effective integration of CSR into the core of the business model for business to be able to identify and act upon new opportunities, combined with the pooling of resources oriented to overcoming these challenges. This chapter aims to further explain the extent to which CSR is acting as the driver towards pioneering social innovation in business.

## 2 Is Corporate Social Responsibility and Social Innovation Complimentary?

It is beyond doubt that the concept of CSR has achieved a steady yet fundamental transformation since its initial inception into the strategies of business around the globe. Having originally been viewed as a mere chess piece in public relations strategy, with examples of companies using CSR for *hype and appearance rather than honesty and action* (Hollender in Visser 2011: xiii), it can now however be acknowledged that the business approach to CSR is becoming much more imperative in value. As a result, it has evolved from its primary form as a public relations strategy to arguably now serving as the instrumental lever for companies to rethink their business processes, products and markets in ways to combat emerging societal challenges. Whether this be products and services for an ageing population, ensuring social inclusion through delivering products to the base of the pyramid or the provision of expertise and resources to counteract the obstacles posed by increased urbanization, it would be fair to denote that CSR, if integrated effectively, does

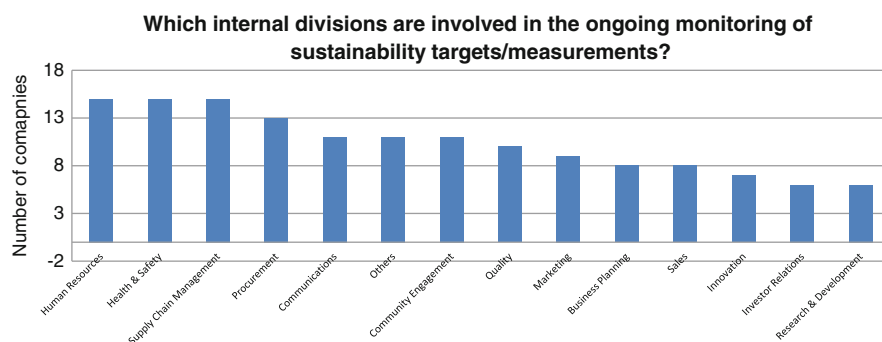
create the synergies necessary in a business for it to steer towards creating shared value.

However, to assume that CSR acts as the underlying force spurring social innovation would be a naïve assumption. There are countless examples whereby a product identified as a social innovation has arisen without being attributed explicitly to a company's CSR programme. A prime example of this can be considered when looking at the Toyota Prius, a hybrid vehicle developed in the early 2000s which was spurred by the prospect of rising oil prices and a growing middle class (Taylor III 2006) and which was initiated with the core aim of providing a low carbon emitting vehicle in the Japanese car market, thereby serving as an innovative alternative to a conventional internal combustion car. As a result, the product is now renowned as a pioneering environmental innovation for the automotive industry and has since made its way into the Japanese, European and US car markets and set the blueprint in the automotive sector for the development of other hybrid vehicles.

Another more recent example of innovation influenced by the emerging societal challenge associated with demographic change and ageing populations is the introduction of e-health initiatives developed by Telefónica. With governments around the world now having to deal with increasing healthcare costs driven by ageing populations, Telefónica has developed a series of innovative products and services to counteract the growing challenges faced by healthcare systems. As a result, the company now provides demand and access management through to remote patient management, mobile tele-care and tele-consultation, providing end users with the products and services necessary to reduce the intensity of the challenges posed by the increasing strain experienced in healthcare systems across the globe.

Despite the generic association between CSR and innovation, one of the UK's most prominent social entrepreneurs, Liam Black of NESTA and co-founder of social innovation organisation, Wavelength, highlights that such innovations are not necessarily a result of CSR. Instead, there remains a crucial problem with CSR in its current form as it does not "lead to the creation of new products and services, differentiate your brand, engage your people or achieve lasting social or environmental impact" (The Same Wavelength 2011). To support this view, a recent study on 19 companies produced by CSR Europe indicates that there still remains a weak correlation between the innovation of products and services and CSR in companies. As highlighted in the study, CSR departments have more contacts with the HR, PR, and procurement departments than with the R&D, innovation, sales and marketing departments. As the following graph points out, the CSR that we see in the majority of companies today does not necessarily point to the drive towards the innovation of new products and services (Fig. 2):

A well known example of Social Innovation makes it sound as if it is/was unsuccessful and not necessarily CSR can be seen in the *Intel World Ahead* Program suggest revision since 2006 and makes twenty-first century technology more affordable and accessible for millions of people worldwide. Through Intel's hands-on collaboration with governments, telecommunications providers, technology companies, and other organizations, Intel World Ahead increases access to digital



**Fig. 2** CSR Europe (2012). Collaborative project valuing non-financial performance; analysis on the integration and maturity of CSR, Brussels, Belgium (Source: CSR Europe 2012 – ©CSR Europe)

devices, the Internet, and local content. The collaboration between all partners (Governments, NGO's and private companies), is developing long-term approaches that strengthen communities and encourage sustainable social and economic development (including job creation) while also adding business value from the solutions found.

Given the relatively low monitoring of sustainability across internal divisions within companies, there is still great opportunity to bring sustainability more to the core of the business strategy. Nonetheless, it would be fair to state that several companies are beginning to pioneer the transition to long term value creation, whereby increased stakeholder engagement and making sustainability the focal point of the business plan through creating shared value is now developing as an aspiration for businesses to remain competitive. Prime examples identifying this shift include Nestlé's strategy for 'Creating Shared Value' (CSV) and Unilever's 'Sustainable Living Plan'.

Nestlé introduced the CSV model in 2006, a strategy whereby the company aspires to efforts and investments in three environmental and social areas (nutrition, water and rural development), a model that builds on the company's responsibilities to environmental sustainability and compliance (Nestle 2012). Similarly, Unilever's model of CSV comprises a 'Sustainability Living Plan' which sets out a blueprint of a variety of sustainability objectives to achieve within a timeframe of 10 years. In a meticulously planned strategy, the company has set out around 60 targets under the principles of aiming to improve health and wellbeing, reducing environmental impact and enhancing livelihoods. These identifiable shifts are highlighting a new approach towards strategizing the value creation of a firm (Unilever 2012).

By looking at the series of companies beginning to adopt innovative models to create shared value, we can draw links between CSR and the concept of CSV. Companies such as Nestlé and Unilever have long been championed for their integration of CSR across their business models, as well as CSR communications



MATURITY FACTORS	INTEGRATION DRIVERS	
Non-Financial Key Performance Indicators (NF KPI)/Performance measures (PM) in place	Strategy and Decision-Making	Centralized and coordinated CSR strategy and objectives, feeding into the core business strategy
Targets related to NF KPIs in place	Management Model	Advance, evaluate and deepen CSR in line with core business strategy (process used to integrate KPIs)
NF results linked to business management process	Organisational Structure	Direct involvement of executives and strategic divisions in CSR decision/corporate planning (prioritization of KPIs)
NF results linked to performance management	Collaboration	Intensive cooperation between operational divisions to implement CSR strategy
NF results reported externally	Stakeholder Engagement	Capacity to gather and bring on board stakeholder expectations
	External Influence	External conditions and obligations concerning corporate social responsibility set by legislations, regulatory bodies and collective initiatives

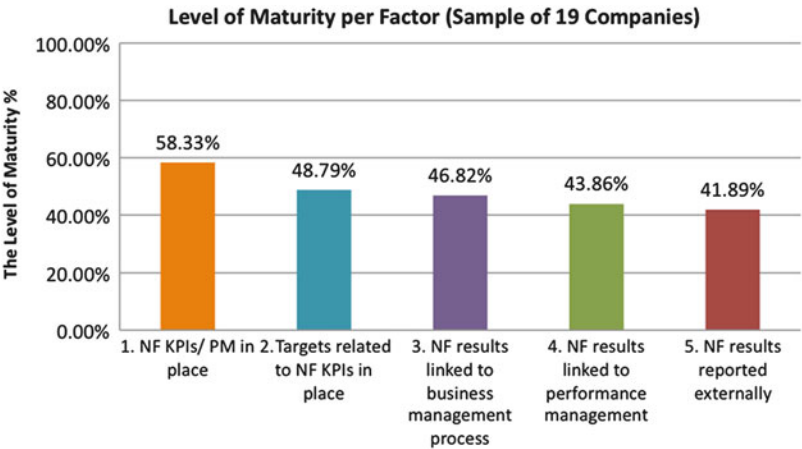
**Fig. 3** CSR Europe (2012). Collaborative project valuing non-financial performance; analysis on the integration and maturity of CSR, Brussels, Belgium (Source: CSR Europe 2012 – ©CSR Europe)

and reporting, and it would be plausible to state that these companies have now reached the threshold to shift towards the opportunity of creating shared value. However, to assume that social innovation is a result of a natural CSR evolution process would be a false assumption to make. To pride yourself as a business focused on sustainable competitiveness and contributing to the provision of socially innovative products and services, an all-round ethic of sustainability must embed itself into an organization, whereby the maturity and integration of sustainability inside the company processes and strategies needs to be of a high level.

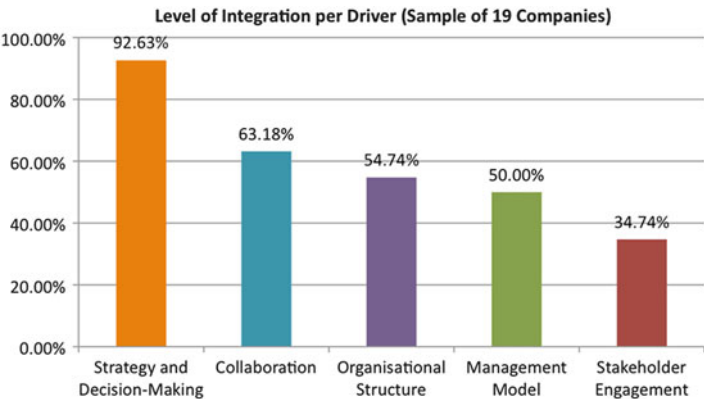
Should this be achieved, it would be fair to assume that the concept of shared value and social innovation will naturally develop in companies, which will in turn create an incentivisation process for companies to deliver sustainable solutions. However, the level of maturity and integration of sustainability inside the business world is still far from ideal. Last year CSR Europe started a major project on this topic identifying key drivers for both maturity and integration, (Fig. 3):

From the sample of 19 companies surveyed, the project concluded an average integration rate of 59 % and a maturity rate 46 % of the ideal state – which includes the full sustainability management of all affiliates and key suppliers (see Figs. 4 and 5 below). The maturity level results, the degree to which companies measure and manage non-financial information that is material to their business, indicate that most companies have key performance indicators (KPIs) in place to measure the non-financial performance of their holdings, subsidiaries and associate operations, but not necessarily for their suppliers. Challenges remain in defining targets to non-financial KPIs and linking the results to business and performance management. The results also highlight that there is a critical gap between the non-financial KPIs measured and the KPIs reported on.

Regarding the integration of CSR in company operations, the study shows that there are high levels of executive and board involvement in delivering a CSR strategy, with strategy and decision-making serving as the key driver used to integrate non-financial information to business. As the results show, companies



**Fig. 4** CSR Europe (2012). Collaborative project valuing non-financial performance; analysis on the integration and maturity of CSR, Brussels, Belgium (Source: CSR Europe 2012 – ©CSR Europe)



**Fig. 5** CSR Europe (2012). Collaborative project valuing non-financial performance; analysis on the integration and maturity of CSR, Brussels, Belgium (Source: CSR Europe 2012 – ©CSR Europe)

are struggling most with overcoming the barriers to incorporate non-financial information into management models and organizational structure, and with using stakeholder engagement to influence companies’ CSR strategy.

These results indicate that for the majority of companies, much greater emphasis must be placed on the maturity and integration of CSR values across operations should they seek to become sustainably competitive and fulfill the aim of long-term value creation. This will require a transition of culture and mindset across all operations within a company, from top to bottom and an increased willingness to build ties with stakeholders and other corporations.

### 3 Companies Should Embrace Strategic Collaboration to Create Societal Value

In order to address the emerging sustainability challenges facing society, it is becoming increasingly recognized that companies will need to seek avenues for collective action with NGOs and other business counterparts as well as channels for policy dialogue with government and other key stakeholders. Such collaboration can support the achievement of expected sustainability goals as it allows the firms to deliver value to the communities that they operate in through benefitting from on-the-ground expertise of NGOs. This in turn ensures long-term economic value creation for the company, thereby minimizing costs and risks. A successful example indicating this is the *Shakti Project* – a project whereby *Unilever has teamed up with NGOs to create a rural network employing 31,000 women that sells projects adapted to customers in more than 100,000 rural villages* (Dahan et al. 2010: 327). Such examples extend the notion to argue that business models can be viewed as generators of social value, and that economic and social value creation can be mutually reinforcing (Dahan et al. 2010: 328).

However, despite the fact that companies are willing to form collaborations with NGOs, collective action between firms themselves also needs to take place in order for companies to achieve real impact and to accomplish the long-term goal of sustainable competitiveness. Sustainability challenges, even at a local level, are too big to be tackled by a company in isolation and require a substantial initial investment. Nonetheless, collaboration between corporate organisations is easier said than done and thus overcoming this dilemma of collective action is currently the greatest barrier to addressing sustainability challenges effectively.

As outlined in a recent joint report by the Bertelsmann Stiftung and the United Nations Global Compact (Simeonov et al. 2012: 8), *Business-driven networks for sustainability have great potential to drive collective action and policy dialogue*. This highlights the significance of intermediaries such as CSR Europe (the European business network for corporate social responsibility) in providing a unique platform to remove corporate barriers, and on the contrary building an environment to promote thinking towards collective approaches to tackling emerging challenges and entering previously untapped markets. In doing so, companies will be more inclined to pool resources together and *invest in common goods together* (Simeonov et al. 2012: 9) which in turn will pave the way for efficient local cluster developments and increase the potential of the innovation of products and services. This will however require these networks to also focus their activities on practical collaboration projects with their members being willing to go beyond the mere joint learning and best practice sharing activities.

## 4 The European Movement on CSR

Results from the latest *Rio+20* conference have reiterated that the world can no longer rely on the sole force of governments to implement the change required in order to combat society's challenges. Instead, a collaborative approach spurred by the consolidation of business, government and stakeholders is the answer to overcoming society's emerging challenges. Whether the issues concerned are demographic change, resource scarcity or climate change, the role of a smart business approach to confronting these issues head-on is becoming ever more resonant. As previously highlighted, social innovation through creating shared value has emerged as the prime solution to address these concerns. Such an approach *offers corporations the opportunity to utilize their skills, resources, and management capability to lead social progress in ways that even the best-intentioned governmental and social sector organizations can rarely match* (Porter and Kramer 2011: 17). However, in order to ensure that the business community is able to pioneer the transformation towards a smart, sustainable and inclusive society, a continued effort on the way companies enhance the maturity and integration of sustainability in their main business strategy and processes is an on-going requirement.

In order for business to lead the way in overcoming the emerging sustainability challenges that we face, it is necessary for intermediaries such as CSR Europe to provide the platform to enhance collaboration and maximize opportunities through social innovation. As a result, to generate a Europe-wide solution to the challenges faced, the Enterprise 2020 initiative was launched in October 2010 with the ambition to promote responsible and sustainable business practices to tackle emerging societal challenges across the globe. Through providing the necessary guidance and a platform for collaboration to promote continuous improvement and transition towards a sustainable economy, CSR Europe aims to facilitate shaping the sustainable company of the future through the initiative, to the point whereby a company will have fully integrated CSR into its business strategies. The company of the future will operate profitably through mainstreamed responsibility and transparency, and innovates solutions for the planet and its people, in close cooperation with all stakeholders.

As the name suggests, the initiative aims to reshape business by the year 2020, thereby tying itself into the European Union's Europe 2020 strategy for a *smart, sustainable and inclusive economy* (Europa 2012) by 2020. The Enterprise 2020 initiative provides the foundation for a renewed partnership between business and the European Commission, thus creating a unique channel for businesses to build dialogue and cooperation between Europe's policymakers and government representatives.

Through a series of collaborative and member-driven projects organized through the CSR Europe network, in liaison with corporations, national CSR partner networks and stakeholders, the Enterprise 2020 initiative serves as an incubator and platform to confront some of the most pressing sustainability challenges. The

results of these projects will serve as a basis to develop the necessary synergies with European and international policymaking.

## 5 Conclusion

It is apparent that CSR is an important driver for strategic innovation and long-term value creation. Enterprises that deal with CSR as a peripheral issue, mainly related to public relations, risk missing out on potential competitiveness gains and sustainable growth opportunities that a fully integrated CSR approach presents. In the lead up to 2020, the most successful companies will be those implementing innovative CSR strategies at the heart of their strategy and business operations. In order to achieve this, companies should keep the following three elements in mind:

1. *Highly developed CSR management and transparency* – A company's ability to manage and mitigate exposure to environmental, social and governance issues is a key driver in determining its viability.
2. *Social innovation as business strategy* – seize the opportunities in tackling societal issues to simultaneously create business and social value
3. *Collaboration* – No single company, policymaker or organisation can successfully work in isolation to address today's complex social and environmental challenges

The common theme of adopting all these elements highlights the recognition that successful CSR initiatives take organisations beyond compliance with legislation and leads them to honour ethical values and respect people, communities and the natural environment. In the lead up to 2020, the business response to the CSR agenda will determine the sustainable competitiveness of the European economy. The active engagement of companies in Enterprise 2020 and other European and international initiatives show that there is a genuine business commitment to contribute to sustainable development and today even more companies consider the importance of implementing innovative CSR strategies at the very core of their strategy and business operations.

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# Leading with Innovation: Transforming Corporate Social Responsibility

Bradley Googins

## 1 Introduction

Over the past several decades Corporate Social Responsibility (CSR) has matured as a function within business adding increased value by moving through stages of compliance, integration, strategy and value creation (Googins et al. 2007; World Business Council 2006). In earlier stages, CSR took the form of philanthropy and compliance along the good citizen route. More recently, reporting, cause marketing, and sustainability initiatives reflected a greater responsiveness to emerging stakeholder activism and the perceived tie in to brand and reputation (Hatch and Mirvis 2010). More recent iterations sought greater legitimacy and strategic value for CSR which in turn led to a search for the business case, strategic philanthropy, new models of value creation, and widely adopted frameworks of win-win propositions and shared value (Porter and Kramer 2011). This developmental journey reflects a heightened set of expectations and demands of an environment in which social and environmental issues have become blended into the business model itself (Matten and Crane 2005).

While all of these contributed to a CSR that lay claims to increased strategic value, the claims were more often illusory than real. Nevertheless, no less a critic than the Economist reluctantly agreed that despite the paucity of evidence of CSR's strategic value, and the wide gap between affirmation of its strategic value and any evidence at the firm level, CSR was here to stay and seemed to have a role to play as business became increasingly intertwined with societal and environmental issues (The Economist 2008).

But even this remarkable developmental rise did not seem to prepare CSR for the most recent economic, political and social earthquakes that have shaken the institution of business, uprooted society, and challenged the existing social contract. Where CSR has indisputably served business in the past in traditional roles such as licensee to operate and basic citizenship duties, it occurred in a less complex society than the one business faces today. Consequently, CSR as it currently exists is far from adequate in meeting the challenges (or capitalizing on the opportunities) that it

faces today. Firms across the globe are confronted with failed financial institutions, a precipitous loss of trust, cracks in the very foundations of capitalism, and broadening perceptions that business is more a problem than a solution to our social problems such as global warming and income inequality. What is emerging from reflections on these developments is a growing realization that business can no longer be a bystander by dint of a narrow business model that defines its roles and responsibilities in very narrow terms of profits and short term horizons. With the decreasing power of the public sector, business finds itself dragged into these very difficult social and environmental issues, not out of any sense of noblesse oblige, or duty, but by shifting expectations and demands of a more active and demanding set of stakeholders. Business is enmeshed in a world that has become insecure in its economic models, unsure of how to deal with its considerable global corporate power, or how to address the limits of growth in resources, jobs and income. While business is solidly anchored in its self-interest, these more social, environmental and political issues are not set in its natural turf. Its ability to negotiate these very turbulent politics places it in uncomfortable roles, unfamiliar environments with no clear path forward. It is precisely within this turbulent context that CSR has the potential for significant value add for business, by trading on its traditional strengths of managing stakeholders and operating within the social and environmental spheres that have become so important to sustainable business.

In short, the challenge for CSR is one of resetting its core model to adapt (and hopefully lead) in an era of social, political and economic changes that are reshaping the social contract for business and consequently the business model itself. In the midst of this transformation, a separate but parallel movement is building, social innovation and social entrepreneurship that offers a powerful approach to solving some of the world's stickiest problems. Ironically, innovation occupies a core building block of business, one that fuels growth, insures sustainability and sharpens competitive advantage (Simanis and Hart 2009). But as core as innovation has been to the DNA of the firm, this same asset has never been an integral part of CSR. However, as social innovation and entrepreneurship builds momentum outside of the institution of business, it could well become the leading edge of transforming CSR, and by extension create real value for business.

## 2 The Settling In of CSR

Corporate Social Responsibility (CSR) has matured over the past two decades to the point where it has become widely accepted and mainstreamed across the globe, and is fast becoming a core component of modern business (McKinsey Global Survey 2006). Although CSR exhibits a great deal of variation in terms of definition, scope, form and structure, much of what we see in CSR has been motivated by a mix of ethics, compliance, public and community relations, reputation, and a reaction to a shifting set of expectations on the roles and responsibilities of corporations in society (Jupp 2002). CSR has become de facto an organizational focal point and



gathering place for corporations as they try to sort out the increasingly complex social and political terrain that marks its new operating environment. Issues of environmental standards and responsibilities, governance, supply chains, use of natural resources, labor conditions, product safety, are but a few of the issues that have now become front burner issues for the global corporation.

At the same time, CSR is showing signs of settling in, of becoming institutionalized in a fashion that may not auger well for either CSR or business and society (Vogel 2005). The movement towards standards, reporting, and even newer models of shared value, is shaping a CSR that may be more stuck – checking boxes as some in Europe have put it, or trumpeting highly visible partnerships that are not all that sustainable or impactful. What has evolved resembles more of a response than an engagement, more of a program than a strategy.

Ironically, by some standards CSR seems at last to be achieving the long desired goal of respectability and value to the business. CEO's increasingly understand the business case for CSR, believe in it, and are attributing more value to it. They repeatedly avow its strategic value (Accenture 2010). By many standards, CSR has been gaining the respect and stature of being more integrated and part of business rather than sitting on the periphery. Recent surveys say progress on this front is undeniable and has to be a source of satisfaction and pride to CSR professionals and proponents.

But here's the glitch. Two major obstacles confront the world of CSR.

1. Those same surveys report that CEOs are finding their companies' efforts constrained by competing priorities, organizational complexity, and gaps in execution. In other words, companies are pushing forward on CSR – just not very far, or very fast, or very effectively (Googins and Mirvis 2011). This is not surprising in that other similar issues, diversity, work family, stress programs, have gone through similar developmental steps that lead to a settling in and a diminished dynamism that marked their origins and driving forces. This process of reutilization has been studied by many scholars who conclude that it's a recipe for disaster. Don Sull, in his investigations of "Why Good Businesses Go Bad," attributes their decline to "active inertia" (Sull 2003). In other words, they just keep on keeping on, insensitive to changes in the business context.
2. As noted above, an almost perfect storm is washing across business in terms of social, economic and political upheaval around the globe. In its wake, global capitalism is being confronted with observable cracks (in the words of Bill Gates) and alternative models (state capitalism), and issues from short termism, governance, and even purpose are engendering great debate. Unfortunately, CSR remains overly focused on finding value through an older set of metrics, and sits on the periphery of these developments and debates, at a time when their active participation in the dialogue could, and should, be front and center

For CSR this presents a crisis and an opportunity. It is a crisis in as much as these developments in the broader society and in business in particular, render much of what had passed for CSR as irrelevant, immaterial and not particularly helpful to an institution desperately needing new approaches and strategies in an area where it is

not particularly strong. These same conditions present CSR with a unique opportunity of creating great value for both business and society in an area and on issues which speak to the core competencies and environments in which CSR has historically operated. CSR is quickly reaching an inflection point that will determine whether it can transform CSR in its role and strategic value for business, a stage that opens up great challenges and opportunities to raise its game and achieve even greater strategic value

### 3 Corporate Social Innovation (CSI): An Emerging Idea

Rarely would innovation be associated with CSR. An examination of the CSR literature would yield few citations, and in the practice of CSR there has been little attention to innovation as a core element. This is somewhat ironic on two fronts”

1. Business, the very setting within which CSR exists, considers innovation as core to its existence, its competitiveness and its sustainability (Christensen et al. 2006). Ironically, neither the cultural attribute nor the competencies around innovation have been transferred over to CSR either in its conception or its practice. This dissonance may somewhat explain why CSR has remained for so long on the periphery of business and has had such difficulty in being seen as integral to the business and a strategic component.
2. For the past decade, social innovation and social entrepreneurship have constituted the latest edge of confronting and solving social and environmental issues around the globe (Dees 2001; Saul 2011). The passion and rapid rise of social innovation has captured the attention of a new breed of social problem solvers, and has brought core business enterprise principles to finding new solutions. But CSR and the business community has observed this from afar, increasingly curious, but uninvolved with few exceptions such as the Shell Foundation have not adopted this as a strategic approach (Shell 2010)

This is not to say that there are many examples of corporate social innovation, and pockets of these are found throughout the globe. Today, a few leading companies such as Shell, Abbott Laboratories, Danone, Dow, Corning, and IBM are using the models and methods of social innovation to, respectively, manufacture safe and affordable cook-stoves, improve nutrition, build affordable housing, and help small businesses and non-governmental organizations in the developing world to operate “smarter” (Management Innovation XChange 2012).

## 4 Definition of CSI

There is no universally acknowledged concept of CSI, and even the term has barely been used (Jupp 2002). So how would one define it? My colleague Phil Mirvis and I attempted a definition recently:

Corporate Social Innovation (CSI) is a strategy that combines the unique set of corporate assets (entrepreneurial skills, innovation capacities, managerial acumen, ability to scale, etc.) in collaboration with the assets of other sectors to co-create breakthrough solutions to complex social, economic, and environmental issues that impact the sustainability of both business and society. (Mirvis and Googins 2012)

Achieving real change in solving the social issues of our time has proven to be as elusive as it has been frustrating. The “wickedness” of these entrenched issues have defied facile solutions and breakthroughs. As is often the case with “wicked” problems, solutions become institutionalized and approaches remain mired within narrow professional alleys and fragmented disconnected activities. Innovation both in the public and the private sphere opens up new approaches, and focuses on new solutions with a potential combination of private and public drivers, drawing on concepts such as creative destruction and entrepreneurial thought and action (Schlesinger et al. 2012). While innovation in public and private spheres have a different set of drivers and motivators, both essentially disrupt and unfreeze current approaches that are often stuck and overly rigidified

Because innovation has such a core place in business, CSI provides not only a natural alignment with the culture of innovation, but draws upon innovation to reset its function for addressing and assisting today’s challenging business operating environment. Business looks to innovation to foster disruption, and to find ways of doing things that imply a different offering, business concept or form of organization (Hamel 2000). It is now time for companies to use these same innovation frameworks and principles to address the social and environmental issues that confront it across the globe.

Creating and integrating social innovation into CSR represents a new step or stage for CSR. It requires a transformation of CSR that capitalizes on the dynamics and strengths of innovation as a means to break through much of the current strategic and organizational drag that serves to overly rely on traditional and outmoded platforms and processes. At the same time, CSI has the potential to energize, recast, and reframe approaches to these persistent issues so as to redefine corporate roles and responsibilities.

## 5 Characteristics of CSI

A cursory visit across the CSR landscape reveals some surprising shoots of innovation emerging. From these early examples we can begin to draw some rough parameters, and tease out some of the basic characteristics underlying corporate social innovation.

It is useful to examine the work of one of the very early pioneers in CSI, the Shell Foundation. Perhaps no company has had more experience at CSI than Shell. In 2000, The Shell Foundation set out to catalyze scalable and sustainable solutions to key global development challenges. As true pioneers they “set about doing this in ways that were new at the time: by pioneering an enterprise-based approach and by focusing on a range of social and environmental issues in which the energy industry has a particular responsibility. We also sought to harness links to our corporate parent Shell, for the purpose of delivering greater charitable benefit” (Shell 2010).

Armed with a charge to catalyze sustainable and scalable enterprise-based solutions to global development challenges, they chose a different path from the traditional CSR approach characterized by most corporate foundations. Their mission was characterized by three specific approaches:

- Focus: We chose to focus on development challenges arising from the links between energy, poverty and the environment and the impact of globalization on vulnerable communities
- Business-based: We started with the belief that the application of business thinking was essential to delivering solutions that were both sustainable and scalable. As such, we have sought to deploy “more than money” when working with our partners extending our support to business strategy and implementation
- Linkages to Shell: We sought to explore whether we could add value to achieving our charitable mission by drawing on the skills, tools and market knowledge embedded in Shell businesses across the world

Since Shell was early to the innovation game, it serves as a very effective Beta site for corporations attempting to learn the fundamentals of CSI. In reviewing the lessons learned from Shell, along with other leaders in this area (Googins and Mirvis 2012), a number of characteristics of CSI have begun to emerge including:

1. **Create a social vision for the company.** Dow Chemical states its purpose in this way: “Dow people include some of the world’s best scientists and engineers dedicated to solving global challenges. We focus our *innovation engine* on delivering new technologies that are *good for business and good for the world*.” By 2015, the company aims for three breakthroughs that “will significantly help solve world challenges.” Teams are working in the areas of water, food housing, energy and climate change, and health.
2. **Bring employees to the center of the effort.** Since 2008, IBM has sent over 1,000 employees on 80 teams to 20 countries on one month service learning assignments through its Corporate Service Corps. In Tanzania, IBM teams collaborated with KickStart, a nonprofit exploring new technologies to fight poverty in Africa, to develop modular e-training courses in marketing, sales and supply chain management for local entrepreneurs (Mirvis et al. 2012)
3. **Nurture intrapreneurship.** Jo da Silva has created an International Development consultancy within Arup – the professional service firm that designed the Sydney Opera House and Pompidou Center in Paris. Her group provides

technical advice and practical solutions to reduce poverty and address social and environmental health in developing countries. Hundreds of the company's consultants have been engaged as "social intrapreneurs" to develop solutions for clients that can be spread across continents (Grayson et al. 2011).

4. **Use the social sector for R&D and service support.** Many of the companies involved in global service projects work with nonprofit partners (e.g., CDC Development Solutions, Digital Opportunity Trust, Endeavor, etc.) to identify clients in need, define projects, and handle placement logistics. NGO partners with expertise in emerging markets and placing volunteers can accelerate cross-cultural socialization and provide a "soft landing" for a company in a region where it has limited or no existing business presence.
5. **Reset philanthropy to innovation.** The Shell Foundation used to be the philanthropic arm of the parent corporation. Now it is about funding and developing commercially viable business models that can achieve sustainable social impact. Says, Jurie Willemse, one of Shell's NGO partners, "For us it was always about developing a business model that you can scale-up and replicate in numerous countries and regions and which sustainably addresses the needs of start-up and growing businesses – a solution of global value for emerging economies rather than just a few countries in Africa."
6. **Engage a broad spectrum of interests using connective technology and social media for innovation.** Nokia runs a social innovation lab for scaling the good works of innovative NGOs; Dell sponsors a social innovation challenge for college students; and Studio Moderna leads a *Challenge:Future* competition that spans over 200 countries, 15,000 schools, and over 23,000 innovators. This is all about using social media to drive social innovation. Meanwhile, companies like Best Buy use social media to spark and shape programs such as the company's innovative reuse and recycle program for electronic equipment.

## 6 What Can Innovation Do for CSR?

From the early leaders and adopters of CSI we can already begin to determine some of the potential of CSI for a company. Most of these companies possess a wide range of tangible and intangible assets that can be of immense value in creating breakthrough solutions in encouraging new entrepreneurial thought and action. These assets fall into three categories:

- First and most fundamentally, established business is a vast repository of the generalized business DNA that is encapsulated in people, knowledge, and techniques likely to be found in great profusion especially in big business. These assets including innovation, scaling up, strategy, are all critical elements for CSI and for resetting the corporate approach to the social and economic issues that are now within its purview.

- The second asset category falls under the heading of “convening power” This is shorthand for the subtle and overt ways by which a company’s track record, reputation, brand, political reach, and financial clout make other people listen and respond to what the company has to say. In addition as Shell discovered, extensive and powerful networks exist within any business that can be very useful in building out social innovation and insuring its sustainability.
- A third asset includes the company and sector specific physical and market knowledge based assets that lie at the core of the unique processes of value creation on which every company relies

There is a strong case for arguing that the next stage of CSR should be focused on producing a wave of high quality, high impact, social innovation. CSI can move the current state of CSR from a “clean up”, minimize damage, and practice random acts of kindness, to a more systemic and positive engagement that tackles large scale change.

An agenda for broadening and deepening business engagement might include:

- Repositioning CSR within companies to connect it more strongly to the core business activity and distinctive expertise of the organization. This is particularly true in the area of innovation. Connect CSR to the innovation streams and functions that are found throughout the organization by resetting CSR within an innovation framework.
- Creating opportunities for key employees to deepen their CSI involvement by creating sabbaticals, secondments, and project placement opportunities at local level allowing employees to develop formal, informal and out of hours volunteering into more structured opportunities.
- Developing Service Learning. Companies such as Accenture and IBM have launched Development Partnerships and Service Corps to bring business expertise to developing countries. In effect, companies can set up an internal social enterprise that both engages and excites employees and brings real value to development challenges across the globe.
- Encouraging Intrarepreneurship. By broadening the concept of corporate volunteering, companies can encourage employees to innovate around social issues through their current organizational roles. These intrapreneurs become internal change agents looking for and developing social breakthrough solutions through their corporate roles and positions.
- Identifying CSI champions among the senior hierarchy of companies who could broaden CSI as a systems approach, and integrate it across the company avoiding the silos that too often keep CSR as a second tier priority and one that is peripheral to the business.
- Encouraging a higher set of expectations that company efforts around social and environmental issues will focus on system issues. This will require building a more rigorous assessment and goal setting around impact, and less reliance on process goals and numbers as in amounts of charitable contributions and volunteers.

## 7 Conclusion

The challenge for CSR today lies in discovering the power of innovation as a means of transforming current practice to create a relevant and effective strategy for assisting companies to adjust, adapt and respond to a markedly changed external environment, along with heightened expectations from all corners on increased engagement with social issues that lead to impact. In effect, this will require a reset of CSR into a more innovation centered approach. Creating a CSI framework enables corporations to build a more bottoms up model, engage employees and other stakeholders in co-creating solutions to difficult social and environmental problems. CSI can act as something of an exit ramp for companies who have been on a downward spiral in terms of trust, reputation and overall measures of citizenship. By drawing on core competencies such as innovation, a more genuine approach emerges from the corporation that ties its core values and its most valued assets to employees, communities and other stakeholders in a co-created and shared innovation process. Although CSI is not a sinecure, it does open up an opportunity for creating a new generation of companies that actually solve social and environmental problems through their core strategies, increase basic trust, build brand value, heighten employee motivation and commitment, *and* create prosperity and profit in the process.

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# Inclusive Business Models as a Key Driver for Social Innovation

Jessica Scholl

## 1 Introduction

In 2005 Anant Kumar was travelling to hospitals around India, conducting market research for his employer, Hindustan Latex Limited (currently HLL Lifecare), a top global manufacturer of condoms (BCTA 2010). As his research progressed, Kumar began to recognise some disconcerting trends. The women he spoke with were dissatisfied with the lack of transparency, quality, and service experienced at the free public hospitals, yet private hospitals were largely unaffordable. A significant portion of women were so frustrated that they opted to sell assets or take out loans to finance visits to private hospitals. Recognising a clear social need and a market gap, Kumar convinced HLL to finance a maternity clinic aimed at providing high-quality yet affordable healthcare to low-income mothers and children in Hyderabad's urban slums. By cutting costs through specialisation and innovative processes, LifeSprings Hospitals, with Kumar as CEO, began successfully applying its business acumen to an underserved area of health care in India.

LifeSprings is a celebrated example of the convergence of business and social aims, otherwise known as 'inclusive business.' Inclusive business (IB) can be defined as 'profitable core business activity that tangibly expands opportunities and improves livelihoods for the people at the base of the economic pyramid (BoP) by engaging them in value chain as direct employees, producers, suppliers, distributors, retailers, consumers—or even as innovators' (BIF-IAP 2012).

On first reflection, it is not immediately clear what makes IB so unique. Wouldn't any non-exploitative economic activity occurring in low-income communities qualify as IB? It is within the answer to this question that we start to uncover the relationship between IB and innovation, for it is an underlying emphasis on innovation that separates IB models from business-as-usual in developing markets. More specifically, the qualification that opportunities and livelihoods must be *expanded* or *improved* indicates the need for some level of innovation to remove the barriers previously inhibiting these expansions or improvements. In practice,

this means that IB models consist of highly innovative strategies to buy from, distribute through, and sell to high numbers poor people (Nelson 2007).

From a business perspective, much of the early enthusiasm for IB stemmed from the untapped ‘fortune at the bottom of the pyramid’ (Prahalad and Hart 2001) and the potential profits to be made by multinational corporations (MNCs) that develop affordable products and services for the four billion or so low-income consumers. To businesses facing increasingly saturated markets in the developed world, BoP consumers offered a pathway to continued growth. Today, the concept of IB has evolved beyond positioning the poor as consumers and MNCs as sole architects. A broader portfolio of drivers has emerged, which demand engagement with the BoP to strengthen supply chains, uncover new sources of innovation, and mitigate risk. The term also encompasses initiatives adopted by small and medium enterprises (SMEs) or domestic based companies in developing markets.<sup>1</sup>

From a development perspective, IB offered a promising new method for fighting poverty. By leveraging market mechanisms and business acumen to approach development challenges, IB could potentially find success where previous strategies had failed.

With a unique set of drivers and actors, the role of innovation in IB is uncontested. Prahalad’s (2004) 12 Principles of Innovation (Fig. 1) provide a comprehensive framework for stimulating the process and/or product innovation needed for companies to enter and excel in BoP markets. While implicit within many principles, this framework does not venture to explain the relationship between IB and *social* innovation.

In this article, I propose a framework for analysing the mechanisms through which the theory and practice of IB stimulate social innovation. In doing so, I provide insight on the motivational forces driving private sector interest in IB, as well as the benefits for both society and business.

## 1.1 The Framework

In order to understand how IB may stimulate social innovation where traditional business may not, we must first deconstruct the concept. For this purpose, I propose the *Four ‘P’s of IB*: Philosophy, Product, Process, and Policy.

As seen in Fig. 2, this distinction enables us to analyse the relationship between IB and social innovation throughout a business’s ‘sphere of influence’ (Nelson 1998).

The *philosophy* underlying an IB model—as manifested in a company’s vision, leadership, and values—is itself a social innovation, or a novel solution to persistent

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<sup>1</sup> Around two-thirds of the companies supported by the Business Innovation Facility, a UKAID programme aimed at promoting the development of IB models, are domiciled in the focus countries of Bangladesh, India, Malawi, Nigeria, and Zambia.

### CK Prahalad's 12 Principles of Innovation

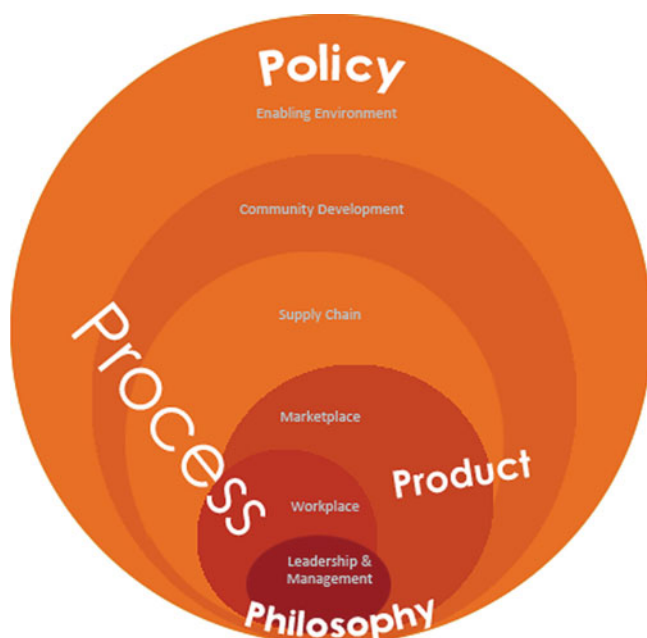
1. Reevaluate the price-performance envelope. Lowering prices alone will not adequately serve BoP markets. Rather, companies need to determine how to produce low price products and services that are also high performing.
2. Develop hybrid solutions by creatively blending emerging technologies with existing infrastructures.
3. Develop solutions that are easily adaptable to the cultures, languages, and environments of different BoP markets to ensure scalability and transferability.
4. Conserve resources through eliminating, reducing, and recycling inputs.
5. Adapt products to the specific functionality of BoP markets.
6. Consider process innovations to circumvent the logistical challenges of BoP markets.
7. Deskill work to accommodate the lower skill levels, poor infrastructure and difficulty of access for service in BoP markets.
8. Educate consumers on why and how to use products.
9. Develop products for hostile environments to ensure they withstand abuse, dirt, unsanitary conditions, and extreme weather, as well as inconsistent supply of utilities, such as water and electricity.
10. Research interfaces throughout the supply chain to understand how the product interacts with the language, culture, skill level, previous knowledge and demands of the consumer population
11. Design innovative distribution methods to ensure solutions reach consumers in poorly accessible rural markets and highly dense urban markets.
12. Critically consider the broad architecture of the system upon which solutions are based and create alternative models if current systems cannot easily incorporate innovation.

*Summary based on Prahalad (2004)*

**Fig. 1** Prahalad's 12 principles

poverty and an existentially insecure global economic system. Returning to the example of LifeSprings Hospitals, the concept of integrating the best of government run hospitals (i.e. accessibility) and of private hospitals (i.e. quality and efficiency) defied the stereotypes surrounding sectoral (i.e. government, business, and civil society) roles and interests. By rejecting the demonization of profit common among those working towards social aims and the profit maximisation 'at all costs' paradigm stereotypically attributed to those working in business, LifeSprings Hospital created a more effective and widely beneficial model for addressing maternal and infant health.

Within the marketplace, the *products and services* developed using IB models provide unique solutions to challenges faced by BoP populations. For instance, the services provided by LifeSprings Hospitals enhance the wellbeing of women and infants.



**Fig. 2** Policy, process, product, philosophy

The non-traditional business *processes* necessary for IB in the workplace, throughout the supply chain, and within the community—such as partnerships, capacity building efforts, and deeper stakeholder collaboration—may create societal value where traditional business processes do not. With an emphasis on greater interaction with external actors, societal value is derived from the spillover effects of collaboration, such as knowledge sharing, skill transfer, cross-sector trust building.

To improve clinical quality, build internal capacity, mobilise resources, and engage stakeholders, LifeSprings Hospitals has drawn on the expertise and resources of their partners—the Nike Foundation, the Institute for Healthcare Improvement, NYCE, the Rockefeller Foundation, Adayana, and Global Rickshaw, Napier Healthcare, Tvarana, Inductis, the International Partnership for Innovative Healthcare Delivery, and Dhii. Partnering with these organisations not only ensures LifeSpring Hospitals has access to quality resources, but also creates opportunities for partners to hold each other accountable to their shared social mission.

Finally, the *policies* of donor agencies, multilateral institutions, governments, international NGOs, and other stakeholders create an enabling environment for IB in which social innovation is incentivised, facilitated, and rewarded. LifeSpring Hospitals' engagement in the Business Call to Action (BCtA)—a donor funded initiative to promote IB—and receipt of the 2010 World Business and Development Awards have contributed to the credibility needed for the initiative to grow and scale-up its social impact.

The following sections further explain how IB is intrinsically linked to social innovation through its philosophy, products, processes, and surrounding policies.

## 2 Philosophy

Philosophically, the concept of IB is itself a social innovation. As the product of a confluence of global economic, socio-political, and micro-economic forces, it is reshaping the way businesses view leadership, organisational structure, management systems, value chains, and stakeholder relations to ensure both financial and social profit.<sup>2</sup> In short, it is a philosophically different approach to doing business, driven by non-traditional market forces, guided by non-traditional business practices, and incentivised by both financial and social aims. It is the simple realisation that profit and societal benefit are not mutually exclusive aims when time frames are elongated, processes adapted, and products tailored.

### 2.1 Business Drivers

While IB is rather simplistic conceptually, it is not easy in practice. For this reason, it has taken a perfect storm of social, political and economic forces to guide business into this arena. On the global level, the economic downturn has saturated developed markets, driving business leaders to seek growth ‘outside the developed world box.’ To enhance competitive advantage, new consumers, more reliable supply-chains, cheaper inputs, and innovative products are sought in places unfamiliar to traditional business. At the same time, depreciating trust in business—accelerated by the financial crisis and epitomised most recently by the Occupy movements—has threatened businesses’ social licence to operate.<sup>3</sup>

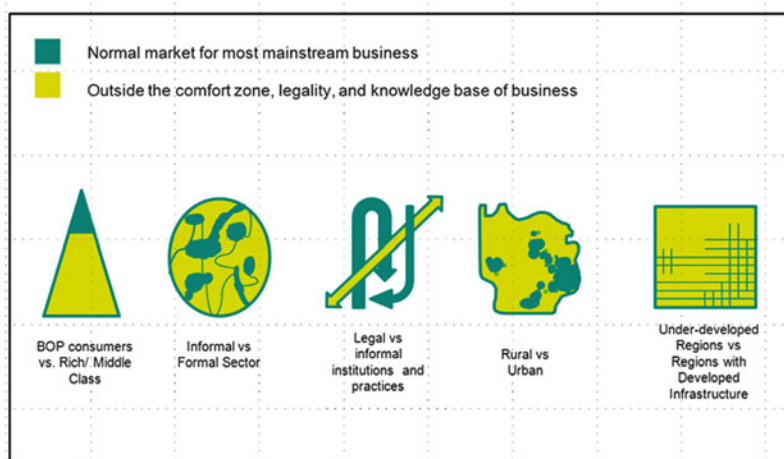
As the search for growth and a fragile social licence are driving MNCs to the gates of BoP markets—and fuelling the growth of domestic companies within and around those gates—local market conditions are steering companies towards IB models from inside the gates. Figure 3 demonstrates some of the ways in which BoP markets lie outside the comfort zone of traditional business.

The gulf of cultural, institutional, financial, and physical differences between developed markets and BoP markets prevent companies from simply transplanting business models from the former to the latter. Thus, companies are exploring IB as a means to navigate and overcome some of the challenges posed by local market conditions.

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<sup>2</sup> Social profit refers to the positive social gains accrued by an initiative or investment.

<sup>3</sup> A social license to operate can be defined as the informal consent or approval of local stakeholders for a specific project.



**Fig. 3** Strategies to overcome market constraints, Adapted from Harrison 2011

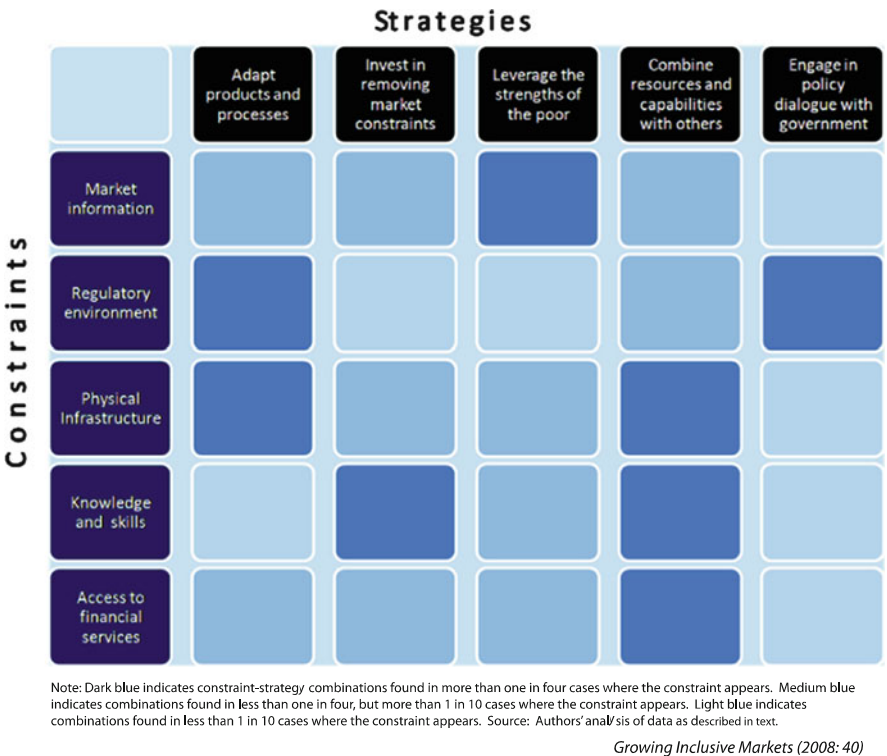
As with all new frontiers, companies are increasingly realising that they will have to pioneer new ways of working to be successful. Where the judiciary is weak, businesses will have to rethink how they incentivise and enforce contracts. To understand how informal power structures impact a supply chain, business may consider partnering with local NGOs. In Fig. 4, the Growing Inclusive Markets (GIM 2008) initiative identifies five categories of constraints commonly faced in BoP markets and five available strategies for overcoming these challenges.

Businesses that pursue new strategies—such as cross-sector partnering, intra-industry collaboration, or supply-chain capacity building—must then adapt their underlying structures to accommodate these changes. For instance, a company may need to reshape how it views risk and reward, or elongate the time frame for evaluating cost and revenue to better align with these new processes.

## 2.2 Development Drivers

As strong socio-economic forces guide companies to adopt these innovative business models, a concurrent set of geo-political and social forces are steering development actors—NGOs, development agencies, donor organisations—towards profit making development programmes.

Six decades of development policy has produced mixed results. With periodic donor fatigue matched by lacklustre progress against internationally set targets, such as the Millennium Development Goals (MDGs), development actors are seeking innovative and resource efficient ways to alleviate poverty, empower populations, and improve social welfare. The urgent demands of a rapidly growing



**Fig. 4** Growing Inclusive Markets

global population in a world of increasingly limited resources are applying further pressure to the search for solutions.

For some organisations, this search has led them to commercialise their operating model, or integrate business instruments, such as profit orientation and pricing strategies, into their efforts to empower the poor. ‘Business DNA’—a term used by the Shell foundation to describe the application of business thinking, models, and disciplines to development objectives—is being increasingly leveraged to advance human development. As Jenkins and Ishikawa (2009, 6) explain ‘the opportunity to participate as suppliers, distributors, or retailers in commercial value chains can help increase local job and wealth creation, enhance skills and capacity, add purchasing power, and generally stimulate economic activity and development—contributing, in the process, to quality of life.’

It is the simultaneous influence of these business and development drivers that have set the perfect conditions for the concept of IB to emerge as a potentially more effective alternative to ‘business and/or development as usual.’

### 3 Product

One of the most tangible ways in which IB drives social innovation is the development of products and services accessible to the BoP. By modifying existing products and services to be more affordable or creating new ones that serve the specific needs of low-income communities, companies are providing goods and services that enhance quality of life, enable increased productivity, improve health, and create opportunities for the BoP.

To circumvent the constraints previously preventing access to BoP markets, companies both adapt pre-existing products and develop new, BoP tailored solutions. Unilever has excelled in the former with smaller packaging for household goods. For instance, single use shampoo and conditioner packets have become popular in some markets. This both reduces products to an affordable size and enhances transportability. ToughStuff has pursued the latter method by narrowing functionality and enhancing durability to make technological products more affordable, simpler to use, and more resilient in harsher environments.

While it is clear that the rise of the BoP as valuable consumers is driving product innovation, there is contention as to whether or not product innovation equates with social innovation. The question arises: Should product innovations that do not explicitly improve the quality of life or livelihoods of the poor, but rather only increases accessibility to the poor, be recognised as socially innovative. Critics argue that these products simply impose western consumerist culture on unsuspecting populations. For instance, it's easy to argue that increasing the accessibility of skin whitening crème does not constitute a social innovation. Without rejecting this concern, it is important to consider the wider business model. For instance, if the demand for skin whitening crème fuelled the development of a distribution network for multiple products, including much needed medical supplies, should it still be condemned?

There is no easy answer to this question. However, a study of BoP ventures by Hart and London (2005, 31) provides some comforting insight. It reveals that successful initiatives were those which 'maximized the functionality of the product or service in terms that were important to local users.' In other words, business models that did not directly address the needs or interests of the BoP performed poorly.

### 4 Process

Process innovation—the adaptation of business processes to overcome the logistical and financial bottlenecks preventing commercial development in BoP markets—is quite possibly the strongest factor differentiating the social impacts of IB from business-as-usual.



Many of these strategies—including non-traditional business-to-business partnerships, greater stakeholder consultation, supply chain capacity building, cross-sector partnerships, and consumer education—demand greater interaction with stakeholders. Hart and London (2005, 33) find that ‘native capability’—a term that refers to the ability to ‘develop fully contextualized solutions to real problems in ways that respect local culture and natural diversity’—is needed to craft strategies that build on existing conditions and resources.’

These strategies can ensure or maximise the societal value derived from IB activity in many ways. First, the emphasis on collaboration increases the odds that the appropriate expertise will be applied to different aspects of the project, potentially enhancing overall quality. Second, broader collaboration demands greater accountability. Empowered by the unique resources and capabilities they contribute to a project, partners have greater authority to hold each other to account for their social aims. Third, increased interaction maximises the spillover effects or externalities of business operations. Greater knowledge sharing, skills and technology transfer, and new linkages create opportunities beyond the individual IB model. Finally, increased transparency and exposure between actors offers opportunities to strengthen intersectoral trust and understanding.

Stakeholder engagement for IB can take many forms in practice. Strengthening linkages with local SMEs can accelerate “local integration and ‘rooting’, providing access to local knowledge and, by spurring growth and development in the local SME sector, bringing about positive social and economic impacts in the wider community” (Jenkins et al. 2007, 6). A company may need to build the capacity of its local supply chain to ensure consistent supply levels or that delivery delays do not negate the reduced cost of local procurement. A recent study of 77 inclusive business models nominated for the World Business and Development Awards revealed investment in supply chain capacity to be the one of the most common strategies employed to overcome challenges (Prescott and Scholl 2012). By providing technical assistance and training to thousands of sorghum farmers in Diageo and its local brewer, Guinness Cameroun SA, were able to replace a significant portion of barley imports—from a volatile commodity market—with a more reliable supply of locally grown sorghum.

To build demand for a product or service, companies may need to educate consumers on its benefits or build their capacity to use the product appropriately. Dream Light Solid Waste Cleaning and Recycling in Ethiopia has had to work closely with communities to understand the importance of systematic waste collection. Within the aforementioned WBDA study, the most commonly reported bottleneck related to building demand while the most commonly reported strategy for overcoming these challenges was the engagement of low-income consumers (Prescott and Scholl 2012). ICT solutions often demand consumer education, such as Reuters Market Light’s instruction for farmers on how to use its mobile phone based, professional information service.

## 5 Policy

IB cannot catalyse widespread social innovation alone. Rather, it must operate in a supportive environment. This is not to say that governments must implement the common portfolio of business enablers (e.g. tax incentives, liberalised trade zones), nor that national governments need be involved at all. In countries with highly bureaucratic and corrupt polities, successful IB models may be those that circumvent the government all together. Nonetheless, IB will not reach the scale needed to fundamentally empower the BoP by operating in a vacuum. Donor agencies, foundations, impact investors, multilateral institutions, and international NGOs must build up their enabler capacity.

Research is needed to provide specific know-how, while advocacy and awareness raising are needed to bring credibility to such initiatives and attract resources. Donor supported initiatives, such as Business Call to Action (BCtA) and the Business Innovation Facility (BIF), are meeting these challenges. Along with global award programmes, such as the World Business and Development Awards (WBDA) and the G20 Challenge on IB Innovation, these initiatives are conducting necessary research, facilitating knowledge exchange, raising awareness of successful endeavours, and empowering leading organisations with external validation.

Financial institutions must provide patient capital. The rise of impact investing—or investments made based on the assessment of potential social and environmental impacts as well as the financial return—and microfinance has opened funding for IB initiatives. Organisations, such as the Grameen Bank, Kiva, Microplace and the Aga Khan Development Network, among many more have popularised the practice of micro-lending to both socially and financially profitable initiatives. Venture capitalists, like the Acumen Fund, are demystifying the risks associated with lending to the poor. Critically, these programmes also ensure that business models are designed to achieve maximum social impact, as much of this support is contingent on embedding social value drivers into the business model.

## 6 Conclusion

Social innovation is an intrinsic component of inclusive business. As an alternative to business-as-usual, the concept of IB has emerged as a more socially equitable way to engage disenfranchised populations into the formal, global economy. With a newfound recognition of the BoP as valuable customers, IB is promoting the development of products and services directly beneficial to these populations. The processes needed to successfully implement IB models are fundamentally redefining the relationship between business and its stakeholders. Finally, the policies adopted by other actors to promote the development of IB models reinforce the emphasis on social benefits. Overall, by assigning broad value to populations

once deemed negligible to some actors, inclusive business may have the potential to catalyse the systemic change needed for widespread social empowerment.

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# Social Entrepreneurs as Main Drivers of Social Innovation

Mirjam Schöning

## 1 So What Actually Is the Difference Between Social Entrepreneurship and Social Innovation?

Social Entrepreneurship as a term and concept was coined in the late 1990s when Ashoka started to use the expression for the entrepreneurs it supports and Greg Dees provided the first academic definition in “The Meaning of Social Entrepreneurship” (Dees 1998). Social entrepreneurship has been defined and redefined, but the most widespread definitions prominently embed the notion of innovation in their definition. For many, social innovation and social entrepreneurship are largely the same.

Social innovation only became a popular term a decade later. Historically, the expression can be traced back centuries and has been used by Benjamin Franklin, among others. However, in the context of the meaning of social innovation as described in this book, the term only recently emerged (Mulgan 2007; Phills et al. 2008). In 2006, the Schwab Foundation added “The Voice of Innovation” to its tagline and mission. In 2008, the US Government established a White House Office of Social Innovation and Civic Participation. The EU has formulated a Social Innovation strategy as part of the larger EU 2020 Innovation Union framework and the UK has already been discussing social innovation in the public sector since the beginning of the millennium.

Social innovation describes the mechanism, the actual innovation, such as microfinance, micro-insurance or off-grid energy solutions. Social entrepreneurs and the social enterprise are the actors driving social change through innovation. The fact that the expression “social innovation” made a popular entry on the scene and has pushed back the use of social entrepreneurship to some degree reflects the recognition that social entrepreneurs are not the only actors bringing about social innovation.

Governments, businesses and large NGOs are discovering the potential for driving social change through innovative approaches either by themselves or in cooperation with social entrepreneurs. Many of them have created entire divisions focusing on social innovation, such as Mercy Corps and Hewlett Packard. Social

innovations pioneered by companies have also been termed “Corporate Social Entrepreneurship” (see Schwab 2008 for definition and examples). The mobile payment system MPESA in Kenya, for example, is an innovation spearheaded by Vodafone and the DFID from the UK. Governments and regional entities are formulating explicit strategies to stimulate social innovation as a means to create employment and solve challenges in the education, health, and environmental sectors. The EU Commission, for example, has launched a Social Business Initiative in November 2011, specifying eleven measures to foster social enterprises or financial intermediaries in the EU.

## 2 What Is a Social Entrepreneur?

The emergence of companies, NGOs, academics and governments as conscious contributors to social innovation no doubt symbolizes significant progress. Social entrepreneurs cannot “go it alone”. However, a strong emphasis remains on the social entrepreneur and his/her organization as a key driver of social innovation. Companies such as Google, Apple and Amazon have demonstrated over the past decades that new products, services and processes in the business sector are mostly developed by new entrepreneurs. Similarly, innovations in the social sector have often largely been driven by entrepreneurs, albeit much less known ones compared to Steve Jobs or Bill Gates, with the exception of Nobel Peace Prize winner Muhammad Yunus, who pioneered microfinance.

Apart from Muhammad Yunus, who are the social entrepreneurs that drive social innovation? What characterizes a social entrepreneur?

Social entrepreneurs share many characteristics with traditional entrepreneurs. They see solutions where others only see problems. They don’t take “no” for an answer, but see it as a challenge to try harder. They manage to be extremely resourceful, making something out of seemingly nothing. In addition, almost all social entrepreneurs have been called crazy by their immediate friends and family. They relentlessly pursue their vision for a better world and make it the vision of those around them without being able to rely on financial incentives as a reward. Elkington and Hartigan list a number of reasons why social entrepreneurs are “unreasonable people” after a quote from George Bernard Shaw that “the reasonable man adapts himself to the world, whereas the unreasonable one persists in trying to adapt the world to himself. Therefore all progress depends on unreasonable people” (Elkington and Hartigan (2008)).

Despite years of discourse between academics and practitioners, no clear definition of a social entrepreneur has emerged. As Sally Osberg and Roger Martin wrote in their article “Social Entrepreneurship: The Case for Definition” (Martin and Osberg 2007: 28–39), the term has become “a truly immense tent into which all manner of socially beneficial activities may fit”. They propose that social entrepreneurship is “a direct action that generates a paradigm shift in the way a societal need is met”.

Interestingly enough, the common denominator among most definitions is actually the notion of innovation and social change. Greg Dees in the earliest academic definition (Dees 1998) describes social entrepreneurs as “individuals that engage in a process of continuous innovation, adaptation and learning”. Both explanations of “What is a Social Entrepreneur” provided by Ashoka and the Schwab Foundation for Social Entrepreneurship on their respective websites highlight the importance of innovation to achieve social change in the very first sentence.

Recently, the European Union has developed a definition of social enterprise in consultation with the main actors in the field in Europe, which is gaining widespread recognition (EU Social Business Initiative 2012): ‘Social enterprise’ means an enterprise whose primary objective is to achieve social impact rather than generate profit for owners and stakeholders. It operates in the market through the production of goods and services in an entrepreneurial and innovative way, and uses surpluses mainly to achieve social goals. It is managed in an accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activity.

The European Union is also stressing the importance of Entrepreneurship Education in schools to further increase and enhance the knowledge and interest at a young age and is asking various stakeholders to contribute to finding solutions. An example of a very innovative initiative can be seen in the development of a “Social Entrepreneurship Curriculum”, led by the Schwab Foundation, Intel Corporation and the Catholic University of Eichstätt-Ingolstadt. This 40 page document is about to be implemented in various German states in the future. It is a typical example of cross-collaboration between NGO’s (Schwab Foundation, University), private sector (Intel Corp.) and Governments (Ministries of Education) and was presented recently at the World Economic Forum in Davos.

Technically speaking, entrepreneurship does not necessarily have to be innovative. However, the definitions of social entrepreneurship demonstrate that most organizations in the field have placed an emphasis on the innovative component of the social enterprises they choose to work with. While more innovation is clearly needed to come up with more effective and efficient solutions, one major challenge in the field has been scaling these innovations and bringing the benefits to a large population group. There is something to be said about social entrepreneurs that simply take up a social innovation and spread it to a different context and region. We definitely need more of those entrepreneurs. The time has come to equally celebrate and support entrepreneurs who “merely” replicate and adapt innovations with a proven impact. Too many entrepreneurs and companies are trying to be innovative, but end up re-inventing the wheel at a great cost.

In their recent article “Innovation is not the Holy Grail”, Seelos and Mair (2012) even go a step further and question the current “hype” around social innovation. They argue that the “prevailing innovation discourse may push organizations toward adopting innovative practices, when actually more incremental developmental practices would produce more value over time. . . . Unfortunately, dedication and routine work do not have the sexiness factor of innovation.”

While innovation seems to have been the key component of current definitions of social entrepreneurship, much less consensus exists around the question of financial sustainability of a social enterprise. Some organizations propagate financial sustainability as part of the definition of a social enterprise. But the reality is that the majority of social enterprises are largely grant-dependent. The Schwab Foundation probably places a larger importance on financial self-sustainability than other support organizations. Yet, out of the close to 200 social enterprises in the Schwab Foundation community in 2012, only around 30 % are not dependent on some form of donations.

Social enterprise can come in various legal forms, for profit, not for profit or a combination of both. Most social entrepreneurs set up a variety of different legal entities to suit their hybrid structures.

However, a rising number of social enterprises, those more accurately called social businesses, are aiming for or already achieving a small profit. It is this category of social business that most young entrepreneurs are now striving to set up. Some, notably in the microfinance sector, are making substantial profits, thus raising the question of where to draw the line between a social business and a conventional company. The general answer is that a social business addresses a societal and/or environmental objective as its main mission. The key aspect is that the organization maximizes social or environmental value creation while optimizing the financial return.

As long as social returns remain substantially more difficult to calculate than financial returns, this definition of a social business allows for significant ambiguity. Professor Yunus therefore further limits a social business to a “non-loss, non-dividend company”, which strive for a modest profit, but where investors do not receive financial dividends beyond their initial investment. Once the initial investment is paid back, profits remain in the company to finance the expansion.

### **3 Examples of Social Entrepreneurs Pioneering Social Innovations**

Social entrepreneurs are arguably the biggest source of social innovation to date. The pursuit of these innovations often involves going against the conventional grain of how companies, public institutions or large NGOs have operated. Many social entrepreneurs have therefore left larger institutions as doctors, teachers, mayors, consultants or journalists to start organizations that are fully dedicated to implementing and continuously improving a social innovation.

The following two examples showcase two social entrepreneurs which have pioneered very innovative solutions. The first example is operating as a non-profit organization (but with an income stream), the second as a for-profit to demonstrate that social innovation thrives in different legal settings and set-ups.

### **3.1 *Bart Weetjens, APOPO and HeroRats***

The lack of appropriate detection technologies poses a great humanitarian challenge in developing countries. For example, the continuing presence of landmines and the lack of reliable diagnostic tools to detect tuberculosis (TB) are structural barriers to development for millions of people. Mine action is a highly specialized and donor-driven industry, requiring foreign expertise and substantial investment to operate in post-conflict countries. TB claims almost two million lives per year, and the pandemic is fuelled by HIV co-infection, particularly in sub-Saharan Africa. In resource-limited settings, there is an urgent need for innovative approaches to achieve early detection and rapid treatment.

Bart Weetjens was educated as a product design engineer. His passion for rodents let him to the idea that Tanzanian giant rats could be trained to fulfil valuable social services, such as detecting landmines and tuberculosis. He founded APOPO with the support of the Antwerp University, Belgium, in 1998. APOPO researches, develops and deploys detection technology using rats for de-mining and detecting TB. The African giant pouched rat, a species prevalent throughout sub-Saharan Africa, has a well-developed smell sense. APOPO trains rats to detect landmines based on vapours emitted by the buried explosives. Since APOPO's rats are saving human lives, they are called HeroRATs.

HeroRATs indicate the location of a mine or unexploded ordinance by scratching the soil surface on top of the mine. The rats are too light to set off the landmines. After two animals have screened a stretch of suspected area, manual deminers take over to uncover and neutralize the mines. Two trainers with their rats can cover 400 sq. km in 1.5 h, whereas manual de-miners take 2 days to search the same area.

Mine clearance in developing countries is expensive and largely based on foreign expertise and equipment. By employing locally available resources and people, the APOPO model allows for price reduction of 50–75 % of the currently accepted US\$ 2 per square kilometre. APOPO has been endorsed by eleven governments in the African Great Lakes region, and tasked by the Mozambican government to clear the country's Gaza province of landmines by 2014.

APOPO is also applying its Detection Rats Technology to the rapid detection of pulmonary TB, another humanitarian challenge where much can be gained from a quick, cheap and effective screening tool. Operational research in Tanzania showed that HeroRATs enhanced case detection rates in eight clinics in Dar es Salaam in 2009 and 2010 consecutively by over 43 %.

Apart from its humanitarian applications, APOPO is pursuing Detection Rats Technology for more commercially oriented applications, like security and customs screening. This would allow APOPO to increase its revenue and scale the non-profit side, which is currently relying on donations for about 50 % of its budget.



### ***3.2 Reed Paget, Belu Water and One Earth Innovation***

As a result of global population growth and rising standards of living, unprecedented levels of human consumption are depleting scarce environmental resources. Reed Paget first tried to create awareness as a journalist and documentary producer, before establishing two social enterprises, Belu Water and One Earth Innovation, to create a new generation of sustainable products that balance the needs of people with the planet's natural resources.

Reed Paget is an eco-entrepreneur who successfully develops and markets green consumer goods. He founded Ecocap, which patented a more recyclable bottle cap design, and founded Belu Water, the UK's most eco-friendly bottled water brand. Belu is the world's first carbon-neutral bottled water. It was the first to use "bio-bottles" made on the basis of corn. These bottles look like plastic bottles and can either be recycled with plastics or commercially composted to soil in just 8 weeks.

By demonstrating that eco-friendly bottles are economically viable, Belu has created the market demand and paved the way for other bottled drinks companies to switch to bio-degradable and more environmentally friendly bottles. By increasing the bio-bottle volume, it reduced the manufacturing costs and made it easier for other companies to adopt the technology in the future. Coca Cola, for example, subsequently introduced the "PlantBottle" in 2009. The "PlantBottle" is fully recyclable and reduces carbon emissions, compared with petroleum-based PET plastic bottles.

Belu's compostable bottle has inspired most major retailers to consider using similar plastics for their products. Belu is influencing the consumer goods industry as a whole. As the first carbon neutral product out of 70,000 in the retailer Tesco, Belu has helped set a trend for all businesses to take responsibility for their carbon emissions. Where it cannot eliminate carbon emissions, it compensates them.

Belu is also the first bottled drinks company to invest all its profits to clean water projects. Every bottle of Belu bought in the UK provides clean water for one person for over a month. Belu funds projects through WaterAid, a clean water charity in India and Africa, installing wells and fixing hand-pumps, which provide drinking water for 20,000 people.

After successfully making Belu commercially viable and positioning it as a premier water brand in the UK, Reed Paget set up One Earth Innovation to replicate the model for other consumer products. One Earth Innovation focuses on leveraging the power of business to address the most ecologically challenged areas of the economy. It is currently developing a low-energy kettle and washing machine, a low-water shower, a food preservation container, a home composting unit and a recyclable bottle cap. To encourage individuals to adopt greener lifestyles, One Earth Innovation uses various marketing tools to influence a sustainable change in consumer behaviour.

## 4 All Together Now

The above examples of social entrepreneurs demonstrate their innovative power. They are the originators of social innovations. For centuries, they were mainly unrecognized. The spotlight over the last 10–15 years on social entrepreneurs served the purpose to highlight the main persons driving social change and to present them as role models for the next generations. It is generally easier to identify with people than with abstract concepts. We need more people who either feel inspired to develop social innovations or create enterprises to take up existing ones to different contexts. As the anthropologist Margaret Meade noted, “Never doubt that a small group of committed citizens can change the world. In fact, it is the only thing that ever has.”

But the examples also show that social entrepreneurs depend on cooperation with other players to bring out their innovations and scale them. For APOPO, it is crucial to conduct research with an academic partner and medical institutions to prove the effect of the HeroRats, and APOPO works closely with governments on demining strips of land. Belu Water’s impact is remarkable, but tiny when compared to the overall PEC bottle problem or lack of drinking water in the world. Only by collaborating with large retail and consumer goods companies to adopt more sustainable products is it able to achieve a significant impact which can be measured at a macro level.

Cross-sector collaboration and pollination between social entrepreneurs, companies, large NGOs, academic institutions and governments is necessary to spur and scale social innovation. Christian Seelos and Johanna Mair provide several case studies of companies and social businesses collaborating together including Grameen/Telenor and Waste Concern/AgroMap (Seelos et al. 2007). Companies and NGOs have a large network and distribution system that should be better utilized to disseminate new products and services. Companies can develop “shared value” or common impact strategies with social entrepreneurs along their value chains. Social entrepreneurs closely know the needs of a farmer or potential end-customer and can devise strategies to lift them above the poverty line.

Business innovations are often patented, closely guarded and the main financial benefit goes to one company. Social innovations should be developed and disseminated in collaboration between different sectors and players. Then the benefits do not only accrue to the involved parties, but benefit society as a whole.

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# Institutional Theory as a Framework for Practitioners of Social Entrepreneurship

Anirudh Agrawal and Kai Hockerts

## 1 Introduction

Milton Friedman (1970) once said that the social responsibility of organizations is to create capital value. For many years we have argued that organizations are there to seek capital gains for their stakeholders. On the other hand, social entrepreneurship is different because their objective is to create positive social impact and ensure financial sustainability. Scholarship in social entrepreneurship is curious and interesting because the main focus are organizations that create veritable and equitable social and economic value (Mair and Martí 2006). Social entrepreneurship has only recently emerged as a field of research among academics and practitioners, there has been exponential growth in the number of seminars, research groups and publications focused on social entrepreneurship. The early literature on social entrepreneurship focuses on creating societal benefits using modern management practices. Some scholars and practitioners perceive social entrepreneurship as the social innovation created by change agents employing entrepreneurial mechanisms to create and sustain social value with or without public support (Bornstein 1998; Dees 1998; Drayton 2004; Drucker 1990). Some scholars and practitioners perceive social entrepreneurship as a practice of identifying market oriented mechanisms to create social value (Defourny and Nyssenes 2012; Hockerts 2010; Novogratz 2009). Much of the review work on social entrepreneurship cites the lack of theoretical and empirical research (Dacin et al. 2011; Hoogendoorn et al. 2010; Nicholls 2010). In this chapter, our focus is to present the practitioners with a distinct theoretical lens of the field in order to make rational choices on social entrepreneurship models and practices.

## 1.1 *Social Entrepreneurship*

Our concept of entrepreneurship is based on the work of Schumpeter (1942), Drucker (1985) and Shane and Venkataraman (2000). We are positioning ourselves on the utilitarian view of entrepreneurship, where we consider social entrepreneurship as a process of seeking entrepreneurial rents through social innovation in a competitive market setting. According to Hockerts (2007, 2010) social entrepreneurship is the discovery and sustainable exploitation of opportunities to create social and environmental benefits, usually done through the generation of disequilibria in market and non-market environments.

In this chapter we define social entrepreneurship as a practice of creating social and ethical impact through earned income strategies and entrepreneurial risk taking in a market setting. In this paper we discuss some known cases of social enterprises, which created market disequilibria through their social innovation. The data on these cases is from publically available information.

The cases discussed are:

- Grameen Bank is a microfinance institution that provides low interest loans to poor individuals. It was founded by Mohammad Yunus in 1983. In the late 1970s, while working with the people living at below poverty line, he observed that the poor have to pay high rates of interest to secure small credit to finance their business. He saw that the income generated by the poor was mostly used in paying back debt resulting from the high interest rate on the credit, which created a vicious circle of poverty for the poor. This prompted him to start a mission to provide micro-credit to the poor at low interest rates and at no collateral. The mission eventually became Grameen bank (Yunus and Jolis 1999). It was created with the mission to institutionalize a low interest, no or low collateral financial mechanism to help poor individuals raise capital to finance their businesses. It provides loans between 10 USD to 500 USD.<sup>1</sup> The major shareholders of the Grameen Bank are the poor, mostly poor women. Its business model has been replicated and tested across boundaries. It has meticulously documented its history, processes, methods and stories related to micro-finance and has shared these with the rest of the world through different media. Micro-finance enthusiasts around the world trust the business model developed by Grameen Bank and replicate the same globally (Beard 2012; Esty 2011; Yunus and Jolis 1999; Yunus et al. 2010).
- SKS Microfinance is a microfinance institution with the mission to provide poor individuals with low interest, low or no collateral debt instruments. It was founded by Vikram Akula in 1997. Inspired by Grameen Bank, it provides

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<sup>1</sup> Grameen Bank Performance Indicators & Ratio Analysis, December 2011 [http://www.grameen-info.org/index.php?option=com\\_content&task=view&id=632&Itemid=664](http://www.grameen-info.org/index.php?option=com_content&task=view&id=632&Itemid=664)

microloans of between 20 USD to 500 USD.<sup>2</sup> Unlike Grameen Bank, where major shareholders are the poor themselves, SKS Microfinance raises its capital from market investors, high-risk venture capital funds and banks. SKS Microfinance launched an initial public offer (IPO)<sup>3</sup> in July, 2010 with the objectives to raise more capital and scale the microfinance benefits to a wider spectrum. In November 2011, Vikram Akula left the organization (Akula 2008; Gunjan et al. 2010; Huda 2010; Kinetz 2012; Mohan and Potnis 2010).

- Specialisterne (English: Specialist) is a software testing firm that employs the special abilities of individuals having Autism Spectrum Disorder (ASD). It was founded by Thorkil Sonne in 2004. The story of Specialisterne begins with the founder Thorkil Sonne and his wife, who wanted to provide a safe, self-reliant future to their son Lars who was diagnosed with ASD. Thorkil realized that there were no institutional resources to successfully integrate individuals with ASD into social and economic life. Thorkil started spending time researching ASD and meeting people with ASD. He realized that individuals with ASD have special abilities such as photographic memories and long focus on difficult tasks. This understanding inspired him to incubate a startup where individuals with ASD could integrate their special abilities with surroundings that are socially acceptable to their abilities and characteristics, and create economic value through employment. Thorkil started a software-testing firm Specialisterne, which is now a role model social enterprise providing dignity to people with autism and generating economic value for society. The enterprise innovates by heavily investing in training and re-skilling its employees with market-oriented requirements, thus making itself a competitive and sustainable social venture. The long term vision and motivation of its founders is to employ one million individuals with ASD in economic activities. Thorkil Sonne won the 2012 social entrepreneur of the year award from Schwab Foundation (Hockerts and Hamacher 2013).
- Acumen fund is a venture philanthropic organization that provides low interest debt or equity based capital to established social entrepreneurs in order to help them scale up their social impact and remain financially sustainable. It was founded by Jacqueline Novogratz in April 2001. Its mission is to solve global problems of health, water, education, housing and food through market oriented entrepreneurial approaches. Some of its investors and advisors are Bill and Melinda Gates Foundation, Google Foundation, Cisco Foundation and Skoll Foundation. The financing strategy is based on patient capital, where the invested capital has greater tolerance for risk, the time for return on investment is long and slow and the management engagement with the recipient enterprise is intense and pro-bono (Novogratz 2009). The typical investment of Acumen

<sup>2</sup> SKS: Our Work: What We Do: Our Products. SKS: Our Work: What We Do: Our Products ([http://www.sksindia.com/our\\_products.php](http://www.sksindia.com/our_products.php))

<sup>3</sup> Initial public offer is a market mechanism to raise capital from the market by selling stake of the company. Market values the company based on future cash flow probabilities.

Fund is between 250,000 USD to 2.5 million USD.<sup>4</sup> Its focus is to create large-scale impact through market oriented disruptive social innovations. Its due diligence for funding any social enterprise is based on the criteria of measurable sustainable scalable social impact along with economic viability (Coster 2011; Novogratz 2009, 2011).

## 1.2 Institutional Theory

In this chapter we present institutional theory as a theoretical toolbox that academics and practitioners can apply to critically study the field of social entrepreneurship. Institutional theory broadly studies the dynamics between individuals or organizations and Institutions (government, market, culture, religion). In the chapter we talk about legitimacy, institutional logics, isomorphism and institutional memory as tools to analyze and reflect on the phenomenon of social entrepreneurship.

- According to Walsh and Ungson, (1991) methods, processes, documentation, and rituals help organizations translate their identity, culture and philosophy when they hire, grow, contract or replicate. Organizations should be able to exist and define themselves without its people. According to Walsh and Ungson (1991) the structure of organizational memory follows three dimensions. Firstly, organizations gain information through various internal and external transactions. Secondly, they retain this information in the form of actors (employees and external actors) and systems (organizational culture, transformations, structure, Ecology, External archives). Thirdly is the retrieval of memory. Elements of institutional memory can be identified when actors and organizations interact in order to create a system of translation across time and space such as rules, norms, values, mission, and vision.
- Legitimacy as defined by Meyer and Rowan (1977) and DiMaggio and Powell (1983) refers to the adherence to rules, norms and practices pertaining to organizations. Organizations achieve legitimacy by following the ‘rules of the game’. The concept of legitimacy within the context of organization is defined as the conformity to the organizational forms, procedures, rules and practices within the widely accepted social norms and legal structures (Suchman 1995). Organizations gain legitimacy through many strategies: such as agreeing with the leader of a high status institution, or gaining recognition from high status actors. Organizations gain legitimacy by getting awards and recognition from high status institutions such as Ashoka Fellowship, Acumen Fund Fellowship, Schwab Entrepreneur of the year award. A legitimate organization has access to resources and tends to survive longer than illegitimate organizations (Scott 2001).

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<sup>4</sup> Acumen Fund <http://www.acumenfund.org/about-us/financial-information.html>

We consider legitimacy a valuable social construction that helps organizations gain market and social acceptance. Social enterprises unlike market enterprises, by virtue of their social mission, gain multi-dimensional legitimacy, which is recognition from governmental actors, celebrities, high status organizations.

- Meyer and Rowan (1977) theorize about reasons and mechanisms that influence organizational change in a given market and institutional environment. DiMaggio and Powell (1983) extend the work of Meyer and Rowan (1977) to theorize reasons and mechanisms that influence organizations to behave similarly in a given market and institutional environment. DiMaggio and Powell (1983) propose three isomorphic pressures that influence organizational boundaries. Coercive isomorphism is formal and informal pressure exerted by formal and informal organizations and institutions on organizations that are dependent on them. For example, organizations structure themselves in accordance with the rule and law of the land, norms of the society and culture to seek legitimacy from them. Mimetic isomorphism is observed when organizations copy the most successful, legitimate, reputable status firms, ideas, business models or processes in order to hedge uncertainty (Haveman 1993). Normative isomorphism is observed when the organizations tend to adopt best management practices, or employ professionals to run an organization.
- According to Thornton and Ocasio (1999) individuals and organizations are embedded in multi-institutional fabrics which influence their decision making, sense making and social networks. This leads organizations to have multiple logics towards decision making and strategizing. This idea of multi-level institutional fabrics influencing organizational processes and choices is institutional logic. According to Thornton and Ocasio (1999) multi institutional contextuality influences the processes, strategy and decision making of an organization. The work of Thornton (2002) further develops the institutional logic theory to reflect on the mechanisms that lead to organizational conformation to changing institutional logics. The institutional logic framework goes into explaining how set rules, culture and history influence the functioning of the organization.

## 2 The Theoretical Analysis of Social Entrepreneurship Cases

The following sections will give a brief overview about the cases and theoretical framework. Each subsection begins with a short overview of the case, and then briefly presents the theoretical framework and later an analysis of the case through the theoretical lens.



## ***2.1 Institutional Memory and Grameen Bank***

In most cases social enterprises are integrated with the charismatic personality of the founder. There is a lack of knowledge on the survivability of the social enterprise, once the founder leaves the organization. Similarly, social enterprises scale social impact through replication and translation of their identities, methods and processes but there is a lack of knowledge on how social enterprises form and translate their organizational identities. Organizations with well documented stories of impact assessment, financial statements, organizational forms have higher legitimacy. Practitioners can use institutional memory framework to reflect on the process of institutionalization of methods, processes, reporting during social entrepreneurship and find answers to questions of legitimacy, survivability and scalability. We discuss the example of Grameen Bank to highlight an enterprise that has institutionalized its methods and processes and shared them with the world. Grameen Bank shared its model through writings, social impact reports, financial statements, seminars, research collaborations, international volunteering, which not only resulted in increased confidence in the microfinance business but also resulted in the replication of the business model across boundaries. Grameen Bank is an example where the three dimensions of institutionalization of memory (acquisition, retention and retrieval) are exercised intuitively. Grameen Bank provides credit to groups rather than individuals, mostly women who are unemployed, uneducated, marginalised and living on the poverty line. They form a system of collectively shared risk where they function similarly to Grameen Bank only at a small scale. They are the largest shareholders of Grameen Bank. This translation of the identity from Grameen Bank to SHGs is only possible through the institutionalization of organizational memory within Grameen Bank. By doing so, Grameen Bank successfully scaled the social impact.

From the example of Grameen bank, we believe that social enterprises with institutionalized methods, processes, mission, values and vision have higher legitimacy, scalability of social impact, and longevity. We think not much is explored on how social entrepreneurs form processes, norms and rules, which on the other hand can create a lack of transparency and a trust deficit. The documentation and its effect on the sustainability of the social enterprise and social innovation can be an interesting point of reflection when thinking about questions on growth or decline of social enterprise, hiring new members to a social enterprise and finding the successor of a social enterprise.

## ***2.2 Legitimacy and SKS Microfinance***

Organizations have to be legitimate in order to function in the market. Organizations seek legitimacy through access to special and critical networks. They seek legitimacy by associating with the status or reputable actor of the field,

by following the rules of the land. Social enterprises have to show through their actions and communications that their mission to help people is as dominant as their mission to be economically sustainable. Due to the conflicting nature of their activities and operations (social and market), social enterprises have to deal with the issues of legitimacy far more than enterprises that have well defined market objectives. Any act of a social enterprise that stigmatizes the legitimacy of social value creation can activate the fall of its customer base and donor confidence.

We discuss the SKS microfinance case in order to illustrate how an exciting, well documented and media savvy enterprise can lose its legitimacy by compromising its social motive. The launch of an Initial Public Offer (IPO) by SKS Microfinance was seen as an innovative approach to social innovation. But, Muhammad Yunus (founder of Grameen bank) described the IPO as a step towards legitimizing profiteering from poor people, rather than distributing profits to the poor people.<sup>5</sup> Before the initial public offer, it was associated with reputed non-profit associations such as Clinton Global Initiative and World Economic Forum, which facilitated access to low interest funds, government legitimacy and positive narratives in the media. However, after going public, many started to question the actual motives of the firm. The narratives began to get critical on its activities leaving it dissociated and stigmatized in general opinion. During the same time 2010, Andhra Pradesh, India started reporting farmer suicides allegedly due to surmounting debt coupled with high interest rates. Incidentally, Andhra Pradesh was the region where SKS Microfinance had the largest lending of micro-credits, people stigmatized SKS Microfinance as the reason for farmer suicides (Kinetz 2012). This led to critical narratives in media further worsening the legitimacy of SKS Microfinance. From the day SKS Microfinance launched its IPO, until late 2011, it lost 90 % of its market value (Kinetz 2012).

### ***2.3 Institutional Isomorphism and Specialisterne***

We chose the Specialisterne case and institutional isomorphism framework to illustrate how a successful social enterprise can foster replication and scalability of social impact through mimetic isomorphism. We also argue that successful and novel social innovations such as Specialisterne can change institutions through supra organizational legitimacy (Battilana et al. 2009; DiMaggio and Powell 1983; Scott 2001). ASD focused NGOs are inspired by Specialisterne, they are studying the business model and actively replicating the same in Norway, Scotland and Delaware. Thorkil Sonne's objective is to create one million jobs for individuals with ASD. He is actively supporting and translating the core mission, vision and values of Specialisterne with organizations willing to navigate the cause of ASD.

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<sup>5</sup> Clinton Global Initiative (2010). Special Session: Profiting from the Poor? A Discussion on Microfinance IPOs, Clinton Global Initiative.

Unlike market oriented organizations where mimetic isomorphism is seen as a sign of increasing competition in the market, social enterprises encourage it to scale social impact. Practitioners can use mimetic isomorphism to reflect how organizations can learn best practices and identity torch bearing organizations whose social innovations can be replicated.

Social enterprises with high social impact tend to create social change. In the case of Specialisterne, Thorkil Sonne created an enterprise where individuals with ASD can work and create economic output, thereby challenging the social myth that individuals with ASD are an economic burden. Now, organizations such as government institutions, NGOs and private firms are considering individuals with ASD not as a liability but as an asset.

## ***2.4 Institutional Logics and Acumen Fund***

We take Acumen Fund as an example to illustrate the multi-institutional tensions within a social enterprise. Practitioners can reflect from the role of legitimacy and conflicting logics in the process of social entrepreneurship, use institutional logic as a tool to study the balance between competition logics of social value creation and economic sustenance. Social enterprises are often operating in difficult marginal markets, constantly innovating to provide goods and services at marginal prices as well as paying back the loan and generating entrepreneurial profits. Such pressurized situations can lead to moral hazard where a social entrepreneur might weigh market objective over social value generation.

Practitioners can use institutional logic as a lens to analyze the multi-institutional, social and market complexities of organizations. Organizations have to balance competing economical and social pressures in order to gain market and social legitimacy. We considered the case of patient capital by Acumen Fund to make sense of situations when the social organization receiving investment might be subjected to different social and market pressures from different stakeholders. Practitioners need to consider this case and think about the situations where social impact creation and financial sustainability are competing rather than co-operating. They must find strategies to manage competing logics of the organization such that the market and social legitimacy of the organization are not affected.

## **3 Conclusion and Discussion**

The promise of research in social entrepreneurship can be gauged from the lack of knowledge on how organizations redefine themselves keeping social and commercial motivations inline with their core strategy. The field requires contributions in the form of theoretical and empirical research in order for practitioners to understand the profit and social dichotomies of organizations and practice these

dichotomies in other organizations. In this paper, we advocated the agenda to study social entrepreneurship from an institutional theory framework. We believe that institutional theory framework can help scholars and practitioners make sense of the fields where individuals and organizations and their dynamics with institutions are the focus areas. The use of institutional theory in social entrepreneurship research can give useful insights into the process of organizational formation, vision and mission, identity and culture, processes and memory. In this paper we discussed four social enterprises that created market disequilibria through their social innovation and we analyzed them through four different institutional theory frameworks.

We discussed the perspective of institutional memory and organizational learning in order to highlight the importance of the institutionalization of processes, methodologies during the social entrepreneurship process and how they can effectively contribute to the survivability and scalability of the organization. We took the example of Grameen Bank to highlight how a social enterprise that institutionalized impact reports, processes, and methods and formed a leadership team has legitimacy and scalability across boundaries. Practitioners can use institutional memory to reflect on organizations that are institutionalizing their methods, processes and sharing them with the world. This can help them reflect on the longevity and survivability of the enterprise. For example, when the leader of any social enterprise departs, the tension of succession can have a strong impact on the scalability, survivability or viability of the enterprise, practitioners can reflect on the institutional memory framework to understand de-coupling of the organization from its founders. Using a similar framework, practitioners can refer to the reproducibility of the organization's form and impact across boundary and culture.

We discuss legitimacy to illustrate its importance as a valuable resource that impacts organizations' resource dependency, societal acceptance and financial viability. Practitioners can use legitimacy to reflect on the social network, stakeholders, and sources of funding of a social enterprise in order to argue about political legitimacy, social legitimacy and market legitimacy. As in the case of SKS Microfinance, a social enterprise with a predominantly market oriented business model can lose its social and political legitimacy, in extreme cases, it can lead to unwarranted social and market stigmatization. Practitioners can take a cautious approach during decision points where legitimacy narratives of the social enterprise are in precarious situations. Grameen Bank gained social legitimacy through institutional memory, SKS Microfinance lost its social legitimacy by changing its business model and Acumen Fund had to constantly ensure legitimacy by investing in market oriented business projects aimed at social impact scalability.

We discuss Institutional isomorphism as a tool to study the interaction among organizations and institutions in similar socio-economic market conditions. In market environments, organizations mimic successful organizations to gain legitimacy and market share. In order for practitioners to distinguish successful social entrepreneurs, they can look at the scope and scale of mimetic isomorphism to reflect on novelty, longevity and scalability. Practitioners can use coercive isomorphism as a lens to distinguish social enterprises based on their abilities to influence

other organizations or institutions. Highly successful social enterprises might influence organizations and institutions as in the case of Specialisterne.

We discussed the framework of institutional logics to reflect on the tensions between the mission, objective and values and financial viability of a social enterprise. We took the example of Acumen Fund to highlight the delicate line between social and market orientation during social entrepreneurship. We believe that the balance between competing identities of a social enterprise can contribute towards social impact and enterprise legitimacy. Practitioners can reflect on the tensions between multiple logics and multiple agendas underlying a social enterprise, and make decisions about the legitimacy, survivability and social impact scalability of the organization. As discussed in the case of SKS Microfinance, market orientation was more predominant than social orientation and led to a crisis of legitimacy, we believe that practitioners can study organizations from a multi-logic, multi-institutional perspective in order to make policy decisions.

Social entrepreneurship is an emerging field that requires theoretical and empirical research in order to establish viability among investors and policy makers. We believe that theoretical tools can provide viability and certainty in emerging fields. Our contribution in this chapter is to provide practitioners a theoretical framework of institutional theory with examples in order for them to reflect upon and make confident decisions on social entrepreneurship phenomena.

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# Design Strategy for the Bottom of the Pyramid

Deepa Prahalad

## 1 Introduction

The (Bottom of the Pyramid) BOP is a term referring to the roughly four billion people around the world who live on less than \$2/day in PPP terms and remain largely invisible to MNCs as consumers. There are several premises to the BOP theory. The first is that for-profit models are a necessary tool in alleviating poverty and more sustainable than aid. Second, the innovations needed to serve the poor profitably have the potential to make firms more competitive while accelerating economic development. Third, engaging the BOP as consumers demands that companies understand the real needs and aspirations of the poor, build trust and collaborate with them (and often NGOs) as partners. Fourth, many successful innovations for the BOP will have global relevance (Prahalad, BOP).

Close to a decade after the term (BOP) was coined, the struggle to understand its role as a market and as a source of innovation continues. There have been some visible successes, such as the rapid adoption of cell phones among the poor. The income and environmental conditions in the BOP demand innovation in product/service design, distribution and business models. Companies engaged with selling and designing for the poor have by necessity become involved in addressing social issues (e.g. you have to build roads in order to sell cars). Simultaneously, many organizations in the social sector seeking to widen their impact have looked to partner with like-minded MNCs to gain expertise, scale, technology and financial support (Feiss 2009).

Due to the diversity and rapid evolution of the BOP, many different solutions to the same problem (such as power shortages) will be adopted according to the relative degree of poverty and infrastructure available. Designing for the Bottom of the Pyramid (BOP) stretches the boundaries of traditional product and service design. It requires focus on affordability, but must be rooted in a deep understanding of consumer aspirations (Prahalad 2010). The connection between design and social innovation is particularly strong in these markets, as most offerings are not limited to increasing consumption but creating access to health, education and other resources.

Communicating the connection between the product or service and the more transcendent goals of individuals is critical as incomes rise and BOP markets become more competitive. While there is widespread consensus on the needs of BOP consumers (e.g. nutrition, skills), companies must remain flexible and open about the means of delivery. This experimentation with design as a means to addressing social issues is what I term *the tangible as a path to the intangible*.

This chapter will focus primarily on the Indian case. A visual example will be shown to highlight the global relevance of looking at BOP markets and general business implications will be discussed.

## **2 Connecting Design and Social Innovation in the BOP**

The task of addressing poverty has shifted considerably. Rapid economic growth, the interest in MNCs in serving the BOP and rising aspirations among the poor themselves has changed the thinking about poverty alleviation. The task is no longer about distributing basic goods and services, but creating skills and enabling entrepreneurial opportunity. In fact, in India, 60 % of the rural population already makes its living from entrepreneurial activity, not farming (Bijapurkar 2007) (Table 1).

### ***2.1 Models of Engagement with the BOP***

There are four major ways in which the poor can engage with companies and social institutions in the BOP. Most players have entered the BOP with products and services designed for the poor. Second, many MNCs and others have collaborated with NGOs to make sure that the poor directly benefit as a result of their engagement with the company. They have trained and used local people as distributor/entrepreneurs. Unilever and Coke are both examples that have used this model. Coke has made a commitment to help create five million entrepreneurs by 2020 in its supply chain and Hindustan Unilever depends on a very wide network of “Shakti Ammas” in its personal care business. Third, others tap the BOP as producers and serve the role of finding markets for the traditional skills in villages. Fabindia and other crafts-based industries are good examples. An emerging trend is looking for innovation in the BOP itself, and finding capital and mentorship to scale novel ideas. An example of this is Mitticool ([www.mitticool.in](http://www.mitticool.in)), a line of eco-friendly clay and refrigerator products designed by a potter from the state of Gujarat.



**Table 1** Models of engagement with BOP

Role	Example	Approach
Consumer	Sachets, cell phones	Low cost products and services are designed for the BOP. BOP tastes and needs considered but innovation is done primarily by MNCs
Distributor/entrepreneur	Unilever, Coke	Companies develop a network of entrepreneurs in the BOP. The poor gain income and the MNC gains distribution/awareness
Producer	FabIndia	The BOP is given help to produce goods for export/high end markets. BOP does not necessarily consume what they produce, but generally get higher wages
Innovator	MittiCool	A grassroots innovator partners with MNC or NGO is able to manufacture and market his/her original idea

Mitticool is now available in major Indian retail chains. The focus of social innovation is moving toward creating an ecosystem whereby the poor become co-creators and collaborate with NGOs, designers, the private sector to create products and services with relevance in the BOP and outside.

## 2.2 Multiple Approaches to Address Social Issues

Design for the bottom of the pyramid depends on being open minded not only about potential solutions but about the source of the problem as well. The diversity of the BOP suggests a focus on developing flexible and replicable models as opposed to searching for “killer apps.” A variety of approaches is generally necessary and desirable to suit various needs, skills and preferences. Consider the variety of approaches for addressing the need for education and skilling in the BOP:

In Table 2, Akshaya Patra ([www.akshayapatra.org](http://www.akshayapatra.org)) strives to keep students in schools by providing a hot and nutritious lunch. Children in the BOP often leave school and take menial jobs because of hunger, so they make sure that this need can be met in school. Their state of the art, centralized kitchens prepare and deliver 1.3 million meals a day in nine states and the food is in keeping with local preferences. Room to Read encourages reading and education by building schools and libraries around the world. They have published over 700 books, many written by students in their programs, in addition to providing access to books and school scholarships. The celebrated One Laptop Per Child (OLPC) delivers a low-cost laptop that allows students to learn and collaborate. Nokia has developed a series of apps on their cell phone network called Life Tools that have been accessed by 50 million people. Life Tools allows people to learn a variety of skills like conversational English and access information on health and other topics.

All of these models have used a different design ‘artifact’ – a meal, a library, a laptop, and a cell phone – to deliver on the same goal of education. They have

**Table 2** Multiple approaches to increasing access to education

Organization	Approach	Impact
Akshaya Patra Nonprofit (India)	Mid-day meals to increase school attendance and performance	1.3 million meals daily 9,075 schools 9 states 1 Billion meals served (since founding)
Room to Read Nonprofit (Global)	Develop culture of reading, build schools and libraries, book publishing	1,556 schools 13,559 libraries 11.5 M books 707 books published 6.7 M children impacted
OLPC Nonprofit (Global)	Distribute low-cost laptops to enable learning and collaboration	2.4 M laptops distributed 40+ countries
Nokia Life Tools MNC (Global)	Apps to gain skills/access knowledge (English, health, etc)	50 M users for Nokia Life tools 70 content partners India's most trusted brand

achieved scale and credibility with the local populations and a variety of collaborators. They all have developed relationships and unique knowledge of the needs and desires of the community. These approaches are vastly different and come at different price points, but the same basic principles of clarity of mission, providing a variety of ways for the public to engage, and transparency about performance and process are common to all.

### 3 Building an Ecosystem

While much attention has been focused on access to capital, other building blocks are critical as well. Access to data, familiarity with existing innovations and understanding aspirations in the BOP can all help to accelerate good design and social impact.

#### 3.1 Document Existing Innovations

The BOP, like large companies, suffers from the problem of “we don’t know what we know”. Understanding local solutions and approaches is critical before successfully designing a new approach. However, this task is time consuming and costly. Organizations such as the Honeybee Network in India have joined forces with the National Innovation Council to document and categorize grass-roots innovations. They go on foot to different regions and identify innovators

and promote cross-pollination of ideas. In every village, somebody has invented something that would be useful elsewhere – a tool to increase crop yield or a process to improve the speed of weaving. Entrepreneurs can find inspiration and collaborators in the pool of about 150,000 documented innovations. Some ideas may need capital, others may need design, others may be ready to produce.

The rapid growth of the NGO sector and other private public partnerships in the last decade means that many interesting experiments have been done. However, since many of these organizations are small, new, or resource-constrained, there is very little documentation and measurement of impact. Organizations such as Action for India ([www.actionforindia.org](http://www.actionforindia.org)) have actively collected the stories of successful entrepreneurs and are trying to create an ecosystem of technology companies in order to help these initiatives achieve scale and widen their impact. The government also pledges help and financial support for innovative ideas. Ashoka ([www.ashoka.org](http://www.ashoka.org)) has a 30-year history of nurturing people to address social problems with an entrepreneurial approach. They provide mentorship and capital to nurture ideas over a long period of time and lay specific emphasis on nurturing ethics and empathy.

### ***3.2 Improve Access to Data***

Aggregate data, especially for large countries, masks tremendous regional variations. Similar expenditure creates very different outcomes depending on the design of programs and degree of governance. This makes scaling good ideas challenging (e.g. adoption of cell phones depends on access to power). Inspired by the Sunlight Foundation in the US, India Spend ([www.indiaspend.com](http://www.indiaspend.com)) is focused on addressing this data gap. It provides research and a platform to help citizens understand where resources are allocated and the results. Much of this raw data is available elsewhere. However, the presentation and analysis of the data from IndiaSpend is designed to be interactive, engaging and easy to visualize. The intent is to empower citizens to demand better public policy by showcasing success stories and highlighting areas of concern. Many similar initiatives have begun to help citizens understand their legal rights and how to access programs that and funds that are available to them. Most of these partner with organizations that can provide help if necessary.

### ***3.3 Understand Aspirations***

The other piece is understanding the aspirations of emerging consumers. Idiom ([www.idiom.co.in](http://www.idiom.co.in)), an Indian design firm, goes out and simply speaks to people from all walks of life about what their dreams are. These “dreamcatchers” then group these ideas and break down what would be required to make these aspirations

possible. The information is made available for anyone who is interested in pursuing the opportunities.

Many of the breakthrough designs and innovations in the BOP have depended on capturing the aspirations of the private sector, governments and the public at large. The \$100 laptop was among the most visible challenges that brought together a wide variety of players interested in leapfrogging traditional education models. The \$2,000 car from Tata is another. In the absence of an obvious “answer”, creating a community around a specific vision can accelerate progress. One recent example is the challenge to create a \$300 house ([www.300house.com](http://www.300house.com)) to address the challenges of security, health and sanitation. The idea has mobilized a wide and diverse range of designers, MNCs and students to think about how to provide shelter for the poor. Early prototypes are being developed based on regional preferences in Haiti and India.

## 4 Case Study: Two Types of BOP Innovation

Looking at BOP-like conditions can serve as fuel for innovations with global relevance, even for companies that are not focused on these markets. A simple visual example can show how profoundly designing an improvement to a product versus serving a BOP consumer can change the form, function and ultimately the market size of an offering.

### 4.1 *Extending the Usage Scenarios*

Reimagining new uses in the BOP for existing products can yield surprising results. Consider a fairly mundane household item such as the salad spinner. It removes water after washing from salad greens while preserving their freshness and color (Prahalad and Sawhney 2011). This simple hand-powered gadget served as an inspiration to design the RKS Laundry Pod, a concept for a hand-powered, eco-friendly laundry machine. The target market appeals to the BOP consumer due to its low price point, but is also attractive for those in dorms, campers, or anyone without an independent washing machine. The aesthetics are meant to be aspirational for a wide variety of incomes and concerns (e.g. sustainability as well as affordability).



RKS Laundry Pod

Another interesting usage scenario for the salad spinner was envisioned by two Rice University. They honed in on the salad spinner’s centrifugal

action and they were able to successfully test blood samples for anemia with it. The solution was not only portable and low cost, but results were available in 10 min, often eliminating the need for a second visit to get results.



Lila Kerr and Lauren Theiss with the salad spinner centrifuge

In this model of BOP design and innovation, the usage scenarios for existing products are expanded. The form is slightly modified but the underlying function is essentially the same. While this is an important development, in many cases the utility of these ideas will be incremental. The advantage is that there may be a lower learning curve as the item is immediately recognizable.

## ***4.2 Design and Innovation for BOP Conditions***

Another distinct method of design innovation for the BOP is concerned with direct focus on the consumer's and stakeholder's needs. This approach can lead to more profound changes in the form and function of products and services, especially with the additional constraints of the BOP. Here, the design must account not only for lower purchasing power but compensate for harsh environmental conditions.

Consider an important life-saving technology, the incubator. General Electric (GE), began to explicitly look at stakeholder emotions in their designs under an initiative called The Magic of Science and Empathy (this was not geared for BOP markets). While cutting-edge technology was used, the physical aesthetics and interface were designed to ease the anxiety of parents and others who had to see their children in the incubator. The design won critical acclaim and several prestigious design awards. The cost of the equipment is \$20,000–\$40,000 (depending on features selected) and requires 3–5 days of training at an additional cost of \$5,000 or so.



GE Panda infant warmer

The cost of this incubator is clearly out of reach for most BOP consumers, but many retired machines are discounted or donated and end up in poor countries. However, due to the lack of replacement parts, an estimated 96 % of traditional incubators don't function after 5 years. It was precisely this observation that prompted a non-profit consortium of doctors to redesign the incubator so that it could be more easily repaired (Drexler 2008). They saw a child die in Indonesia despite the presence of seven imported incubators, because none were maintained in working condition. They ultimately came upon the idea of creating an incubator from car parts, based on seeing working cars in even very poor parts of the world. With approximately \$150,000 worth of experimentation, a prototype was developed. The cost of the car parts themselves is approximately \$1,000. The concept gained widespread attention and many volunteers, namely the organization Design that

Matters (DtM) improved the design and are now looking to market it with the name Neonurture.



Early prototypes of Neonurture

While there is already a significant cost reduction between the GE offering and the CIMIT design, access to the device will still remain a problem. A group of Stanford University students saw the problem differently. They chose to focus on the most basic function of the incubator – providing temperature control for the child. Portability was a major design criteria as many women in developing countries give birth outside of a hospital setting. The final design, called Embrace, uses a sleeping bag and an insert of phase-sensitive material to keep a child warm for a period of 4–6 h. Many of the concerns regarding training are diminished because wrapping a child in a blanket is such an intuitive behavior. Embrace has won international acclaim and has now tested the device in hospital systems in south India and will be expanding in other countries.



Embrace infant warmer

This illustration is not meant to attach a value judgment on any of the designs – all of them have relevance and are the result of deep innovation. Nor is the argument that the Embrace is equivalent to the GE Panda Infant warmer. However, the necessity of both types of innovation becomes obvious whether one is examining the problem from the perspective of cost savings, sustainability or humanitarian

concern. Radical lowering of price points, easier training and portability will certainly increase access to lifesaving technologies. The lesson here is that innovation based on the consumer vs. product has a profound impact on the form and function of the design. It is worth noting, however, that none of these solutions were done in the BOP. Considering BOP-like conditions present a huge opportunity and test bed for new ideas, but the market is open to many players and solutions. Competition can truly come from anywhere – two of these ideas were from students. What this example shows is that if we are able to design effectively for BOP-like conditions, we have the potential to help people, but to create hybrid business models and to actually transform the market size.

### ***4.3 Relevance for Global Markets***

There are several important implications of successful design for the BOP. Using the above example as a guide, they can be summarized as follows:

- (a) Increased flexibility in selection of customers/partners  
With the highly specialized design of the GE incubator, the natural partners are large hospitals with specialized Neonatal Intensive care facilities (NICUs). With the design of the car parts incubator, there is potential for expanding the range of partnerships to car companies and auto parts manufacturers.
- (b) Reduction in costs of training/education  
Simpler designs not only lower the cost of the product itself, but also lowers training cost and other associated costs.
- (c) Potential for hybrid business models  
The price point of the car parts incubator as well as the Embrace infant warmer make them attractive outside of the BOP markets that they were initially designed for. The fact that they can be used outside a hospital setting also makes it possible to look at new markets – such as home and emergency settings. When a product has appeal across BOP and developed markets, there is potential for a hybrid business model of subsidized/for-profit sales channels.
- (d) Transformation of market size  
The way that the solution is designed can actually impact the market size. A portable, easy to use solution such as Embrace has appeal in non-medical and non-BOP settings. For example, the US has the highest rate of infant mortality in the developed world, a large number of premature births, and additional low-birth weight children. The concept of a simple insert could be easily used in winter clothing or in areas where keeping a home too warm is burdensome. Market size is widened from hospitals to “those with a need to keep warm”.

As incomes rise in the BOP, companies will be able to migrate rapidly from allowing sampling of basic items to innovating specifically for these markets. There is an emerging convergence of the needs and skills required to serve the BOP and large sections of the developed world. The growing addressable population for



**Table 3** Convergence of consumer needs

BOP market necessities	Developed market consumers
Lower cost	Elderly/fixed income
Ease of use	Students, career changers
Sustainability	Eco-conscious consumers
Scale	Unemployed

these types of solutions lies outside the BOP as well. If the BOP design principles are used as a way to understand and cope with income inequalities, their value is visible. Just as there is a vibrant middle and upper class in emerging markets, there are many populations that need help in the West. In the US, statistics show that one in six Americans is now living below the poverty line. Furthermore, many of the gains in living conditions in emerging markets remain fragile and can easily be erased with inflation or a poor monsoon. Unemployment is a huge concern globally.

Consider what is required for this type of innovation: designing something that is easier to use, requires less training and can be re-used. If these solutions can be made commercially viable through collaboration and innovative business models, the learning from the BOP can be brought to bear on global challenges (Table 3).

5 Generalized Business Implications

Companies will need to compete in the BOP in order to stay globally relevant. While some of the distinctions between ‘developed’ and ‘emerging’ markets are genuine, others are vestiges of dated corporate mental models. Although the nuances will be different, many of the same core elements that create successful design elsewhere will be needed in the BOP. Design will have to be aspirational and incorporate technology, and be marketed with the same degree and quality of branding (Prahalad 2011). Collaboration with NGOs and governments will be critical in many cases. As BOP consumers evolve, companies will have to offer a much higher quality of products and services (innovation as opposed to tweaks) and focus on raising incomes as well as consumption. Increased quality and collaboration is likely to yield innovations with relevance in non-BOP markets as well.

5.1 Knowledge Creation from the BOP

Companies engaged with the BOP are likely to develop capabilities in several key areas of innovation/design, which may become a source of strategic advantage:

Usability

The diverse populations in most of the BOP make it a great test bed for usability in a wide range of categories. Multigenerational households and joint purchase

decisions mean that most products and services will appeal to a wide range of tastes, skill levels and aesthetic preferences.

### **Governance**

Governance is a concern in many BOP markets. However, the design of business models can help to mitigate this risk. Amul, India's largest dairy cooperative and catalyst for the "white revolution" paid farmers for their milk based on fat content instead of volume (adulteration with water was common). This simple business model design is easily understood and does not depend on a moral argument. It simply does not reward cheating. Identifying interventions that can have these positive spillover effects in other industries will aid growth in other industries as well. Since governance is an issue everywhere, there will be a global market for any solutions. Development of governance standards for public-private partnerships will also accelerate social innovation.

### **Faster Innovation Cycles**

Rapid economic growth in emerging markets means that consumer incomes and preferences are in rapid transition. Companies will need faster innovation cycles for many goods and services as consumers evolve. Planned obsolescence and easy upgrades will be necessary. Sustainability will have to be considered at the outset.

### **Multiple Usage Scenarios**

Many leading technologies can be incorporated at earlier stages in the BOP and may have additional value. For example, QR codes used to advertise to consumers in wealthier countries may not be linked to e-commerce in the BOP as they are elsewhere. However, incorporating the codes into product packaging could help consumers identify a genuine product, where to reduce counterfeits are rampant.

### **Developing Joint Intellectual Property**

As networks form to document traditional knowledge and the poor become involved with co-creation, the BOP will become a destination to discover and develop joint IP. The knowledge worker phenomenon will be valid in the BOP in many areas and wage differentials will flatten further. IP protection is also likely to be strengthened as local companies become more innovative.

### **Business Model Design**

Greater investment in innovation for the BOP may necessitate higher prices. Income volatility, and not just low incomes are an issue for most BOP consumers. Business models can be designed to encourage adoption. Offering flexibility payments, de-risking the purchase by allowing upgrades or trade-ins and other means to encourage experimentation and purchase.

## ***5.2 Enduring Value of Design***

Design and social innovation are powerfully linked, especially in the BOP. Many of the challenges of poverty alleviation – health, education, housing require radical

innovation to satisfy the scale and cost constraints of the poor. Design can help to enable social transformation not only by increasing access to resources, but by creating shared experiences in areas with deep social inequality. The diffusion of technology, in particular, can help in understanding the needs and aspirations of billions of new consumers at low cost. This can not only help to mitigate risk for those designing for the BOP, but also spur innovation within the BOP. To date, designing for the BOP is still conceived within a set of constraints of poor infrastructure, uneven distribution, etc. Over time, I believe we must move toward the ultimate aspiration of most consumers in the BOP – reducing or eliminating the constraints themselves.

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### **III Instruments and Applications**

# The Importance of Marketing for Social Innovation

CB Bhattacharya

## 1 Introduction

Nobody can deny that innovation is key to business success and growth. At first glance, one usually thinks about economic success as the sole fruit of innovation. However, innovation driven by the intent to benefit society, also known as social innovation, has recently garnered much attention. Mounting evidence that a company can do well and good at the same time (Bhattacharya et al. 2011) has spurred that development to a great extent.

Social innovation is defined differently in most contexts, thus making it hard to find a basis for common discourse. In the “Editors’ Note” of the Stanford Social Innovation Review’s first issue in 2003, social innovation is defined as “the process of inventing, securing support for, and implementing novel solutions to social needs and problems” and the difficulty of “dissolving boundaries and brokering a dialogue between the public, private, and nonprofit sectors” is marked as a key challenge (Phills et al. 2008).

Note that the definition of social innovation is rooted in finding solutions to social needs and problems, which has a remarkable parallel to the role of marketing in society. While definitions of marketing abound, the American Marketing Association conceptualizes it as “the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large” (The American Marketing Association 2007). Clearly then, the creation of value for the stakeholder is at the heart of marketing which dovetails nicely with the purpose of social innovation. Second, note from the definition of marketing that it deals with multiple stakeholders such as partners, clients, and society at large. This aspect too, finds a parallel in the social innovation domain where we talk of aid workers, parents, teachers, doctors and other members of the community. In light of these similarities, for several years, I have studied the burgeoning field of corporate responsibility from a marketing or more specifically a stakeholder-centric perspective, which I believe is highly relevant for the success of social innovation.

In the following paragraphs, I describe a simple framework that illustrates how social innovators and entrepreneurs can harness some marketing concepts to enhance value creation for society. Since social innovations can emanate from for-profit companies as well as from social entrepreneurs and nonprofit organizations, I use the term “organization” to describe the social innovation provider.

## 2 Social Innovation and the 3 Cs

Approaches that have been used to understand customer needs, communicate benefits and measure strategy effectiveness in the marketing arena – can be used to address the social challenges that have been facing the world for generations (Bates 2012). I describe these approaches and their relevance for social innovation in terms of a simple framework – the 3 C’s – co-creation, communication and calibration.

### 2.1 *Co-creating Social Innovation with Stakeholders*

Mulgan et al. (2007) identify the basic stages of social innovation as idea generation, prototype production, assessment and finally scale-up. I contend that co-creation matters at each of these stages. Co-creation plays a vital role for innovation and social innovation in particular as involving stakeholders in formulating and implementing social innovation ideas results in greater buy-in and success. While co-creation is not a new idea, it is becoming increasingly important as more companies take a multi-stakeholder approach to social innovation (e.g., via open innovation). But not enough has been done as social innovation is still essentially a process in which senior managers, entrepreneurs or venture capitalists decide which issues or causes to support. On the other hand, stakeholders aren’t content anymore to be passive recipients or even “enablers” of a program. They want to be “enactors” and actively engage in co-creating initiatives with social entrepreneurs. As pediatrician Gopa Kothari, an expert in preventing child blindness points out aptly about her work in the Indian slums, “The entry point has to be their needs, not yours.” (Crabtree 2012: 16).

Building on the above, another factor that enhances social innovation success is attending to the “horizontal” connections *between* stakeholders (rather than vertical connections between the organization and stakeholders). Fostering these connections can help to create a “community of virtue”. By embedding stakeholders in the organizational network, they become not only closer to the organization, but also closer to other important members of the network. This, in turn, creates meaningful ties with other network members. The result may be a meaningful increase in social capital. Social capital is considered to be the glue that

empowers social action and helps to create a successful community of virtue. Social capital can broadly be described in terms of the trust, mutual understanding, and shared values and behaviors that bind members of human networks and communities and make cooperative action possible (Cohen and Prusak 2001).

The approach of ITC, an Indian conglomerate, serves as a good example of a stakeholder-centric and co-creation-oriented approach that facilitated dialogue between a company and its stakeholders and incorporated this input as early as possible in the process of a social innovation. In order to help small farmers to stay independent and to lift them out of poverty, ITC decided to involve multiple stakeholders that share this goal, including most importantly local farmers as well as NGOs and the Indian government from the beginning. Workshops helped them to express their interests and ideas, and as a result further crop learning forums and internet kiosks have been created. Internet access provides farmers with information on the weather forecast or crop prices and gave them advice on farming methods in their dialect; e-mail service allows farmers to interact with scientists at agricultural universities, technical people at ITC, and fellow farmers who may deal with challenges similar to theirs. The success of these and many other initiatives in this context speaks for the success of co-creation (Ramaswamy and Gouillart 2010).

Another recent example can be seen in the *Intel World Ahead* Program that was rolled out in 2006 and that makes twenty-first century technology more accessible for millions of people worldwide. Through hands-on collaboration with governments, telecommunications providers, technology companies, and other organizations, *Intel World Ahead* increases access to digital devices, the Internet, and local content. The collaboration between all partners (Governments, NGO's and private companies) is developing long-term approaches that strengthen communities and encourage sustainable social and economic development.

In sum, if one follows a stakeholder centric approach, there are four steps to successfully generate social innovation ideas: articulating unmet social needs, generating ideas to address these needs, distilling ideas, and selecting ideas to pursue. Stakeholders can best contribute to articulating needs, generating ideas, and selecting causes of greatest relevance, but the provider still plays the key role in distilling ideas and implementing innovations. Companies should determine their primary goals and then target the relevant stakeholder groups to co-create their social innovations, coming up with a portfolio of possible initiatives. Managers can then use qualitative and quantitative research techniques with targeted stakeholders to arrive at specific social causes and program ideas in the end.

## **2.2 Communicating Social Innovation**

The previous section explained that companies can become more stakeholder-centric by co-creating social innovation with stakeholders. Such co-creation can enhance the benefits that stakeholders derive from those innovations. However, principles of marketing in general and stakeholder-centricity in particular would



also suggest that stakeholders must have a thorough awareness and understanding of the social innovation in question so that they adopt the innovation and tell relevant others about it. Now success strategies for communicating social innovations so that stakeholders develop strong and lasting relationships with the innovation provider will be examined. Successful strategies address the why, what, and where of communication and take into account the particular circumstances of the company and its stakeholders.

Managers seeking to communicate social innovation effectively face two challenges. First, awareness of individual innovations is often low, and second, many stakeholders are quite skeptical of social innovation programs to begin with, as the full potential of a social innovation is not obvious at the outset. Community members often feel that people come to exploit them and hence ascribe extrinsic rather than intrinsic motives to the innovation provider. This makes it harder to build trust between provider and recipient thereby hampering innovation adoption. Communicating with the leaders of the community is an effective trust building mechanism in this context.

Communication is needed in all stages of a social innovation process to facilitate mainstreaming of the social innovation. The message content should include the social innovation commitment, the social impact intended, and very importantly, the communication must be tailored to the sociocultural context in which it is introduced. For example, the aforementioned blindness prevention initiative faced low adoption when communication materials featured pictures of African women which made little sense to those living in an Indian slum.

**Communication Channels.** There are a variety of communication channels through which information about an organization's social innovation activities can be disseminated. In general, organizations can rely on their own channels or external channels to communicate their initiatives. Determining the precise mix involves trade-offs which are summarized below.

Company controlled channels are attractive for many companies because, as the name suggests, they enable the company to speak with a single voice that is highly consistent with corporate and sustainability strategy. As the name suggests, these channels give the company considerable control over the messages that reach stakeholders; commitment, impact, and fit can be optimally communicated, which may better address the particular needs of any stakeholder audience. The downside of such channels is that they may be less believable than other communications; research shows that consumers react more positively and less skeptically to information that is deemed to be from an independent source (Yoon et al. 2006; Simmons and Becker-Olsen 2006). Thus, a message that a stakeholder receives through an internal (i.e., organization sponsored) channel may be less successful at overcoming skepticism than a message received from a third party.

A counterpoint to such organization-controlled communication channels is the large and increasing number of external channels of communication. Partners in the value chain, the media, NGO's and monitoring groups, forums/blogs are just a few examples of external groups that are capable of communicating to wide swaths of stakeholders. Of course, these influencers are not under direct control of the

organization, so their messages may not completely be in-line with the social innovation strategy. However, due to their independent nature, stakeholders are likely to trust the information they receive from these external channels (e.g., doctors rather than the manufacturer in the case of the peanut paste Plumpy'nut) more than information they receive from the organization (Rice 2010). It is incumbent upon innovation providers to maintain an ongoing dialog with these groups and individuals so that externally generated messages are as consistent with the goals of the innovation as possible.

### ***2.3 Calibrating Social Innovation***

The familiar adage “You can’t manage what you can’t measure” is as true in the social innovation realm as it is in other disciplines. If organizations are to maximize returns to social innovation investment, then stakeholder reactions – both behavioral responses and psychological interpretations – must be recorded. In quantifying stakeholder reactions to social innovation, we rely upon a number of well-proven methods and techniques.

The most useful way to measure social innovation value is to track the behaviors of individual people who interact with the innovation. Aggregating individual behaviors will of course provide the overall picture (e.g., market penetration), but looking at aggregate data alone inhibits a researcher from knowing which stakeholder segments responded favorably and which did not. An important insight in the framework is that social innovation value can involve societal (e.g., reduction of malnutrition) as well as business (e.g., sales of Plumpy'nut) value. Therefore, we recommend tracking an array of stakeholder behaviors that span both societal and business outcomes

In quantifying stakeholder reactions to social innovation, we can use a number of well-proven methods and techniques used in marketing and indeed in the social sciences at large. These involve both surveys and experiments conducted in the field as well as in the lab. The research typically entails answering two important questions:

- How are stakeholders currently interpreting the company’s sustainability activities?
- What are the desired outcomes that the organization seeks from stakeholders?

Organizations that wish to optimize their social innovation engagement need to have reliable means of getting into the mind of the stakeholder, so as to develop a sound understanding of the operation of the psychological process. Research conducted with my coauthors (notably, Sankar Sen, Shuili Du and Daniel Korschun) in the corporate responsibility realm suggest that the psychological process behind stakeholder reactions clusters around three core concepts: their Understanding of the initiatives, the degree to which they find the initiatives to be personally Useful, and the Unity they feel with the organization. The strongest and

most lasting stakeholder relationships are founded on these three concepts, which, when working harmoniously, can result in substantial rewards for the social innovation.

**Understanding.** In its simplest terms, Understanding is the collection of perceptions that a stakeholder holds about the social innovation. Understanding develops as stakeholders learn about the innovation, and as they ask questions surrounding the purpose of the innovation, how it is going to help them, why the organization wants to help them, etc. Note that I described similar questions while discussing the issue of attributions in the section on co-creation above.

**Usefulness.** Stakeholders can derive many types of benefits from a social innovation, posing a challenge to managers wishing to measure the extent to which stakeholders find the innovation to be Useful. To gain a holistic sense of Usefulness, organizations need to look at both functional and more psychological benefits. Functional benefits are those that are largely tangible and are the direct result of features of the innovation (e.g., weight gain, better eyesight, etc.). However, there are often benefits that are more psychological, stemming from the identity needs of stakeholders. These could pertain to higher self-esteem, more self-confidence, improved ability to make friends, peace of mind and so on.

**Unity.** At the core of stakeholder-centricity is the notion of a stakeholder's sense of Unity with the company, a summative concept that reflects the overall quality of the stakeholder-company relationship. Unity indicates whether the stakeholder thinks the organization shares his or her values, and whether it is trustworthy enough to warrant continuing the relationship into the future. Typical marketing measures such as customer satisfaction may provide a window into Unity, but they are insufficient at helping us understand the true bonds that can form between individuals and organizations, because they do not capture the underlying evaluations that stakeholders make about a company's character or "soul." It is this sense of Unity or identification, however, that builds loyalty between the stakeholder and the organization, prompt stakeholders to say positive things about the organization to their friends and peers and generally ensure that the innovation is a success.

In sum, strategic social innovation management requires a process whereby programs are calibrated regularly for constant improvement. Quantifying and finding linkages are important steps in social innovation management because they generate knowledge that can be leveraged so that stakeholder relationships are enhanced to the fullest extent possible. But the knowledge generated by these steps must be utilized properly to calibrate social innovation initiatives so that they fully improve understanding, satisfy stakeholder needs, and produce maximal societal and business value.

For calibrating social innovation, it is essential to aggregate all knowledge about each generated idea on an ongoing basis. Companies should consider creating dashboard-like systems where organizations can find all relevant information in a single source. A social innovation dashboard can be built upon key indicators and dimensions of value discussed above. The dashboard not only records current performance on these measures, but it also provides a target for the next period.

The dashboard can be used to improve social innovation management – systematically and continually. Learning what is working and what is not can take time. But stakeholders’ reactions to social innovation can evolve over time as well. Very often the fruits of a social innovation do not become evident immediately. For this reason, dashboards can track progress against tangible, agreed upon goals, so that every social innovation is performing up to its fullest.

Last but not least, gap analyses can be extremely useful when assessing social innovation strategy. When goals are not met, apparent by a gap between targets and actual results, managers can delve into underlying components of Understanding, Usefulness, and Unity for clues as to why the program is underperforming. In many cases, managers can re-calibrate the program based on this information, by improving communication to raise Understanding, or adding features to heighten Usefulness.

### 3 Conclusion

As this chapter should make clear, the principles of marketing and stakeholder centricity are of utmost relevance to social innovation. The three concepts – co-creation, communication and calibration – described above should be applied to existing social innovations as well as to future social innovations to maximize value creation both in the business and socio-environmental arenas.

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# Accounting for Social Innovations: Measuring the Impact of an Emerging Intangible Category

Edeltraud Guenther and Thomas Guenther

## 1 Why Measure the Impact of Social Innovations?

Following the definition of the Center for Social Innovation of the Stanford Graduate School of Business (2009), “A social innovation is a novel solution to a social problem that is more effective, efficient, sustainable, or just than present solutions and for which the value created accrues primarily to society as a whole rather than private individuals.” This definition focuses on the result, i.e. the outcome of the innovation. In order to judge whether a solution is more effective, efficient, sustainable, or just, it is indispensable to measure the impact of social innovations along those four lines. Moreover, the value created has to be allocated to the society and to private individuals. Between society and private individuals, organizations, both for-profit as well as non-profit organizations, act as socio-mechanical systems combining technical and organizational solutions (such as machines, buildings, or processes) with human beings as part of a social system in terms of internal (i.e. workforce) or external stakeholders (e.g. customers) of the organization. Social innovations create value for private individuals, such as a decent salary, but moreover they are accumulating value for society. Thus, by nature organizations are the transmission belt for social innovations. Whereas for non-profit organizations, the non-financial objectives dominate the financial objectives, such as making profit or increasing shareholder value, the priority for for-profit organizations is vice versa and objectives, like providing education or medical aid, are secondary.

For this chapter, we draw on the measurement approaches developed for innovations in general as a category of intangibles and combine and extend existing approaches to measure the impact of social innovation in terms of effectiveness, efficiency, sustainability, and justice and in terms of the value created for society. For the measurement, we always start from the organizational perspective and extend our analysis to the private and societal level.

Following the definition of innovations in general, besides the outcome-based perspective, a process-based perspective of social innovations has to be considered.

Following the general process-based definition as proposed by Baregheh et al. (2009, p. 1334) (“Innovation is the multi-stage process whereby organizations transform ideas into new/improved products, service or processes, in order to advance, compete and differentiate themselves successfully in their marketplace.”), the process-based definition of social innovations focuses on the different stages of a social innovation in terms of (1) the idea of a need that is not being met, (2) the taking of a promising idea and testing it in practice, (3) the finding of supporting organizations that make things happen on a large scale, and (4) learning to continuously adapt (Sharra and Nyssens 2010).

This chapter is organized as follows: Based on the above definition and categorization of social innovations, we ask why accounting does not measure the impact of social innovations appropriately (Sect. 2). In Sect. 3 different methods to measure social innovations are presented and discussed before we further elaborate in Sect. 4 on how KPIs for measuring a specific social innovation can be derived. Finally, in Sect. 5 we describe how social innovations can be integrated in management control before we draw conclusions and give recommendations for future research and practice.

## 2 Why Does Accounting Measure the Impact of Social Innovations Inappropriately?

Within the context of an organization, the purpose of accounting is to fairly represent an organization’s processes and outcomes. However, due to limitations of national or international standards like IFRS or US-GAAP, financial accounting can only represent transactions which have a direct impact on the organization itself within its system boundaries. Thus, neither impacts for the society as a whole nor impacts for individuals as demanded in the above definition of social innovations are represented. Therefore, environmental impacts such as climate change, land-use or resource efficiency, as well as social impacts like the declining health of local residents in the neighborhood of a factory or of employees, are not represented in financial accounts. Furthermore, even transactions that might impact the society in a positive way, like the creation of innovations, the development of human capital, or external relationships to society, such as fair trade, can only be shown to a limited extent in financial statements (e.g., if they are purchased from external parties). For the specific context of social innovations we draw on a framework proposed for intangible resources and adapt and expand it for social innovations. As innovation capital is an essential category of intangibles, social innovations can be regarded as one specific part of innovation capital and thus represent an emerging intangible category.

Sveiby (1997) has introduced the concept of an “invisible balance sheet” where he refers to the effect that the external structure (e.g., relations with the local community or with customers), the internal structure (e.g., innovations, excellent processes and procedures), and the competence of the workforce (e.g., knowledge, skills and innovativeness of employees) are not revealed in the traditional balance

Assets	Capital	
Fixed Assets	Visible Equity	Visible Part of Balance Sheet
Inventory	Accruals and Provisions	
Accounts Receivables	Long- and Medium-Term Debt	
Liquid Funds	Short-Term Debt	
External Structure	Invisible Equity	Invisible Part of Balance Sheet
Internal Structure	Invisible Liabilities	
Competence of Personnel	Liabilities towards Society	
Used Environmental-Resources		

**Fig. 1** Invisible balance sheet (Sveiby (1997), p. 11, expanded by Guenther and Guenther (2003), p. 196)

sheet of an organization; however, these categories should be added as described by Fig. 1. Sveiby also allows invisible liabilities, such as the social or environmental commitment of the management, which are represented on the right side of the invisible balance sheet. Guenther and Guenther (2003) expanded Sveiby’s invisible balance sheet by integrating the use of natural resources belonging to society (like air, water, or land) and by liabilities of the organization towards the society (Fig. 1). Consequently, the process-based perspective of social innovations can be associated with the competence of the personnel following Sveiby’s wording when the organization creates social innovation inside the organization for their workforce, such as good working conditions, support for employees with children, or health promoting services, but they also can be connected with the external structure when the company introduces steps concerning stakeholders like the local community or the society in general. Following the outcome-based definition of social innovation, the value created by the external and internal structure and the competence of the personnel can be shown within the organization as “invisible equity”, but also should accrue to society as a whole and to private individuals. Nevertheless, Sveiby’s framework focuses solely on the organizational perspective by expanding the traditional balance sheet.

Traditionally, management and financial accounting of organizations focus (and with the current legal system are even required to focus) on the visible part of the balance sheet only and, therefore, do not cover social innovations appropriately. If “off balance” issues like social innovations are or have to be considered by organizations, the question arises as to how these issues can be measured to support managerial decision making within organizations appropriately with respect to social innovations.



### 3 How to Measure the Impact of Social Innovations?

Measurement methods associate a metric value to a social innovation expressing either benefits or costs or the net effect of both. If the metric value is a monetary value expressed in dollars or euros, measurement becomes valuation.<sup>1</sup> We transfer the seminal work of the workgroup on accounting and reporting in intangibles (WGARI 2013) on methods for measuring and valuing intangibles to the assessment of social innovations. The approaches can be differentiated whether they use only one indicator (mono-indicator approaches) or several indicators (multi-indicator approaches) as a measure.

#### 3.1 *Mono-indicator Approaches*

The mono-indicator approaches that deliver “only” one monetary value have to be used for valuing intangibles for financial accounting purposes following IFRS 3, IAS 38, or SFAS 141 and 142. These financial accounting approaches can be transferred for valuing a specific social innovation and can be differentiated by market, income, and cost approaches. The multiple, real option, and market-to-book or Tobin’s Q approach are other mono-indicators and monetary approaches which, however, are not accepted for financial accounting use.

##### 3.1.1 Financial Accounting Approaches

**Market approaches** seem not to be appropriate for social innovations since active markets and market prices for valuing the social innovation itself are mostly not available. For example, markets for emission trading and prices for buying and selling pollution rights exist. However, the social innovation here would be the existence and the organization of the emission trading itself. As the emission trading scheme is introduced via regulation, there is not an active market or a market price for the social innovation itself.

**Income approaches** which assess the costs and benefits of social innovations using discounted cash flow (DCF) models can be recommended as a major approach for measuring social innovations. They are frequently used for support in decision making in general and for the valuation of intangibles specifically, and also for measurement within IFRS 3, IAS 38, or SFAS 141 and 142 for valuing intangibles. The DCF models of the income approach generally assume that there is a monetary benefit from the social innovation, such as higher wages due to fair trade. Thus, the income approach can be used for assessing effects for the whole

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<sup>1</sup> Nevertheless, it should be noticed that ‘measurement’ within international financial accounting (IFRS and US-GAAP) means that a monetary value is associated with a transaction.

society, for an individual, as well as for an organization. For example, on the societal level the income approach would discount all monetary net cash flows from better health conditions over a given planning horizon. This means that the income approach can only be used if at least parts of the benefits can be monetarily evaluated and compared with initial investments or current costs. On the organizational level, a monetary benefit can accrue from creating or participating in social innovations (e.g., lower sickness figures and higher production output or sales due to better health protection or higher prices on consumer markets due to fair trade products). For individuals, higher wages result in a higher income. Assumptions for modelling these effects can be easily made but should be substantiated by market research and empirical evidence. For example, in order to evaluate the benefits for a fair trade organization, higher market prices for fair trade in relation to commodity products can be taken into account. Also for emission trading schemes, which can be regarded as a social innovation, the effect of saving CO<sub>2</sub> emissions by investing in cleaner production lines can be monetarily evaluated using the income approach both, on an organizational and on a societal level. In fact, the instruments of Joint Implementation and the Clean Development Mechanism follow exactly this approach and thus optimize costs and benefits on an organizational as well as on a societal level.

The **cost approach** just analyzes the “inputs” in social innovations and not the benefits, i.e. the outputs or outcomes. Thus, measurement by reproduction or repurchase cost should only be taken into account if benefits cannot be shown or opportunity costs (e.g., the costs of health damages which are prevented) have to be taken into account.

All three approaches result, not surprisingly when following IFRS, in one monetary measure for intangible social innovation (mono-indicator approach). WGARI (2009) has made detailed suggestions for best practice use of all three valuation methods for purchase price allocation (WGARI 2009) which can be used and transferred to social innovations. Examples for the application of the method of direct cash flow forecast, the relief from royalty method, the multi-period excess earnings method, and the incremental cash flow method within the setting of the pricing of intangibles in a business combination are presented in WGARI (2009) and in WGARI (2013) for the measurement of intangibles in general.

### 3.1.2 Other Monetary Approaches

Other mono-indicator approaches delivering monetary values which might be applied for social innovations are the multiple, the real option, and the market to book or Tobin’s Q approach. The **multiples approach** would use the probably higher multiples on capital markets of socially responsible organizations and compare them with the (lower) multiples of less as active organizations. The difference in market value would signal the impact of social innovations on the value of the organization. However, it should be noted that multiples as aggregated figures are driven by a broad range of determinants. Therefore, sorting out the effect

of social innovations is difficult, if not impossible. Furthermore, multiples assume efficient and active markets and can in general only be used for measuring social innovations for organizations, but not for the societal or individual level.

The **market-to-book** or the **Tobin's Q approach** creates challenges as well, by comparing the market value of the (listed) organization with the book value (for the market-to-book approach) or the reproduction value (the costs of all net assets if reproduced or repurchased on the markets in the Tobin's Q approach). As market values are generally above book values, the difference is seen as reflecting the future of the organization (going concern) as well as resources which cannot be recognized in the balance sheet, like social innovations. Due to diverse reasons for higher market than book values, this often quoted explanation is too weak to substantially help assess the impact of social innovations and bears the same disadvantages as the market approach. Moreover, market values might not exist for social innovations.

Using the **real option approach** for social innovations assumes that social innovations create options for the future. As real options were used to value opportunities from product innovations, the approach seems applicable for social innovations as well (Bloxham 2000; Bose and Kok-Boon 2003). One might refer to the options created-by support of work-life balances and by support of raising families while working-as flexibility for the organization in continuing to work with the established work force and in keeping highly talented professional. Furthermore, options arise for a society as a whole by introducing cooperatives. However, in order to use the real option approach, assumptions on the payoffs, on standard deviations of payoffs, and on time horizons of options, which are in practice difficult to assess, are needed (Trigeorgis 1997). Nevertheless, the real option approach can also be used to inspire thinking in decision trees and, thus, in built-in flexibility by management.

Finally, examples of the different mono-indicator measurement approaches are given following the four objective dimensions of social innovations (effectiveness, efficiency, sustainability, and justice) for the four objects; society, for-profit organization, non-profit organization, and individuals (see Table 1):

Referring to the above outcome-based definition, a social innovation has to be more effective, efficient, sustainable, or just. Thus, this definition indirectly delivers requirements for measurement methods. Efficiency, being generally defined as the relation of output to input, can be directly assessed by the income approach. Income approaches analyze the inputs (cash outflows) as well as the outputs (cash inflows). Thus, income approaches consider efficiency by comparing outputs and inputs via discounting the net effects of cash in- and outflows. The cost approach focuses on input only and therefore measures only one part of efficiency since output is missing. Market approaches as well as multiple, market-to-book, Tobin's Q and real option approaches are able to measure efficiency if active and efficient markets with fair prices exist, which will not be the case in general for most social innovations. Concerning sustainability, only economic, but not social or environmental sustainability, can be supported by the income approach as it measures long-term and not short-term value creation using long-term discounted cash flow

**Table 1** Examples for the different mono-indicator measurement approaches (Compiled by the authors)

Measurement	Value ...			
	... for society	... for for-profit organizations	... for non-profit organizations	... for individuals
Market based approach	In general no active and efficient markets for the price of specific social innovations	High valuation on stock market for firms with higher reputation due to social innovation	Better re-financing conditions for credit cooperatives	Fair trade movement improves farmers' lives
Income approach	fair trade movement promotes environmental sustainability	Willingness to pay of customers for fair trade products	Better net income or lower losses for working with volunteers as staff	Access to credit and better financing conditions due to micro-financing
Cost approach	Lower health care costs due to better living conditions	Lower sickness costs because of investments in health prevention	Lower operational costs in production or agricultural cooperatives	Lower costs for raising families with children because of free pre-schooling
Multiples approach	In general no active and efficient markets for the price of specific social innovations	Higher multiples for environmentally friendly firms	In general no active and efficient markets for the price of specific social innovations	In general no active and efficient markets for the price of specific social innovations
Market to book or Tobin's q approach		Higher market to book for social innovative firms		
Real option approach		Higher flexibility in work force with good support for staff with children		Higher flexibility for getting better jobs because of good training

approaches. However, justice and effectiveness cannot be measured with these financial approaches. In order to measure effectiveness, strategic objectives for society, organization, or individuals are required in order to assess ex post how far they could be reached. Therefore, performance measurement and management systems have to be applied which intend to break down strategies in objectives and key performance indicators (KPIs).

The advantage of all mono-indicator approaches is that they deliver monetary values for the assessment of social innovations and, thus, these values can be integrated within traditional management decision tools of organizations such as budgeting, costing, investment appraisal, etc. However, the valuation requires knowledge of and assumptions on effects of social innovations on income and on costs, which to our best knowledge so far is only available with limited validity or

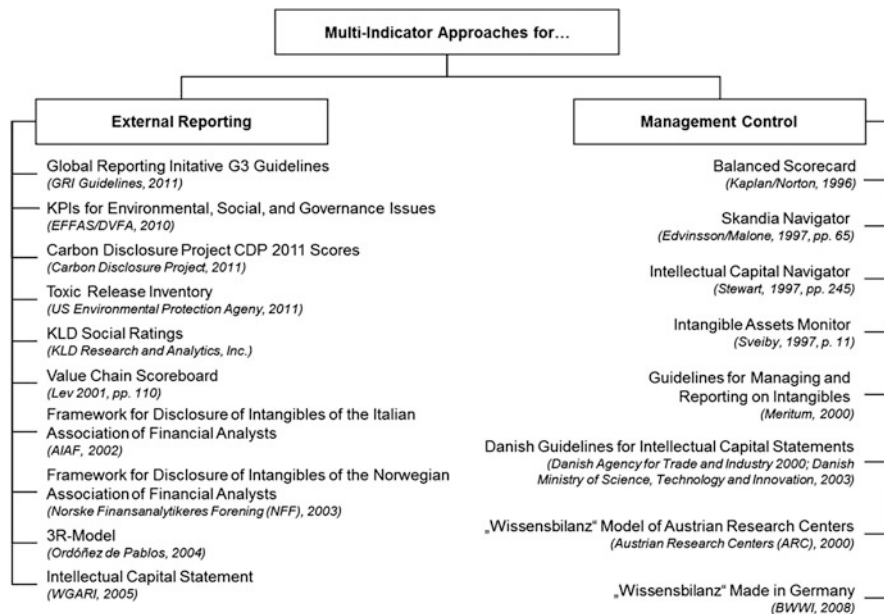
reliability. Measuring and assessing the impacts and the consequences of social innovations on drivers of costs or income without exactly knowing the detailed underlying cost or production function seems much easier. This approach is followed by the multi-indicator approaches, which are discussed in the next subsection.

Referring to the process-based definition, KPIs are needed to analyze the performance of the multi-stage social innovation processes. Thus, only efficiency and economic sustainability can be assessed by mono-indicator approaches like the most usable income approach. All other aspects have to be fulfilled by multi-indicator approaches using several indicators or KPIs.

### 3.2 *Multi-indicator Approaches*

Multi-indicator approaches use a set of quantitative indicators (KPIs) to assess intangibles like social innovations. These approaches can be divided into methods specified for voluntary disclosure by the organization to investors and other stakeholders and methods for internal management control to better manage intangibles within the company. Figure 2 gives an overview of heavily discussed multi-indicator approaches which can address different topics. The Global Reporting Initiatives (GRI) G3.1 Guidelines (2011) cover economic, environmental and social issues. The KPIs for environmental, social, and governance (ESG) issues of EFFAS and DVFA (2010) also add governance issues and have been developed by the European Federation of Financial Analyst Societies (EFFAS). The carbon disclosure project (CDP 2011) started with a focus on climate change programs only and is addressed to major investors. The often used KLD Social Ratings covering social, environmental, and governance issues are delivered by the independent research organization Kinder, Lydenberg and Domini (KLD) (2011) Research and Analytics, Inc. which is now a division of Morgan Stanley Capital International Inc., (MSCI). The balanced scorecard of Kaplan and Norton (1996) is a generic performance management system generally meant to implement strategies and to manage an organization, but it can be re-addressed to social, environmental, governance or intangible aspects only. All other indicator systems listed in Fig. 2 focus on the disclosure and/or management of intangibles. Figure 2 gives an overview of frequently discussed indicator approaches which address intangibles in general and therefore, also include the measurement of social innovations.

Indicator models gain importance and are suitable if a valuation of a social innovation is not possible or not preferred by management. Cause and effects can be measured directly and do not depend on a production or cost function to enable monetization. Indicators can be more closely connected to strategy (e.g., in a strategy map following the balanced scorecard approach of Kaplan and Norton (1996)) and allow management to control the drivers of social innovation without



**Fig. 2** Overview of indicator approaches addressing intangibles that include the measurement of social innovations (Compiled by the authors)

detailed knowledge of direct effects. All indicator models have a similar method as they are special cases of general performance management systems.

### 3.3 Challenges for Measurement and Valuation

The specific characteristics of social innovations also have direct implications for the measurement and valuation that will be considered next (Guenther et al. 2004; WGARI 2013):

(a) Definition, identifiability, and multiplicativity of social innovations

An implicit assumption of the recognition and valuation of intangibles in financial accounts is their identifiability (e.g. IAS 38.9) resulting in a separability from other intangibles and from other tangible assets. Thus, following the understanding in financial accounts, social innovations, similarly to other physical or financial assets, can be separated from one another and summed up in an inventory to the total assets of the company. However, this does not reflect the nature of social innovations as, for example, investments in good working conditions also have an impact on the health standard or diversity of the workforce. Thus, social innovations overlap and cannot be separated like

physical assets. Furthermore, the definition of social innovation might not be as clear as that of tangible or financial assets.

(b) Choice between different alternatives of measurement

Management needs to make a choice between two poles of measurement and valuation. On the one hand, and heavily influenced by the dominance of financial accounting for capital market decisions and the control concepts in the Anglo-American world, management can vote for a monetary, financial accounting based valuation of intangibles which, however, covers a multitude of assumptions behind the methods of the income approach. On the other hand, the alternatives for management are quantitative, non-financial indicators that might be closer connected in cause and effect with the control of intangibles and easier to relate to company objectives, but cannot be reflected in financial reports or potentially only on a voluntary basis in the narrative part of the annual reports or in specialized reports (such as CSR or sustainability reports) or within internal reporting. Making this choice seems to be a challenge for management and fulfilling both good financial reporting and good management control has to be decided in the light of cost/benefit decisions and a focus on crucial social innovations for an organization and for the society should be laid.

(c) Intrinsic fuzziness of measurement

The diverse intrinsic assumptions and necessary parameters create a fuzziness of measurement and valuation results that cannot be reduced. In addition, most long-term methods need forecasts for future development that automatically embed risk for variance from actual development *ex post*. Furthermore, due to the short history of the consideration of intangibles in accounting, experience with measuring and valuing intangibles within companies and within consulting organizations is – due to the novelty of that topic – still limited. Thus, management has to be aware of this embedded fuzziness of measures and values of intangibles. Consequently, managers should not concentrate on the precision of measurement, but on deriving the right conclusions from the data resulting from the methods applied for decision-making. Thus, it might never be possible to assess definite earnings as outcomes of investment in diversity or good working conditions.

(d) Leading and lagging indicators

In analogy to performance management (Kaplan and Norton 1996), a mixture of leading and lagging indicators seems to be adequate to support management control for social innovations. Leading indicators (e.g., expenses for community school projects) are the causes for future effects (e.g., better educated workforce) and therefore represent the means to achieve a management objective. In addition, lagging indicators (e.g., high fluctuation) tell the management about the results of management in the past (e.g., poor working conditions are difficulties for work-life balances or family work). Both types of indicators should be integrated in management control systems to combine planning and monitoring in a cybernetic control cycle for a sophisticated management control system.

(e) Input, Process, Output, and Outcome Indicators

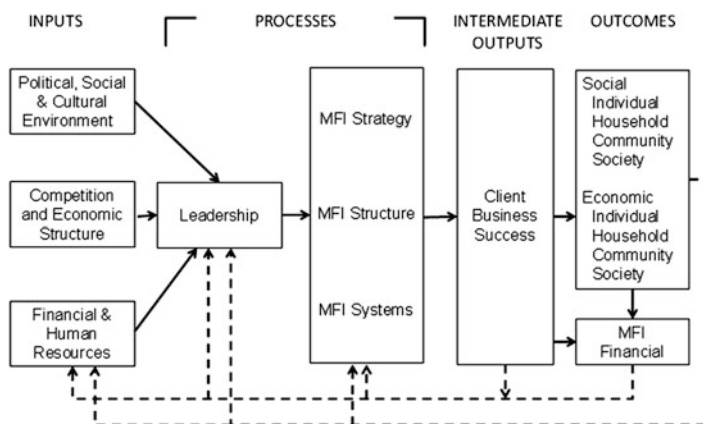


Fig. 3 Antecedents and consequences of microfinance investments (Epstein and Manzoni, p. 6)

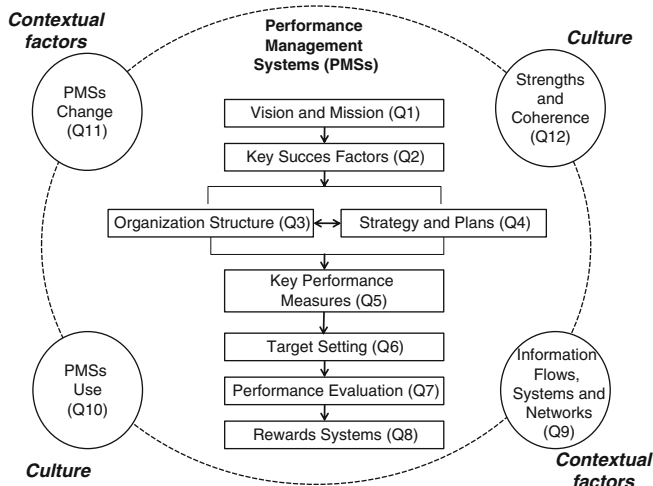
Indicators can be divided into input, process, output, and outcome indicators. For social innovations, expenses in environmental, health, or security projects are input indicators, whereas the number of projects run in the health department is a process indicator. Output can be measured as the number of sick days of the population as this is the output of the health and security process, while increased net income from higher production volume or national welfare is an outcome figure. For social innovations, the outcome could also be measured outside the boundaries of the organization in looking at the state of health in society in general as a contribution by all organizations together. This example shows that a balanced combination of all four types of indicators is necessary to manage the flow from input to outcome for an organization (Guenther et al. 2004; WGARI 2013). However, it is also obvious that the outcome measure is more important to assess the contribution of social innovations, than of all the other indicators. Just being active is not enough for social innovations; they should be effective and have an impact on society and private individuals as well.

The following Fig. 3 shows inputs, processes, outputs, and outcomes of microfinance investments as a management control model of microfinance as a social innovation and demonstrates that KPIs for social innovations have to encompass all four levels of measurement (input, process, output, and outcome). KPIs for this example based on this model are developed in Sect. 4.

#### 4 How to Derive Indicators for a Specific Social Innovation?

One of the challenges for the control of social innovations is to find adequate KPIs. As social innovations can be diverse, delivering a list of potential KPIs for some social innovations is not appropriate for every specific situation. Instead, a system





**Fig. 4** Performance measurement process (Ferreira and Otley 2009, p. 268)

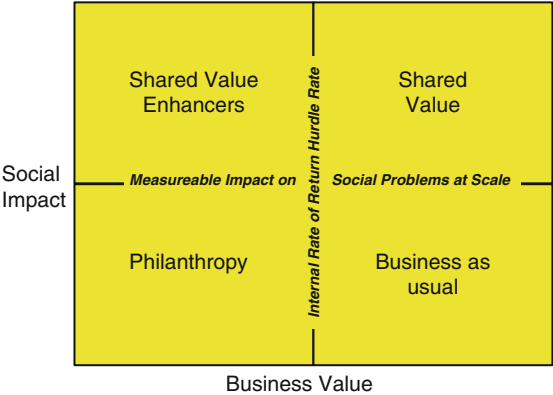
on how to derive KPIs for social innovations is suggested. Some rules (leading vs. lagging indicators, outcome, output, process, and input indicators) have been presented and discussed in the previous section. Deriving suitable KPIs is one of the targets of performance management systems where the balanced scorecard is the most prominent example (Kaplan and Norton 1996).

Figure 4 shows the general performance measurement process suggested by Ferreira and Otley (2009) and the steps Q1 to Q12 to be taken to finally derive adequate KPIs and to derive a working performance measurement system. Other general management control systems which can generally be used also for social innovations have been developed for example by Simons (1995), Anthony and Govindarajan (2007), Malmi and Brown (2008), and Merchant and Van der Stede (2012). The process of Ferreira and Otley (2009) is transferred into the setting of social innovations for the example of microfinance of Grameen Bank of 2006 Noble Peace Prize winner Muhammad Yunus without having evidence whether Grameen Bank really used a performance management system:

The starting point for deriving KPIs is a vision and mission (Q1) which, in our example, include the vision of “self-support for the very poorest people by means of loans on easy terms” and the mission “to help poor people escape from poverty by providing loans on terms suitable to them and by teaching them a few sound financial principles so they could help themselves” (Grandin 2006). Furthermore, Grameen Bank defines 16 decisions for their members to escape from poverty and 10 indicators for the Grameen Staff to measure movement out of poverty (Grameen Bank 2012).

One of the key success factors of Grameen Bank (Q2) was to give money to women or groups of women because experience showed that this ensured the best security for the bank and the greatest beneficial effect for the borrowers’ families.

**Fig. 5** Portfolio of social engagement strategies (Following Porter and Kramer 2011)



Next, an organizational structure has to be found (Q3) (in our example the establishment of Grameen Bank) supporting the strategy and plans (Q4) to break down the key success factors for the social innovation. One of the strategies was to start in the village of Jobra and then to further expand to neighboring villages and other districts.

Applying the structure of Fig. 4, KPIs (Q5) can be derived for input (e.g., \$180 million of funds leveraged to support microfinance programs in 13 countries), processes (25,000 village phone operators working in six countries), output (9.4 million poor people reached by microfinance, 6.61 million active borrowers in 2010) and outcome (690,737 houses have been constructed since 1984 with the housing loans averaging US \$181.50). To implement strategies, targets have to be set (Q6) and, afterwards, performance evaluated (Q7). Grameen banks offer comprehensive indicators under “data and reports” on its website. To support strategy implementation, a reward system should be installed (Q8) which does not have to be financial and can also be intangible rewards. Last but not least, contextual factors such as culture (the actual use and the way of usage of KPIs (Q10) and the strengths and coherence within the organization (Q12)) as well as contextual factors (information flows, systems, and networks (Q9) and a permanent change and adaption of PMS (Q11)) have to fit with the performance management system itself to support successful implementation of strategies.

5 Conclusions

To sum up, it is possible to account for social innovations. Furthermore, as stated before by Porter and Kramer (2011), Fig. 5 shows that there are four positions for an organization to connect competitive advantage and social issues.

Business as usual neglects social issues and just focuses on business opportunities with an internal rate of return above hurdle rates or cost of capital. The shared value strategy brings social and business issues together and increases

competitive advantages as well as contributes to social issues inside and outside the firm. Shared value enhancers focus on social issues also when not creating value for the shareholders whereas in the philanthropy position, both social and business targets might not be met.

As demonstrated above, to successfully integrate social innovations in for-profit and non-profit organizations, measuring the impact of social innovations is crucial. However, it is unrealistic and wishful thinking that all intangibles such as social innovations someday can be represented within financial and managerial accounting. Thus, we recommend to measure and value monetarily social innovations as far as possible, because this allows the integration of social innovations into existing techniques and procedures of management, like budgeting, investment appraisal, and planning & control systems. In addition, measuring social innovations as KPIs or performance measures helps to manage social innovation not only within organizations, but also for society and on the individual level. Thus, we follow the widespread saying in practice also for research:

What gets measured, gets managed; what gets managed, gets done.

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# Social Innovation Education

Peter Russo and Susan Mueller

## 1 Introduction

Universities around the world have started to create a learning environment that allows students not only to acquire knowledge and skills needed in their respective subject areas, but also the necessary tools to make a difference in the world. For example, course offerings and programs focusing on social entrepreneurship (Brock and Steiner 2008) are on the rise and attract students who are interested in following mission-driven career options. This development seems to be in line with a shift in mentality among members of the younger generation who have a strong desire to contribute to society and do meaningful work (Allen 2004; Eisner 2005). Also, companies recognize that acting as a social innovator provides them with the option to mitigate or solve social problems and, while doing so, creating future markets.

This rising interest in the topic increases the demand for programs specifically designed to meet the needs of (future) social innovators. We believe that the knowledge and skills needed by social innovators are to a certain degree comparable to those needed by entrepreneurs. However, since social innovators follow different objectives, pursue different types of opportunities, and might choose other formats to implement their innovations, we think that social innovation programs need to reflect such differences.

Therefore, in this chapter we will concentrate on the knowledge and skills we think are highly important for (future) social innovators and are distinct from those needed by traditional entrepreneurs. Additionally, we showcase an exemplary social innovation program. For our purposes, we consider a social innovation to be an implemented solution that aims to create value for society and can be implemented in many different formats and by many different actors.

## 2 Knowledge Areas

### 2.1 *Drivers and Formats of Social Innovations: Broadening the Solution Space*

Social innovations aim to create value for society (e.g., Mulgan et al. 2007; Phills et al. 2008). The initiators and drivers of social innovations can come from many different backgrounds, including civil society, entrepreneurs, government, public institutions, think tanks, commercial companies, established nonprofits, trade unions, and cooperatives. Also, the types of solutions can be quite different. Solutions could be provided in the format of changes in the welfare system (e.g., unconditional basic income), movements (e.g., Moustache Movement, urban gardening), open-source projects (e.g., Wikipedia), or laws (e.g., codetermination requiring union members to be part of a company's board of directors). That is clearly a difference to social entrepreneurship and social business, where the social innovation is usually a product, service, or business model delivered through an organization.

The idea of focusing on effective solutions that create value for society, *regardless* of the initiator and the format of the solution, is quite promising since it broadens the solution space. Therefore, it seems to be important to provide participants in social innovation programs with an overview of solution formats and types in order to open their perspectives to a broad spectrum of possible solutions.

### 2.2 *Attracting Resources: Taking Advantage of Being a Social Innovator*

Of course, the resources necessary to implement a social innovation depend on the design of the solution. Yet there are some specifics with regard to financial and human resources that might affect social innovators in general and, therefore, social innovators should be aware of these specifics.

With regard to *financial resources*, we can assert that, as of yet, the financial infrastructure is in general not well prepared to support social innovators. However, there are certainly a number of new and promising developments that will help social innovators, including new types of financial actors who are interested primarily in creating social value such as impact investors, venture-philanthropy funds, social stock exchanges, or crowd-funding platforms.

In terms of *human resources*, social innovators can leverage resources by cooperating with partners concerned about the same cause, beneficiaries willing to play a role in shaping or creating the social innovation, and volunteers who can be engaged.

Thus, while we can assume that social innovators often need to deal with scarce resources, the mission-driven nature of their endeavor also allows them to tap resources that are not open to profit-oriented companies. We believe that it is

helpful to provide participants in social innovation programs with these insights and provide examples of how social innovators have managed to fund and staff the development and implementation of social innovations while taking advantage of the specific, mission-driven nature of social innovations. However, the challenges related to the continuous engagement of stakeholders and volunteers certainly need to be covered as well.

### ***2.3 Cross Sector Social Partnerships: Using Core-Competencies of Multiple Partners***

Social innovation is inherently a concept allowing for cross-sector partnerships (Le Ber and Branzei 2010; King 2007; Plowman et al. 2007), i.e. forms of interaction that happen across sectors and are targeted to mitigate or solve a social problem (Seitanidi 2008).

The main idea of cross-sector partnerships is to use the core-competencies of both partners in order to offer solutions to societal problems. An example of a cross-sector partnership is the cooperation between the United Nations Office for the Coordination of Humanitarian Affairs and Deutsche Post DHL. Since 2005 the two organizations have been working together in disaster management with Deutsche Post DHL, assisting in handling and storing relief cargo at airports in disaster regions. The partnership benefits from the logistics and warehousing expertise of Deutsche Post DHL and the United Nations' link to other players in the international community responding to disaster situations (Deutsche Post DHL 2010).

Cross sector social partnerships provide huge potential but also challenges such as managing differences and interdependencies (LeBer and Branzei 2010) or different roles (Hansmann 1980) of the partners. Thus, participants in social innovation education programs could benefit from studying successful and failed cross-sector social partnerships.

### ***2.4 Scaling and Replicating Ideas: Increasing Societal Value***

Social innovations have a huge advantage: If social innovators take the primary objective to create value for society (instead of capturing value for themselves) seriously (Santos 2012), they do not have to deal with issues of patenting and licensing to capture the innovation gains for themselves. Mission-driven social innovators would rather encourage others to follow their example through open-source approaches or social franchising (Volery and Hackl 2010).

Thus, to generate social value elsewhere, a social innovator does not necessarily need to grow her organization. Instead, the social innovation could be spread in different formats such as a program or a set of principles that can be copied and implemented elsewhere (Dees et al. 2004). To give an example, the idea to grow,



sell and consume local food has become prevalent in many different formats such as urban gardens or Saturday markets in many different areas.

Scaling and replicating a social innovation can, however, be a challenge. For example, some social innovations might only work in specific contexts or environments. It might be necessary to adjust the social innovation before it can be transferred to other areas. Also, many social innovators do not want to grow their organizations. Often, they are quite satisfied with increasing value in their community or their region and see no need to scale or replicate the social innovation. Nevertheless, participants of social innovation courses should be familiarized with available options of scaling and replication such as branching, social franchising, joint ventures, or the dissemination of ideas in order to increase the chances that they might consider these options if they managed to implement a social innovation successfully.

### **3 Skills**

#### ***3.1 Opportunity Recognition: Seeing Solutions While Others See Problems***

In traditional entrepreneurship education, opportunity identification has emerged as an important element. We believe that future social innovators also need the skill set to recognize and enact opportunities. Fortunately, research has shown that individuals can learn the processes necessary to recognize opportunities and that it is possible to improve the number of ideas generated and the innovativeness of those ideas (DeTienne and Chandler 2004).

What seems to be specific about opportunity recognition in the social innovation context is that social innovations are based on societal problems. For many, these problems seem to be too complex to be solved or rather, represent an issue that should be solved by government. Yet we need social innovators who are able to see social and ecological problems as potential areas to start social innovations in an entrepreneurial manner. Thus, changing the perspectives of program participants and helping them to see problems as potential areas of engagement should be part of social innovation programs.

#### ***3.2 Understanding the Problem: Designing Solutions that Work***

Social innovators need a thorough understanding of the social cause they want to address and the relevant contextual factors. Thus, exercises forcing program participants to delve more deeply into the problem should be part of any social innovation program. Only if they acquire a profound understanding of the problem,

are they able to create solutions that create social value. Social value, in turn, is the major dependent variable of social innovations.

Besides understanding the problem, social innovation education should encompass tools and methods that support the design of high impact solutions. There are different creativity techniques that can be applied to the context of social innovations. One technique that seems appropriate is “design thinking”. In design thinking, an interdisciplinary team first tries to thoroughly understand the problem at hand by talking to users, potential beneficiaries or other experts who have knowledge about the respective problem. After sharing the insights gathered during that initial phase, the team develops ideas and builds simple prototypes in an iterative process until they reach a satisfying solution.

Design thinking seems to be a promising tool for creating and testing social innovations for several reasons. First, the method allows individuals to create innovative and often breakthrough ideas (Nee 2010). Second, in design thinking the team spends a considerable amount of time increasing their understanding of the problem before searching for possible solutions. Third, design thinking creates solutions that work since they are rigorously tested and prototyped before implemented (Nee 2010).

### ***3.3 Behavioral Change: Creating the Intended Social Value***

For many social innovations, inducing behavioral change is a precondition to fully creating the intended social value. Just think of social innovators working with poor families to help them make better financial decisions, social innovators working with the homeless to help them find jobs or social innovators who try to educate others regarding smoking, obesity, or general health promotion. All of the above-mentioned social innovators cannot generate any social value if they do not manage to induce behavioral change in beneficiaries.

Thus, understanding how behavioral change can be initiated in the respective target group is a key factor to becoming a successful social innovator. One key factor in changing behavior seems to be getting close to the target group in a spatial and personal sense. For example, if villagers in a rural area in a developing country are to be convinced to participate in a health promotion program, it is probably easier to convince them if villagers from a neighboring community who have already had a positive experience with such a program work together with the initiators. Case studies of successful and unsuccessful ventures might be an appropriate pedagogical strategy to teach these skills.

### ***3.4 Social Value Measurement: Increasing the Effectiveness and the Credibility of Social Innovations***

Measuring social value is important for social innovators for several reasons. First, if social value creation is the goal of a social innovator, social value needs to be assessed in order to control whether the solution mechanisms work or not and, if necessary, initiate appropriate changes to make the solution more effective. Second, various stakeholders (e.g., supporters, investors, volunteers) want to know about the progress of implementation. Third, social innovators want to know the societal impact they create (Mulgan 2010).

In general, social innovators need to adjust the measurement to the social innovation in focus. For example, if the solution focuses on improving educational opportunities for underprivileged children, the number of children who are qualified to go to college after benefitting from the social innovation might be an appropriate measure. Thus, social innovators need to be creative and think about tailored indicators that really capture the impact of the social innovation on an individual level. Also, social innovators need proxies that allow them to estimate the benefit on a societal level, even though this is by far more difficult.

## **4 The Summer School for Social Innovators as an Example**

In the following section, an example of a successful social innovation program on the university level will be introduced. This program applies the above-mentioned aspects of teaching social innovation and provides students with the opportunity to further develop and evaluate their own ideas for a social innovation.

### ***4.1 Basic Orientations***

At the beginning of 2012, EBS Business School was asked by Intel Corporation to design and execute a cutting-edge program on social innovation, the so-called “Summer School for Social Innovators”. This course took place in July 2012 at EBS Business School’s campus and was established to become an annual program offered in different regions within Europe, Middle East, and Africa. It reflects the strongly visible cultural movement toward students’ needs for mission-driven career opportunities. The overall goal of the program was to provide an environment that allowed students to acquire the knowledge and skills to develop and implement social innovations. Hence, knowledge acquisition, opportunity recognition, opportunity evaluation, and idea improvement were selected as core elements. The course was practice-oriented and allowed students to directly apply the

acquired knowledge and skills to their own social innovation project, which they further developed throughout the 1-week program.

This course was open to all European students regardless of study level, personal or educational background. Previous innovation and entrepreneurship programs offered at EBS Business School revealed that diverse groups tend to achieve better results; thus, it was clearly stated in all announcements that we aimed for a diverse group of students. To apply for the program, a motivation letter as well as an idea concept (one page in length) was required. This concept paper had to briefly describe the students' ideas for a social innovation. However, it was clearly stated in the application documents that students would have enough time and support to improve their ideas during the program. In total, 25 European students were invited to participate in the program.

## **4.2 Program Design**

At the beginning of this chapter, we highlighted knowledge areas and skills that are important for social innovators. The academic team of the “Summer School for Social Innovators” made sure that these elements were, for the most part, considered in the curriculum of the this 5-day course. An overview of the program is provided in Table 1.

The agenda shows the balance of learning sessions (knowledge acquisition and skill development), idea improvement workshops (skill development), feedback sessions (reflection as part of skill development), guest lectures with social innovators (knowledge acquisition, inspiration), and time for networking and teambuilding. Working in concert, the different types of sessions allowed the acquisition of knowledge and the development of skills described earlier in this chapter.

### **4.2.1 Knowledge Acquisition**

Knowledge acquisition mainly took place during the learning sessions. These sessions were dedicated to providing students with basic knowledge about the field of social innovation such as an introduction to existing definitions and reflections on why social innovations are needed. The learning sessions also included input and time for discussions on potential sources, drivers, and barriers to social innovations. Additionally, students were introduced to scaling and replication strategies, as well as to techniques to measure social value. Table 2 provides an overview of how the learning goals and the learning content are implemented in the curriculum of the summer school through learning sessions, guest lectures and feedback sessions. Due to time restrictions, the topic of cross-sector social partnerships was not addressed.

Table 1 Agenda of the program

	Day 1	Day 2	Day 3	Day 4	Day 5
	Basics	Basics	Improve concept	Refine concept	Presentation
<b>Morning session</b> <b>9.00–12.30</b>	<b>Welcome</b> Learning session: Marketplace of ideas	<b>Learning sessions:</b> Trends and perspectives Tools and methods	<b>Workshop:</b> Idea improvement	<b>Feedback from coaches</b> <b>Refine concept I</b>	<b>Prepare presentation</b> <b>Final presentation I</b>
<b>Lunch</b>					
<b>Afternoon session</b> <b>14.00–17.00</b>	<b>Learning sessions:</b> Worked-out-example  Theoretical background	<b>Learning sessions:</b> Social value creation Impact measurement	<b>Workshop:</b> Idea improvement II	<b>Refine concept II</b> <b>Writing concept</b>	<b>Final presentation II</b> <b>Feedback from jury members</b>
<b>Evening session</b>	<b>Guest lecture with social innovator</b> <b>Wine cellar reception</b>	<b>Teambuilding</b>	<b>Reflection</b>  <b>Guest lecture with social innovator</b>	<b>Writing concept</b>	<b>Award ceremony</b>

**Table 2** Knowledge acquisition: learning goals, learning contents, and implementation

Knowledge area	
Learning goals and learning content	Implementation into “Summer school for social innovators”
<i>Drivers and formats of social innovations</i>	
<b>Learning goal:</b> Students know a variety of drivers/actors and formats of social innovations	<b>Learning sessions:</b> Different examples of social innovations were presented throughout the learning sessions, e.g., Aravind Eye Care Clinic, CFWshops, Dialogue in the Dark
<b>Learning content:</b> Different actors (e.g. individuals, companies) and formats of how social innovations are implemented (e.g. movements, social businesses)	<b>Learning session “Tools and methods”:</b> Small group discussion on potential actors/sources for social innovations <b>Guest lecturers:</b> Presented different types of social innovations
<i>Attracting resources</i>	
<b>Learning goal:</b> Students become aware of strategies to attract and leverage resources	<b>Learning session “Value creation and impact measurement”:</b> The example of Rural Water Ventures was used to showcase how social innovators can use co-creation and a broad network of partners to acquire the necessary resources
<b>Learning content:</b> Co-creation; establishing complex relationships with multiple stakeholders	<b>Guest lecturers:</b> Explained how they acquire resources and how they deal with limited resources <b>Feedback sessions:</b> Coaches provided hints regarding possible financial sources
<i>Scaling and replicating ideas</i>	
<b>Learning goal:</b> Students are aware of the importance of a scalable and replicable business model. Students know different scaling and replication strategies.	<b>Learning session “Tools and methods”:</b> Introduction to the mechanisms of different scaling and replication strategies. Additionally, each strategy was illustrated with an example
<b>Learning content:</b> Mechanisms of different scaling and replication strategies: branching, social franchising, joint venture, licensing, and dissemination	

4.2.2 Skills Development Sessions

While conducting the knowledge-oriented sessions named above, the Summer School for Social Innovators was also designed to provide students with the skills needed to create successful social innovations. Research on innovation and entrepreneurship education has shown that the most sustainable way to “teach” entrepreneurial skills is “learning by doing”. Given this fact, the second part of the program gave students the opportunity to rethink, improve, and develop their own ideas. Over the course of the last decade, several approaches to create and develop ideas have been established. A very common one is the so-called “design thinking” approach (see Sect. 3.2 above). The academic team decided to apply this approach in the course

for a number of reasons. “Design thinking” strongly builds on two important elements: “problem solving” and “observation”. Whereas the practice-oriented part of the program started with a half-day session on problem rethinking (applicants had submitted an idea concept with their application and therefore should have already thought about the problem they intend to solve), observation was difficult to practice given the time constraints of a 5-day program. Hence, the academic team decided to bring in coaches with a deep understanding of the needs of the potential beneficiaries. By doing so, students had the opportunity to discuss and reflect on their ideas together with the coaches.

#### **4.2.3 Evaluation Session**

Since the Summer School for Social Innovators is part of “Intel Business Challenge (IBC)”, one of the leading global business plan competitions, the program ended with a jury session in which the judges (a panel of international academics and social innovators) evaluated the students’ ideas for social innovations. A dedicated catalogue of criteria was applied for this process. The two participants whose ideas received the highest scores, were invited to participate in the European finale and thus have the chance to attend the global final at the University of California, Berkeley.

### ***4.3 Challenges and Chance***

The Summer School for Social Innovators was chosen to provide readers of this chapter with a good example of how to apply research in innovation and entrepreneurship education to real world practice. It is understood that especially time- and logistic-based challenges have to be taken into consideration when designing an education program. Providing the students with more time would have allowed them to work more deeply on their ideas. Furthermore, establishing contact with potential beneficiaries also would have helped to develop students’ ideas and increase the likelihood of their success. However, the feedback provided by students showed that the summer school provided them with various types of learning opportunities, helped them to improve their ideas, and motivated them to move forward. Also, the coaches and judges gave highly positive assessments about the social innovation projects presented to them.

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# The Life Cycle of Social Innovations

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## 1 Introduction

All over the world there are millions of social entrepreneurs that come up with potential social innovations. Some never get implemented in practice. Others are implemented, but then the passion fades or the solution does not reveal itself as promising for creating social impact. In some cases, the lack of sustainability or management capacity prevents a successful scaling up process. Despite all these potential obstacles, there are social innovations that go from promising ideas to becoming mainstream solutions, leading to new markets, industries, or social movements, such as Microfinance or Wikipedia. An in-depth look at the main obstacles facing social innovators and the leadership skills required to overcome them is a meaningful contribution to the field of social innovation. The goal of this chapter is to propose such a contribution through an in-depth exploration of the life cycle of social innovation.

The term “life cycle” implies a sequence of stages in the evolution of new ventures (Parker 2007). At each stage there are different skills, structures and resources required to manage a novel enterprise. Several models have been put forward in order to conceptualize the life cycle of a venture (Churchill and Lewis 1983; Greiner 1972; Scott and Bruce 1987; Hanks et al. 1993). Although the stage approach to modeling business growth has been criticized in the literature (Phelps et al. 2007; Stubbart and Smalley 1999) it can have extremely high validity (Eggers et al. 1994) and provides a useful framework within which to analyze entrepreneurship. The life cycle models proposed usually differ on the number of stages, including three (Sahlman et al. 1999), four (Timmons and Spinelli 2003), five (Kuratko and Hodgetts 2007) and six different stages (Baron and Shane 2005).

Similarly to entrepreneurial ventures, social entrepreneurship ventures evolve over time through various stages. Yet, for social entrepreneurship, the relevant cycle to analyze is not the cycle of the enterprise but the cycle of the solution, because the purpose of social entrepreneurs is not to maximize the value that they can capture for the organization but rather to maximize the value that they are able

to create for society (Santos 2012). So, it is important to analyze the life cycle of the social innovation not the social venture.

Elkington et al. (2010) suggest a model of Pathways to scale describing a cycle of social innovation with the idea of scaling up in sight: (1) “Eureka!”, the creative moment when the opportunity is revealed; (2) “Experiment”, the test moment, which is a period of trial and error; (3) “Enterprise”, that occurs when experiments become organizations with more developed business models and become invested in by a broad range of investors; (4) “Ecosystem of change agents”, which happens when critical mass and partnerships create new markets, incentives, or new cultural codes; and (5) “Economy”, which implies mainstreaming towards a more sustainable state.

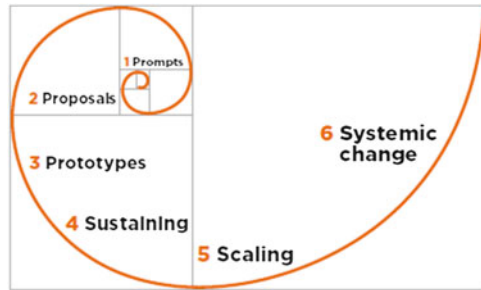
Ashoka (Oliveira 2008) proposes a cycle of social entrepreneurship with four moments. The first moment is the Apprenticeship where individual entrepreneurs are described as undergoing skills and experience acquisition as well as having a deep knowledge of the field, of the existing problems and existing solutions. A second moment is the identification of the solution and its testing. At this stage, Social entrepreneurs spend their time and energy in launching the new idea, attracting support and testing and refining their models. The third stage is success and development. Here the solution spreads until it becomes a reference point in the field, on a national or international level. The last stage is the Global impact, which happens when the innovation is broadly accepted and becomes a new pattern in society, and the social entrepreneur a history maker (Fig. 1).

Murray et al. (2010) propose a six stages model that takes ideas from inception to impact. They recognize that these stages are not always sequential (some innovations jump straight into practice or even scaling), and there are feedback loops between them. Some go quickly to scale and then have to adapt fast in light of experience; often, the end use of an innovation will be very different from the one that was originally envisaged; sometimes action precedes understanding and sometimes taking action crystallizes the idea. And there is an iterative circling back as new insights change the nature of the innovation.

Based on several years of work experience with hundreds of social entrepreneurs, we have developed a four stage life cycle model that suits the majority of the cases and allows the capture of relevant opportunities and challenges in developing and mainstreaming social innovations. We believe that a model with four stages follows the principle of parsimony, which calls for using simplified models and procedures that contain all that is necessary for the modeling but nothing more. We also take the view that design and implementation are intricately tied, and eschew models that separate planning and execution in distinct phases.

The social entrepreneurial process starts with the identification of a social problem and the development of a solution. This first stage is guided by people driven by purposeful passion – a passion that is directed to a problem faced by others, usually tied to a societal need as opposed to a personal want or desire. The focus of the social entrepreneur is on the problem and the main mode of action is one of experimentation, likely involving an interactive cycle of failure and feedback, which gets incorporated into a revised solution. When a solution finally proves itself as working and potentially impactful it leads to the next step of creating a sustainable and

**Fig. 1** Cycle of social innovation proposed by Murray et al. (2010)



replicable model around that solution. Here the focus is on the business model for the solution and the mode of action is mainly one of continuous architecting and development. Once the social entrepreneur crystallizes and validates the business model, the next step is to scale the solution towards greater social impact. The focus now is the organizational anchor that supports the solution (and the organization here could be a venture, a social movement, or a network) and the process is mainly one of managing growth. The final ambition is the mainstreaming stage, which implies embedding the solutions in the institutions of society, thus creating systemic change. The focus in this stage is the society and the mode of action is diffusion through several types of strategies and actors (Fig. 2).

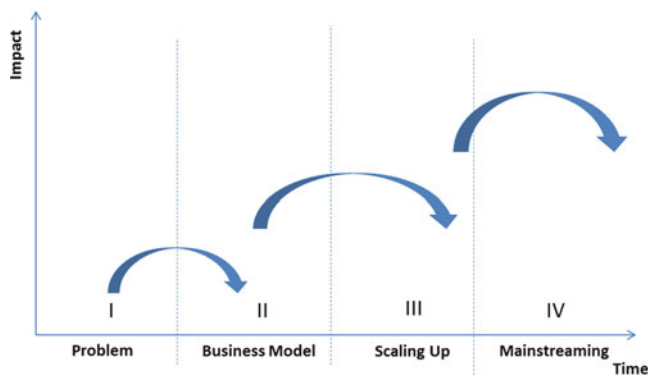
Next we will describe in detail each of the stages of the proposed model, detailing the strategies most often used and the challenges in the process.

## 2 The Problem

Social entrepreneurs are people obsessed with solving a social problem, sometimes because they faced the problem at an individual level or because they have been working on it for quite some time. Social entrepreneurs do not focus on value capture for themselves or their organization, but rather on improving the world and creating value in a particular domain of the society that they feel passionate about improving.

By acting on problems that are important, neglected and that exhibit externalities, the social entrepreneur is more likely to be successful in creating value for society (Santos 2012). As such, it is important to explain with more detail the kind of problems we are referring to.

A problem is considered to be important when it negatively affects a large number of people in society such as color blindness, which affects 10 % of the male population in the world. Also, the problem can be important if it affects a small segment of the population, but with very negative consequences such as long term-unemployment of a minority group. Naturally, if a problem affects a large number of people in a very negative way it is considered a critical problem. For instance, cataracts are an eye disease that affects millions of people worldwide and are responsible for 60% of the cases of blindness globally.



**Fig. 2** Proposed cycle of social innovation

A problem is neglected when it is not being solved by the various societal agents (governments, markets, civil society). This happens either because the problem is being ignored by society or because, despite the problem being visible, the solution implemented to address it is still ineffective or too expensive.

Problems with externalities (spillovers in which the value to society goes beyond the value considered in a market transaction) are likely to be neglected, in particular when they also affect disadvantaged populations (Santos 2012). In this case, markets tend to fail due to the externalities while governments tend to ignore these needs due to the little voice that disadvantaged populations have. Neglected societal problems with externalities that affect disadvantaged populations are thus the preferred domains of action for social entrepreneurs.

Similarly to entrepreneurship, passion plays an important role on the social entrepreneurship process (Cardon et al. 2009). In fact, many non-academic works on social entrepreneurship describe the passion the entrepreneurs develop for their cause (Bornstein 2007). (Guclu et al. 2002) suggest that “Social entrepreneurs must have the same commitment and determination as a traditional business entrepreneur, plus a deep passion for the social cause, minus an expectation of significant financial gains”. Some of the associated traits are materialized in an unconventional ability to deal with uncertainty, uncommon intensity of focus on the social problem to solve, together with an unwavering belief in a vision of a better world.

In more unusual cases, the starting point of the social entrepreneur is not the problem but the passion for certain elements of a solution, such as sports, animals or arts, that then are used to address a societal problem. For example, the Belgium social entrepreneur Bart Weetjens who founded Apopo, stumbled upon the concept of using rats to identify land mines and diagnose diseases due to his passion for rodents and his knowledge of their very developed sense of smell.

Given the centrality of the problem to the social entrepreneur, the deep understanding of the problem and its root causes becomes an important aspect in the development of the solution. For this reason, this stage involves diagnosing the problem and framing the question in such a way that the root causes of the problem,

not just its symptoms, will be tackled. Frequently, finding a root cause of the problem and designing an effective solution is an iterative process. It involves experimentation and the uncertainty inherent in trying something new. While gathering the feedback of the users, partners and investors is an essential preliminary step to reduce to some extent the uncertainty, it may not prevent the social entrepreneur from failing a few times before coming up with the appropriate solution. For example, the Brazilian social entrepreneur Rodrigo Baggio who aimed at tackling the digital divide affecting low income youth, attempted to develop a bulletin board and the donation of computers for impoverished communities until he developed the concept of a computer skills schools embedded in the communities, in what became, afterwards, the award winning social enterprise CDI.

Given the likelihood of failure and the need to learn from it, the driving principles at this stage are speed, action orientation, keeping costs low, and feedback loops from users and experts (Caulier-Grice et al. 2010). In case of failure, it is important to learn why it does not work and use this feedback to design the next attempt. This is even more relevant if we consider that good solutions often require several experiments and revisions before they work. So the solution at the earlier stages should be subject to verification, modification or rejection in light of new information. Social entrepreneurs continually iterate till they are able to move towards a point where they create a sustainable solution that seems to work and has social impact. At the heart of a sustainable solution, is a clear and validated value proposition that maximizes the possibility of resolving a given social problem.

The first stage of the lifecycle is thus essentially a creation phase focused on the societal problem that the social entrepreneur aims to solve.

### 3 Business Model

When the solution proves itself in practice, the next step is to create a replicable model around the solution that includes a sound business model. A business model is a combination of activities and choices that describes the rationale of how an organization creates, delivers, and captures value in a chosen domain (Osterwalder and Pigneur 2010). The main process at this stage is architecting, which often requires changes to the solution that occur, for instance, due to the simplification of the processes, codification and/or segmentation of the several elements and activities of the business model, so that it can work even without the enthusiasm of the original social entrepreneur. Along with the solution, the business model is a pillar of the venture's attraction, so it needs to be understandable to everyone, compelling, attractive and provide a clear picture of how the venture works. The refining of the business model is a process that takes time, usually more than one year. The goal is to create a sustainable solution to either permanently addresses the root causes of the problem or institutionalizes a system that continuously addresses

the problem, ideally with decreasing involvement of the original innovators (Santos 2012).

In a powerful business model, the activities and elements reinforce each other (Osterwalder and Pigneur 2010). Hence, it is necessary to build an adequate system of activities that allows an understanding of how the initiative resolves the problem and creates value. This representation of activities must be complemented with the definition of key-resources and key-partnerships in a way that the solution has the desired sustainability.

In short, the business model should ensure the maximization of the social impact, which is linked to issues of efficiency on the use of the resources and the effectiveness of the solution. It should also guarantee sustainability in a broad sense, which includes not only the continuation of the benefits resulting from certain activities (sustainability of benefits) but also the solution's ability to continue to exist (known also as organizational sustainability in strict sense, which depends on financial and non-financial resources (Cannon 2002).

According to Mair and Schoen (2007) successful social entrepreneurial business models reveal common patterns such as innovative resource-acquisition strategies, a proactive creation of a value network of companies which share their social vision, and the development of an approach to transfer value to the targeted groups. In line with this last point, it is important to note that a strong social purpose business model should promote the participation of people and communities, in order to bring a sustained shift in the social and/or economic relations of disadvantaged groups (Nicholls 2006). In fact, it seems that the preferred mechanism for engagement of successful social entrepreneurial ventures is empowerment (Alvord et al. 2004). Empowerment refers to the "process of increasing the assets and capabilities of individuals or groups to make purposive choices and to transform those choices into desired actions and outcomes" (World Bank 2009). A key element for an empowerment approach is the belief that the beneficiaries or users of the system, no matter who they are, are likely to be endowed with resources and skills that are under-utilized (Santos 2012). An example that illustrates well the logic of empowerment is the Camfed Campaign for Female Education founded in 1993 to ensure an education for young girls in Africa whose families cannot afford school fees. By establishing a sustainable model that provides community support for girls to go to school, start businesses and return to their communities as leaders, Camfed has broken the cycle of poverty for hundreds of thousands of young women in Zimbabwe, Ghana, Zambia and Tanzania. Since 1993, nearly 700,000 children have benefited from Camfed's program across a network of some 3,000 schools. Over 5,000 young women have received business training and start-up grants to establish their own rural enterprises.

Social entrepreneurs are people with vision, insight, and passion, but they are also first and foremost people who ask others to trust them and their dreams. Whereas it is important to have a sustainable business model that is effective in creating value, it is equally important to measure the performance and the results. Several social impact measurement tools have been created and developed in the past few decades (Mulgan 2010). Funders' requirements have become more

demanding (Ellis 2008), meaning that they are more keen to provide their money and resources only if social initiatives are able to measure and convincingly prove their social impact. There is also a push from social initiatives themselves to better demonstrate the value they are creating (Arvidson et al. 2010).

When the business model is consolidated and validated, and the venture has proven results, it is time to evolve for the next stage – scaling.

## 4 Scaling

Once the social entrepreneur crystallizes and validates their business model and creates a replicable solution, the next step is scaling the solution towards greater social impact. The focus is now in the organization, meaning the definition of the structure and its procedures and mechanisms that allow the scaling of the solution. Scaling is a relevant topic in the field of social innovation and the challenges associated with this process are one of the key themes of the academic literature (Dees et al. 2004). Generally, there are two main scaling paths – scaling deep and scaling up.

Scaling deep entails focusing energies and resources on achieving greater impact at a local level by, for instance, the pursuit of the differentiation and/or the diversification of services (Nicholls 2006) in order to improve their quality. With scaling deep it is possible to achieve a greater penetration of the target population and find new ways to serve the users. It is related to the functional growth of the organization and the increase in the magnitude of the system of activities. As such, it is important to consider what kind of bottlenecks may arise. The option for the scaling deep strategy can run into several risks that are important to acknowledge. For instance, organizations can become too focused on a small local market. In addition, the solution may become too complex, missing the clear replicable model. But scaling deep offers benefits as well, such as the capacity to penetrate the home market and the ability to improve the program's quality and effectiveness due to a greater knowledge of the local zone (Dees et al. 2002)

Despite several different definitions of scaling up being used in the literature, the most commonly used is equated with “expansion” (Uvin and Muller 1996), meaning creating new service sites in other geographic locations able to reach several times the actual number of users. Through scaling up, it is possible to enhance effectiveness of the solution by maximizing social impact and using specialization to develop greater expertise. It also allows greater efficiency due to the potential creation of economies of scale. Of course there are risks to consider as well. One common risk is related to mission drift as the process of scaling up can pull the organization away from its original mission, vision, and values and strain scarce financial and human resources. Also, the solution's effectiveness can suffer if the focus is on growth, not quality.

**Table 1** Advantages and disadvantages of scaling up strategies

Scaling Up Strategies		Advantages	Disadvantages
Control    Autonomy	Branches	<ul style="list-style-type: none"> <li>– Quality control, subject to standards</li> <li>– Improved organizational learning</li> <li>– Proximity to the users</li> <li>– Direct knowledge leverage, visibility and partnership network</li> </ul>	<ul style="list-style-type: none"> <li>– Frequently requires a heavy investment</li> <li>– Diminished motivation of replicas because of lack of autonomy</li> </ul>
	Social Franchising	<ul style="list-style-type: none"> <li>– Brand consistency</li> <li>– Shared investment, the franchisees invest their own money</li> <li>– Encourages the entrepreneurial spirit at the level of the franchisee</li> </ul>	<ul style="list-style-type: none"> <li>– Risk of mission drift</li> <li>– Reluctance in accepting decisions and rules from the central unit</li> </ul>
	Joint Venture	<ul style="list-style-type: none"> <li>– Different partners with different strong points can reach better results</li> <li>– Shared risk</li> <li>– Reaching economies of scale and synergies</li> </ul>	<ul style="list-style-type: none"> <li>– Centralized control can diminish the entrepreneurial spirit</li> </ul>
	Licensing	<ul style="list-style-type: none"> <li>– Does not require a great investment</li> <li>– Generates revenue from the sale of the license</li> </ul>	<ul style="list-style-type: none"> <li>– Loss of control on production and delivery of the product or service</li> <li>– Difficult to monitor the licensing agreement</li> </ul>
	Dissemination	<ul style="list-style-type: none"> <li>– Lower costs</li> <li>– The solution can be rapidly disseminated to other geographic regions</li> <li>– The solution can be adopted to local conditions</li> </ul>	<ul style="list-style-type: none"> <li>– Lower control</li> <li>– Risks of mission drift and losing identity</li> <li>– Risk of losing reputation and legitimacy</li> </ul>

For these reasons it is fundamental for the social entrepreneur to question if it is the right moment to expand the organization. Several articles and frameworks were proposed to assess the evidence of efficacy and readiness to scale (Clark et al. 2012).

When social entrepreneurs make the decision to grow they can choose among a continuum of options that vary from maximum control to minimum control over operations. In the table below, we outline some of the most common scaling up strategies (Table 1).

Overall, in scaling, the focus is on the organizational model chosen, which may be a combination of different approaches and can also change of time. However, social entrepreneurs must be aware that it is easier to give autonomy than to take it away and that replication should be reliable in the earlier stages of the scale up process. This calls for choosing an initial scaling up model that involves more control. Unless the concept is very simple and replicable, in which case complete dissemination may be the best option for creating value for society.

## 5 Mainstreaming

The process of mainstreaming is a key issue for the social entrepreneur. After launching and implementing a solution in a certain place and after being able to spread the social impact to other individuals or organizations, the social initiative is able to challenge the institutions that previously created the social problem that is being addressed (Westley and Antadze 2010). Arriving to this mainstreaming stage is usually the final outcome of the social entrepreneur's journey since they are mainly interested in structurally solving a societal problem. At this phase, the social initiative begins to have a durable and broad impact being disruptive and catalytic (Christensen et al. 2006) through changing concepts, mindsets and power



distribution in a large scale (Murray et al. 2010) and being able to create change at a systemic level.

One of the most famous examples of mainstreaming in the context of social ventures is Microfinance. It is important to note that, at this stage, we are neither mentioning the social entrepreneur that helped to create the concept (Muhamad Yunus), nor the organization that delivered originally this type of innovative service in Bangladesh (Grameen Bank). We are mentioning Microfinance as the innovation that was institutionalized. As referred in Phills et al. (2008) “by focusing on the innovation, rather than on just the person or the organization, we gain a clearer understanding of the interconnected parts of the solution.” The concept of Microfinance was first developed in Bangladesh and it is nowadays spread around the world.

What can a social entrepreneur do to mainstream its social innovation? It is acknowledged that this process demands complex interactions inside the whole social system but we do not know in detail the key factors that are associated with the success of this dynamic process. “The great challenge for bottom-up social ventures is how to access the power and money to shift big systems” (Murray et al. 2010) and for this purpose Westley and Antadze (2010) refer that two specific components are important: agency and opportunity.

In terms of agency, two specific roles are important to distinguish here: the social entrepreneur and the institutional entrepreneur. The first is associated with the creation of the effective solution to the social problem and the second is associated with the activity of seeking to modify the social system through influencing different institutions in order for the social innovation to become mainstream (Dorado 2005). The concept of institutional entrepreneurship was initially proposed by DiMaggio (1988) and it was seen as a possible avenue for explaining the role of different actors in changing institutions. This role, always in combination with an effective solution, is particularly relevant in the mainstreaming process and, as referred by Westley and Antadze (2010), it encompasses a set of three very specific skills: “cultural/social (cognitive, knowledge management, sense making, convening), political (coalition formation, networking, advocacy, lobbying) and resource mobilization (financial, social, intellectual, cultural and political capital)”.

The second important component is the opportunity defined as a specific favorable condition for the social innovation to get mainstreamed. This opportunity comes from specific social and institutional conditions, such as a specific demand from market forces (for example, the case of Microfinance), a favorable political framework (for example, questions associated with a specific party in power), or a specific cultural request (due, for example, to a breakdown in sense making or meaning). These dynamics are usually difficult to manipulate directly (Westley and Antadze 2010). Connecting the innovation to political, cultural or economic opportunities is very important to be disruptive in the larger institutional context (Westley and Antadze 2010).

As we get into the micro-processes that will enable in practice the mainstreaming, we realize that they are particularly complex. This is mainly due to the fact that each system has some unique properties and unique power

structures. Yet, as referred in Murray et al. (2010), there are some common elements present in successful processes. From the entrepreneur side, it is essential that there exists a progressive formation of coalitions that bring together different partners and beneficiaries around the diagnosis of the problem that is being solved, the solution being developed, its principles and the long-term vision. From the institutional side, the formulation of new rights or the implementation of legal and regulatory devices to embed change is seen as essential to facilitate the mainstreaming process (Murray et al. 2010). Phills et al. (2008) refer a very important aspect of guaranteeing the success of social innovations which is the process of “dissolving boundaries and brokering a dialogue between the public, private, and nonprofit sectors.” Murray et al. (2010) reinforce this position. They say that “systemic innovation is by its nature highly social” and, thus, it normally “involves all four sectors – business, government, civil society, and the household”. They add that “models for thinking about innovation that only look at one sector miss the crucial ways in which they interact” and they give a concrete example to corroborate their position: “innovation around carbon reduction has been driven by the green movement over many decades; reinforced by politicians introducing new laws and regulations; and then amplified by businesses and clean technology investment funds. It has involved new technologies, but these have been enablers rather than sufficient conditions for change. Often it’s been more important to develop new ways of organizing transport, housing, or energy, or new ways for citizens to think about their own responsibilities.”

Very relevant questions are launched by Murray et al. (2010) to those entrepreneurs thinking about mainstreaming: “Should they direct their energy to policy and law, demonstration projects, advocacy, arguments, campaigns, or research? And should they work through existing organizations, new ones, coalitions, or as lone voices?” They also refer that “Profound system change commonly includes some actions in all the different permutations which follow from these choices” (Murray et al. 2010).

## **6 Leadership and Transitions in the Social Innovation Lifecycle**

As ventures evolve through life-stages, each key transition requires a different leadership role in order to sustain a successful organization. Ward (2002) proposes a framework that matches the life-stage of the organization with the appropriate leadership role for the organization. Similarly, Vecchio (2003) introduced an entrepreneurial leadership model to discuss various stages of firm development.

Based on several years of work experience with hundreds of social entrepreneurs, we systematize the main observed skills and traits of the leader at each transition stage of the social innovation lifecycle.

In the transition from the problem to the business model, the leader must be able to have the passion to follow through, a vision to gather people around it, the creativity to envision new things, create a future, empower and be expansive. This

is the hallmark of the entrepreneur. At this point all the processes are very flexible, with little bureaucracy or even systems and routines in place.

In the transition from business model to scaling up, it is important to have the ability to bring structure to the organization to build and/or maintain a robust network of contacts that will provide access to funding, board members, and management and staff, among other resources. Following, as an organization grows, its governance and operations becomes more complex. There are more funders, partners, clients and staff. As the venture gets larger and more complex, the management needs to acquire executive and analytical skills. The leadership role associated with this stage is a manager. The manager needs the skills to scale the solution until it can become mainstream.

Finally, the role of the social innovator arises in the transition from the scaling up stage to the mainstreaming stage. It is a profile that shares traits with the so called institutional entrepreneur which is someone “who has an interest in particular institutional arrangements and who leverage resources to create new institutions or to transform existing ones” (Maguire Hardy and Lawrence 2004: 657). The social innovator is not just able to leverage societal resources and see beyond its organization, but also convince other players to adopt the solution so that it can be made part of society.

Overall, it is important to note that social entrepreneurial leaders may need to perform different roles at different stages of the life cycle of social innovation. These leadership transitions are not at all easy, as leaders often revert to their main habits and style. Self-awareness and ongoing coaching for the social entrepreneur may be important in order to make the social entrepreneur an asset instead of a liability for the social innovation.

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# Innovation Through Corporate Social Responsibility?

Eva Grieshuber

## 1 Introduction

When reflecting on the economy, society and environment, an awareness of the numerous challenges we face could lead one to despair. Climate change, erosion, water scarcity or decreasing biodiversity, among others, are not just posing risks to our natural ambience but also to society – i.e. societal stability and cohesion. As if this were not sufficiently challenging, we are experiencing an ongoing uncertain financial and economic situation. Experiencing the impacts of the financial and economic crisis in 2008 and 2009 some saw positive aspects in the negative headlines: all these adverse developments seemed to show the necessity for fundamental change in the financial and economic system. So we assume that relevant actors in economy and politics as well as citizens are aware of the need for change and are ready for it. But what do we see some years after the emergence of the first wave of crisis? One could call it modest progress: No big steps were taken at Rio +20 in June 2012 and approaches in dealing with the financial crisis are only being discussed. The same applies for topics like poverty, malnutrition, education systems and so on. So, to strike a balance, there is still need for action, no doubt. However, one thing has changed. Unlike some years ago there is almost no discussion about whether change in the economic and social system is necessary. It is beyond question that there is a need for a transformation towards sustainable economic activity and behavior.

## **2 Corporate Social Responsibility as a Source for Innovation**

### ***2.1 What Are the Drivers for Sustainable Change and Innovation?***

The central questions at this point seem to be: Where can change emerge from, i.e. what are the drivers for change and innovation – politics, economy, others? What could the levers be to make change happen? Would new regulation frameworks (based on common international political ambition) be effective? Or is economic transformation driven by the economy itself preferable (i.e. corporations – by new economic and management concepts, called corporate social responsibility or shared value, just to name these two)?

Porter and Kramer describe their concept of shared value and thereby emphasize the differences between corporate social responsibility and shared value concepts. Whereas the latter is targeted to raise economic and social benefits relative to the cost (=value) they see corporate social responsibility as more or less an add-on activity of firms aimed at doing good without real and sustainable impact on business and society (Porter and Kramer 2012). This is not true for the concept of corporate social responsibility defined as a holistic strategic management approach for securing the existence and continuous development of corporations by consequently taking internal and external economic, social and ecological aspects into account (Grieshuber 2011). Following this concept will make new ways of business activity, management and innovation necessary and inevitable. By innovation we mean new technological, economic, organizational or social approaches for solving problems, fulfilling needs or even for improving the current situation. It is important to mention that innovation is not just a new idea but also includes its realization. For example, in the case of products or services, innovation implies the technical realization as well as market entry – unless an idea is realized it has no real impact and therefore is not seen as innovation.

Applying the concept and principles of corporate social responsibility can lead to social innovation in many different ways. Before giving an overview of the different forms of social innovation we briefly show some principles of corporate social responsibility.

### ***2.2 Principles of Corporate Social Responsibility***

As outlined in the beginning, the fundamental transformation of the economy and society towards higher sustainability is not clearly in sight yet, though a phase of broader awareness and discussion has begun. There are many reasons for the kind of development discussed above. One central aspect can be seen in the short-time-orientation of incentive and governance models of both the economic and political

system (Barton 2012). As long as incentive systems enforce (or are perceived as enforcing) short-time optimization of results in just one single – namely the economic – dimension the behavior of politicians as well as managers will not change fundamentally. So, change of incentive systems has to happen in terms of time perspective as well as in the relevant dimensions to measure success – i.e. the common perception of success and wealth. On several levels one can observe ideas emerging. On the national and economic level it is discussed whether GNP (Gross National Product) is still the “right” measure for wealth. In this respect Bhutan takes a leading role by observing its GNH Index (Gross National Happiness Index) and thereby triggers a discussion on a steadily broadening basis.

On the level of single corporations we see for example the concept of the Triple Bottom Line. This concept says that performance must be measured and achieved in all three dimensions of sustainability: economic, social and environmental (Savitz and Weber 2006). In combination with the assumption of positive performance feedback-loops in these three dimensions (we will come back to this soon) and knowing that measuring and controlling really helps to realize and develop objectives and activities agreed on, concepts like the Triple Bottom Line could be helpful to make sustainable change and innovation happen. The critical factor, although, is the linkage between the results measured with incentive systems.

Apart from incentive systems there are other reasons for this slow development. One of them is complexity which might act as a barrier to sustainable behavior. It is hard to take social and ecological responsibility if “the what” and “the how” is unclear. The challenges companies potentially could act on are manifold: many topics, some of them hard to understand, have lots of internal and external interrelationships. So the question is how to start in a focused and effective way. In order to get a clearer picture starting with a first rough analysis is helpful. This does not mean to elaborate profound and comprehensive analysis but to explore what sustainability could mean in the relevant context and industry. What topics and stakeholders might be relevant, what challenges are seen – internally as well as from experts, clients or other stakeholders’ perspective? How do clients, suppliers, cooperation partners and competitors behave and act in this respect? Having a first overview is an important first step. This could be the basis for the next step: to clarify their own position and ambition. Questions that organizations should ask themselves would be: What is the core motivation for taking social responsibility? What values does the organization act on? What are the main objectives? There is a range of possible main objectives which firms are seeking when taking corporate responsibility. The (strategic) focus connected with CSR may reach from (1) a merely reactive attitude like acting as a response to pressure from stakeholder groups, over (2) economic calculus like resource efficiency and risk reduction to (3) a strategic approach by anticipating strategic opportunities and integrating CSR to realize sustainable competitive advantage (Laszlo and Zhexembayeva 2011) or even (4) seeking to contribute to the development of new ways of living and doing business in a sustainable way with a scope beyond their own organization and based on clear values. All of them are “okay”, there is no good or bad. What



counts is (a) to get a clear and shared picture of their own position, ambition and motivation in the organization and (b) to see it as a continuous process. There is no final stage of “being sustainable”, but only steps in a process of becoming (more) sustainable. CSR-related activities become effective if the following principles are considered:

- Get a clear and shared picture of the actual status as well as the ambitions and objectives related with CSR within the management team and the organization.
- **Allow for positive feedback-loops between the three dimensions of sustainability: economic, social and environmental.** For example, improvement in ecological performance (like reduction of natural resources needed or emissions) or social performance (like better working conditions) may influence and improve economic performance as well.
- **Find out and act on those fields where the interests of stakeholder groups and the interests of the organization overlap.** This means that even though philanthropic acting like donating money without any connection to their own business models will (hopefully) be helpful for those supported it offers no lever for their own CSR to become effective. Therefore, one needs to find the above mentioned overlapping fields – also called “sustainability sweet spot” (Savitz and Weber 2006). Only they offer starting points for innovation, ending in product or service innovations, new markets to be entered, new business activity or new business models or – directed more internally – new processes or innovative organizational structures.

Generally speaking, dealing with and discussing sustainability and corporate social responsibility inevitably leads to innovation since both are per se approaches strongly based on reflection, learning and development. See for example Pfriem (2002, 2006), Liedtke (2004) amongst others. Sustainable behavior and corporate social responsibility require multi- and inter-disciplinary knowledge and heterogeneous perspectives. They may not be “delegated” to a special CSR function, responsible person or organizational unit. Approaches that involve various disciplines, functions, persons and groups from inside and outside the organization allow for creativity and innovation. Put in a nutshell: CSR and innovation require and at the same time foster opening up minds and thinking out of the box.

### 3 Forms of Innovation Through CSR

CSR and sustainability are multifaceted. For an introduction and overview to innovation and innovation management, see Hauschildt and Salomo (2010). That is because of the various topics and interconnections between them. CSR and sustainability pose questions like: What is the relevant system? What does the whole system and its elements look like? What is inside, what is outside? This brings new perspectives and inputs to the organization. Moreover, CSR acts on different organizational levels: On the operational and strategic level as well as on the level of culture and values. Every level and every perspective (inside, outside)

offers sources of innovation. Consequently, the multiplicity of CSR is reflected in the various forms of innovation through CSR. In the next section we go through different forms of innovation through CSR and outline their primary targets and benefits as well as characteristic principles.

### ***3.1 Raising Efficiency and Reducing Cost Through Process Innovation***

It is not by chance that we start with cost reduction and efficiency improvement. Many organizations start in this way as well when they step into the topic of sustainability or implementation of environmental management systems. This is particularly true for resource- or energy-intensive industries where process innovation – often in the respective core processes like production or logistics –simultaneously leads to reduction in adverse environmental impact, higher efficiency and lower costs as a result of less input needed (energy, material, water), less emissions (the same again in all aggregate states), both connected with the respective costs for sourcing and disposal. This topic has already been discussed extensively by scientists for years.<sup>1</sup> Similarly long discussions were held on pros and cons of integrated environmental protection technologies versus end-of-the-pipe technologies or considerations of the cost and benefits of environmental management systems from the perspective of individual firms but also from public funding.<sup>2</sup> Some decades later the central questions are still relevant: What economic approaches and instruments are both effective and efficient for fostering more sustainable economic behavior? Single firms have to ask themselves in which ways they can replace environmental polluting and increasingly expensive technologies by less harmful and cheaper solutions. We expect environmental polluting to become more and more expensive for different reasons: There is public pressure as well as political consideration for stronger internalization of external costs so that the burden of adverse behavior should be more strongly borne by the causer, i.e. by persons and firms causing pollution of soil, water or air. Also, price may be seen as an indicator of scarcity of natural resources. Raw material like rare earth metal has its price tag as well as the right of dissemination – like carbon dioxide emission certificates. Put together, unsustainable behavior will become more costly. So, focusing strategically on economic calculus like resource efficiency and risk reduction, sustainability and CSR encourage process innovations resulting in resource efficiency.

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<sup>1</sup> See for example (Seidel and Strebel 1991, 1993) who were at that time strongly involved in the discussion of new topics in environmental economics of firms. The discipline of environmental economics was not just restricted to the level of single firms but to economics in general. See also Weizsäcker et al. very early dealing with innovation for sustainability (Weizsäcker et al. 1996, 2010).

<sup>2</sup> Implementation of EMAS (eco-management and audit scheme, the European environmental management system), for instance, was and is still supported by various public bodies.

### **3.2 *Involvement and Diversity: Social Innovations***

It is about costs, cost reduction – or even better: cost avoidance. Like in the environmental dimension, cost and price logic also apply in the social dimension. If the social performance of a (potential) employer is perceived as poor this may result in high fluctuation and increasing cost for recruiting and retaining employees. A good social performance of organizations due to CSR and sustainable leadership may, on the other hand, substantially decrease recruiting and retaining costs. A clear positioning as an attractive employer, based on a sense-making mission and attractive values may indeed attract people with similar value-orientation. It is observable that – not solely but frequently at younger generations –potential employees more and more critically choose their employer. This is valid for high-potentials who prefer to work for lower paying social or environmental NGOs or NPOs instead of being paid well but missing sense. It is also true for people consciously refusing or quitting job offers by firms without a clear commitment in ethical topics of public interest (like child labor) or even violate them. So elaboration of a clear commitment and distillation of core values is important. Making these values concrete through actions, for example by redesigning processes (like sourcing processes in the case of child labor), could lead to real change. An important aspect is the way this is done in an organization. Participation plays an important role in the development of CSR. By participation, we do not mean extensive discussions and democratic decision making but the possibility for relevant stakeholders to be involved in an appropriate frame regarding the relevant topics for them. Possible forms may range from structured dialogues on mutual expectations and feedback in large group settings with internal and external stakeholders to implementation of various communication and dialogue platforms: set up as continuous or periodic structures or special purpose meetings or workshops, set up organization-wide, cross-functional, process oriented or topic wise. The common aspect is fostering dialogue, reflecting and learning in order to increase sustainability performance.

Sources of social or organizational innovations can also be seen as a consequence of demographic and societal change which became and is still becoming manifest in concepts like gender mainstreaming<sup>3</sup> or diversity management. Put in a nutshell, it is about dealing with differences in social context due to certain attributes like age, gender, origin, religious affiliation, qualification, disability, hierarchical status and so on. This means to recognize differences, to evaluate possible (positive and negative) effects for the respective groups, as well as to develop a context which enables and actively supports participation to use the benefits of diversity. These benefits could be better understanding and serving customer needs since certainly customers are also divers and have different

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<sup>3</sup>There is empirical evidence for the overlap and mutual reinforcement of social and economic performance. See e.g. the Catalyst Study (Joy et al. 2007) showing a positive relationship between women in top management positions and some economic key performance indicators.

needs. Apart from higher competence for different target groups, diversity in organizations result in greater creativity and problem solving capacity.

### ***3.3 Securing Market Positioning: Innovation in Products and Services***

Ecological and social aspects increasingly influence buying decisions. This is true for consumers who are aware of the supply-side-effects of sustainable buying behavior as well as for a consumer group like LOHAS as acronym for “Lifestyle of Health and Sustainability” who strongly focus on the well-being aspect of sustainability. Depending on market analysis, concrete estimations for market volumes vary but all agree on high growth rates for market segments like ecological building and habitation, nutrition, clothing and traveling (Ranalli et al. 2010). Sustainability as buying criteria is also relevant in public or corporate sourcing. In some countries and municipalities ecological and social criteria constitute a mandatory tender elements. See, for example, Schaltegger (2009). Looking at these aspects, it is frequently the market triggering innovation in products and services. Think of organic food and cosmetics as examples for early green product innovations. Over the years, incumbent suppliers as well as new entrants launched “green” product innovations. Another example are green electronics, i.e. electronic devices with less toxic pollution in production, use and disposal as well as low energy consumption, or green electricity, that is electricity from renewable energy sources. Regarding service innovation, we already mentioned sustainable travelling, but also think about green or ethical investments as growing market segments. See, for example, Schäfer (2009) or Renneboog et al (2008). All in all, there are a lot of starting points for developing sustainable product innovations by combining market trends with internal capabilities and CSR-ambition, thereby creating benefits for consumers, companies, environment and society.

### ***3.4 Sustainable Business Model Innovations***

More frequent than the relaunch of innovative products or services are those forms of innovation where the whole business model is strongly modified or even newly developed. Following Osterwalder and Pigneur, a business model consists of several building blocks that all together constitute the business model (Osterwalder and Pigneur 2010). The re-definition of one single block, e.g. the definition of customer segments, sometimes requires the adjustment of others, like channels, key activities and key resources. Regarding sustainable business model innovations, the systematic variation and rebuilding of the single blocks towards sustainable solutions offers numerous opportunities. The starting point is the consideration that customer

benefit is not realized by the product itself but by the satisfaction of the underlying need. The innovation emerges in seeking new ways to meet this need. For example, the basic need “comfortable temperature in a building” must not be met by means of its own central heating. There are other possibilities as well. An example would be to sell the service of operating (the supplier owned) heating equipment in the client’s house (including all additional services), to offer district heating or even to construct buildings insulated in way that heating is not needed any more. One special type of business model innovation are “product/service-systems”. See for example Sakao and Lindahl (2009). Instead of the classical business model “production – sales – after sales” the core of the offer is the possibility to use or to consume something. This offers potential for better environmental performance since suppliers are interested in efficient operations and long life expectancy of self-owned machines and, therefore, take care of optimal operation. Since they are specialized they often have deep know-how in operating and maintaining— aspects that influence the environmental performance.

Yet another example is the concept of “Cradle to Cradle” (Braungart and McDonough 2009). As a radical form of eco-efficiency it is much more than just innovation in the production process. Following the principle of a closed loop, the design of a product is done in a way that all components may be reused and recycled or entirely degrade without any adverse effects. Due to the ecological effects, this strategy offers real potential for unique value proposition and market positioning, addresses new client segments and requires re-engineering of key activities, like design, production, but also collection infrastructure and processes.

### ***3.5 Sustainable System Innovations***

In the preceding chapters, the impact of sustainability and CSR as source of innovation was shown in process innovation, social and product innovation and business model innovation. Since many of these forms of sustainable innovations are still young and the process of diffusion has just begun or is still underway, respectively, it is not clear yet how strong their cumulative effect will be. It is not naive to assume that these different forms of sustainable innovations have cumulative and self-enforcing effects to change behavior, rules of games and values in a mid- to long-term perspective. While asking whether the amount of change is enough, we are still inquiring where the societal change emerges from and where to find the drivers for sustainable change. Following Peter Senge, incremental change is not enough – a revolution seems necessary (Senge et al. 2008). As Senge depicts, a revolution may not be planned or ordered, but rather starts with single initiatives with similar aspirations, and at a certain point reaches a critical mass, the tipping point. At this certain point, a kind of common aspiration, a first vague idea about the future or even a strong vision about an attractive future emerges – a very important ingredient for real change. Certainly change needs more: innovative technical or methodological approaches combined with re-design

or innovation of whole systems. Think about electro mobility: it is not only the technological challenges in developing cars and batteries that still slow the diffusion of electro mobility. Cars and batteries are parts of a whole system – necessary, but not sufficient for the system to work. Radical change needs even more than technical feasibility: It needs whole new business models and systems thinking. This means to see and to involve the whole system, to recognize all relevant actors, to understand their interests and to see if they would benefit or lose in case of change. Maybe it makes sense to “re-think” the roles, the respective contribution and the benefits for all involved. Think of renewable energy: Rebuilding the energy system needs change in underlying principles of the industry, like transition from a oligopolistic, centralized structure to more polyphonic and strongly decentralized structures. This needs to be combined with a change in roles. Former consumers turn to “prosumers” – not just consuming, but also producing and selling energy and electric supply companies turn into providers of intelligent infrastructure and services instead of sellers of energy. This is another example of the role of technological innovation for radical change: smart metering, i.e. intelligent systems for power consumption and feed-in are necessary, but not sufficient (Johnson and Suskewicz 2009). The rebuilding energy systems example shows another aspect of the necessary revolution: new, cross-organizational cooperation (and therefore the organization’s capability to establish them) is needed. So, finally coming back to central question where sustainable change emerges from and where to find the drivers for sustainable change: it is not NGOs, economy *or* politics – it is the cooperation of relevant stakeholders in the whole systems, together with the other “ingredients” for the necessary revolution and sustainable change.

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## **IV Best Practices in Social Innovation**



# Education as Social Innovation

Shelly Esque, Martina Roth, and Danny Arati

## 1 Introduction

Education is an area where public and private sectors increasingly collaborate. The so-called ‘third sector’, which represents non-governmental organisations (NGOs) and Development Agencies (DAs), also plays a part, when collaborations take the form of a multi-stakeholder project. Research done by the Foundation Study Group in 2012 shows that successful and sustainable models contribute to both citizenship and business growth (Porter and Kramer 2011, Porter et al. 2012). In fact, we may even go as far as saying that the combination of citizenship and business growth is the new definition of Corporate Social Responsibility (CSR).

Issues in Education are wide and complex, social and even economic by nature. Businesses can play a positive role to foster innovation in Education and contribute to better learning.

In this chapter, we want to analyse possible motives, scenarios and benefits of collaborative projects in education. However, we will not look at typical philanthropic approaches, where the interaction between corporations and educational institutions is typically limited to the handing over of large sums of money, finished products or other resources. Although philanthropic involvement is both common and very valuable, it is not the approach preferred by either governments or corporations: we will analyse interventions carried out in the spirit of social innovation (Kanter 1999). By social innovation, we understand concerted efforts to address social needs in a mutually beneficial way, with the purpose to strengthen civil society at large (Porter and Kramer 2011).

## 2 The Role of Education for Socio-Economic Development

We agree with UNESCO's statement that education is *a means to empower children and adults alike to become active participants in the transformation of their societies. Learning should also focus on the values, attitudes and behaviours which enable individuals to learn to live together in a world characterised by diversity and pluralism.* The focus of the learning process needs to rapidly shift from subject knowledge and test scores to twenty-first century skills and competencies, which are now commonly accepted as being critical to improve the prospects of future employability and societal development. The social importance thus attributed to education is perhaps more critical as societies grow into more complex, better interconnected yet varied constructs.

### 2.1 Education for the Masses

Historically, education as a formal process has evolved from being a privilege for the elites to becoming compulsory for all – which made the intervention of the state necessary. Private schools do not tend to be the norm, at least not in today's more developed economies: they may provide an alternative offering where the standards of the public provision of education are deemed to be insufficient. In developing economies, where governments' finances and infrastructure cannot always sustain a large scale education system, the intervention of other players is crucial to support the provision of education which, let us not forget, is enshrined in the Declaration of Human Rights by the United Nations (1948). Such players operate on their own, in collaboration with each other or with government institutions: NGOs, charities, religious institutions or business enterprises (acting as philanthropists, social innovators or as fully fledged for-profit institutions).

### 2.2 Motivating Social Innovation in Education

The idea that education should be extended to the masses was itself an early concept of social innovation. The reason behind this innovation may have been the need to control the masses of kids, whose parents were being drafted into the factories of the industrial revolution; compulsory education would also have contributed to nation-building and social cohesion.

We can go on to say how modern education has progressed to be a vehicle for social inclusion. In an increasingly global world, schools have at least the potential to provide social mobility, by accepting pupils of all backgrounds and abilities.

This potential can be further extended with sound policies on ICT and internet in education, by granting equitable access and quality on a global level.

The responsibility and decisional power on education policies are clearly within the remit of governments, a stance that is rarely questioned; in fact, governments are always expected to be involved in education. When it comes to the private sector, its motives tend to be questioned.

While NGOs and DAs with their historic links in society had it relatively easy in becoming publicly accepted partners, the involvement of the private sector had to be developed step by step. Successful public-private partnerships initially grew out of bilateral initiatives between governments and the private sector, and later expanded to multi-lateral partnerships.

The need to make effective use of technology to improve the learning experience and to continuously measure outcomes, requires the growing involvement of the private sector. This is not only necessary to leverage the know-how and resources, but also to find a reliable partner to guarantee global access to quality education, which in turn leads to equity and social cohesion. The private sector also contributes to professional development for teachers, to the creation of e-content and of innovative evaluation and assessment methods.

As some research suggests, unit costs in education are lower where private parties are involved, hence reducing the financial burden on the tax paying public. The involvement of private investors in education is not new. Wealthy individuals have bequeathed educational institutions in many different ways. Some educational institutions have been successfully started as an overt business venture: the most powerful example probably being the University of Phoenix (see also the article ‘John Sperling Wants You to Live Forever’, published December 2002 on [www.wired.com](http://www.wired.com) )

Some seemingly unrelated innovations in pedagogy, like project-based approaches, have their roots in private industry (Dewey 1897). In fact, it could be argued that most of nineteenth and early twentieth century education was also shaped by research in productivity and business models (mass industrialisation and the ‘factory system’ in education, Taylorism and the segmentation of the learning experience, etc.), with low-order thinking skills of Bloom’s Taxonomy being promoted (i.e. memorising knowledge). In a tayloristic approach to economy, there is no need provide higher order thinking skills to the masses (i.e. the ability to analyse, evaluate and create).

The motivation of business can be seen as a *do ut des* approach. To prosper, business needs a qualified workforce and educated, affluent consumers. Both are the product of a successful education system. Increasingly, businesses complain about the lack of so-called ‘soft skills’ in recent graduates. As a report published by the European Commission in 2012 recognises, IT, entrepreneurial and citizenship skills are fundamental for today’s job market; but generally, schools are still paying insufficient attention to these transversal skills. The e-Skills ‘Copenhagen Declaration’ (published in October 2012) set up the European e-Competence Framework (ECF) to help deliver *education reforms initiated by National Ministries . . . and strongly supported by industry.*

### ***2.3 Technology and Social Innovation in Education***

Advances in science, technology, engineering and mathematics (STEM) are crucial to address typical twenty-first Century challenges such as pressure on resources, environmental concerns, health issues of an aging population, etc. STEM also contributes to the creation of wealth through the establishment of new industries. It is well documented how the number of higher education students enrolled in STEM courses has been dwindling in many Western countries. The consequence of this trend is less innovation, competitiveness and, crucial yet rarely mentioned, an increase of unemployability of the workforce.

Corporations like Intel, Microsoft, Cisco and others are putting great efforts into ensuring that the effective use of ICT can lead to innovation in education through new methodologies, with the goal to improve learning and teaching experiences.

The high costs involved, the novelty of methodologies using ICT, as well as the fast pace of technological development (and therefore the lack of conspicuous longitudinal data), make large-scale deployment of ICT very risky. However, through the desire of the public purse to consult experts, the interest of Academia to play both the role of researcher and mediator, and the willingness of the industry to take responsibility for its products, a bridge can be built to lead to a mutually satisfying ICT solution in Education (Porter and Kramer 2011).

### ***2.4 Education by the Masses***

The appearance of the “Web 2.0” was an inflection point in Education, as it allowed the creation and sharing of educational content. The new technology allowed anytime-anywhere scenarios and Higher Education was quick to adapt, with leading universities like MIT or, not surprisingly, the Open University in the UK leading the wave of innovations in the way teaching is delivered and learning is assessed. The result was game-changing projects such as OpenCourseWare (OCW), initiated by the University of Tübingen in 1999 – before the term ‘Web 2.0’ was popularised (O’Reilly 2005). The institutionalised pre-university educational sector instead may have struggled to fully realise the potential, the raft of innovative usage models came from the masses of ICT-savvy and unaffiliated enthusiasts from outside the system.

Wikipedia is one of the best known examples. The idea that a shared knowledge-base can be both larger and more precise than specialist knowledge perfectly aligns with the Web 2.0 concept, and it also reflects the idea that the many will always be smarter than the few (Surowiecki 2004). The educational novelty lies not so much in the online consumption of the content, but in the possibility to create, analyse and evaluate knowledge. In other words, it allows the higher order thinking skills listed

in Bloom's taxonomy, but also promotes progress along the 'Knowledge Ladder' (Kozma 2008).

Another example is YouTube, which can also be used for knowledge sharing: whilst some content is very basic or even trivial (e.g. 'How to boil an egg'), there are many academically solid online tutorials (perhaps the most famous example being the Khan Academy). The volume of material available and the traffic on the site (as indicated by [www.alexa.com/topsites](http://www.alexa.com/topsites)) show how keenly knowledge is being created and shared.

Massive Open Online Courses (MOOCs) are perhaps a natural progression from online tutorials. These are open-access courses designed for large-scale participation, based on ideas found in the Open Educational Resources movement. Courses are typically offered for free, though certification usually carries a fee. Crowdsourcing is an important aspect of MOOCs, be it for real-time feedback (e.g. students' replies can indicate which specific topics may need greater attention) or for peer-to-peer review. The importance of the role and impact that MOOCs are likely to play were highlighted by the New York Times, which dubbed 2012 'The Year of the MOOC' (Pappano 2012).

MOOCs are a good example of Social Innovation, as they display a completely new dynamic of delivery of and participation in Education. The involvement of the private sector underscores the value multi-stakeholder partnerships can add, and shows the vested interest the private sector has in the Education system and the resources it commits to support it. MOOCs are much more flexible than traditional academic institutions, and can therefore quickly adapt to the demands of the job market.

### 3 Multi-Stakeholder-Partnerships

The understanding that Education is complex and requires collaboration by different stakeholders in the society and ecosystem has been the result of a lengthy process. A new type of partnership has emerged in the past decade, with the emphasis on joint strategic planning, coordination of implementation processes and assessment of outcomes. There is a growing acceptance that systemic education transformation can only be successful if a holistic approach is taken in a multi-stakeholder partnership (Martens 2007).

The following examples of multi-stakeholder partnerships are very different by scope, approach and governance; however, they are all ambitious, collaborative frameworks aiming for a big social impact on a large scale.

### **3.1 UNESCO: Education for All**

The 'Education for All' (EFA) initiative is a commitment to provide quality basic education for all children, youth and adults. At [the World Education Forum](#) in Dakar in 2000, 164 governments pledged to achieve EFA targets and identified [six goals](#) to be met by 2015 (EFA Global Monitoring Report 2012). The collaboration involves governments, DAs, civil society and the private sector. The [Dakar Framework for Action](#) mandated UNESCO to coordinate these partners, in cooperation with the four other stakeholders convened at the Dakar Forum (UNDP, UNFPA, UNICEF and the World Bank).

The goals are ambitious and of high social value:

- Expand early childhood care and education
- Provide free and compulsory primary education for all
- Promote learning and life skills for young people and adults
- Increase adult literacy
- Achieve gender parity
- Improve the quality of education.

All partners pledged specific contributions and comprehensive efforts to support the above goals. The declared intention is to meet the 2015 goals and to set the agenda beyond that date.

The EFA initiative clearly supports the Millennium Development Goals, which are the best example of social innovation through education: beat poverty, promote gender equality, reduce child mortality, improve maternal health, help combat preventable diseases, encourage environmental sustainability and help global development.

### **3.2 Global Partnership for Education**

It is estimated that there are currently 61 million primary-school aged children out of school in developing countries. The Global Partnership for Education (GPE, [www.globalpartnership.org](http://www.globalpartnership.org)) was set up in 2002 with the goal to give these children access to a quality education. GPE is a multi-stakeholder partnership of over 50 developing countries, donor governments, international organisations, members from the private sector, teachers, and NGOs.

The partnership has fundamentally transformed international cooperation in education. It helps developing countries develop and implement sound education plans. GPE fosters mutual accountability and increased shared knowledge, and encourages transparency.

With its strategic framework and implementation plan, the partnership sets out the details of a long term vision, to which all member states and other stakeholders

gave their commitment. The partners collaborate to implement national education strategies and to mobilise technical and financial resources (Jimenez et al. 1991).

### ***3.3 Assessment and Teaching of Twenty-First Century Skills: ATC21S***

ATC21S is a multi-stakeholder partnership to define learning progressions for 21st-century skills, create innovative assessment methodologies, set new standards of formative assessment, provide teaching and reporting tools and policy reports. The resources are made accessible to all; the outcomes are made available as creative commons on the web (see also [www.atc21s.org](http://www.atc21s.org)).

ATC21S has been initiated and is sponsored by Cisco, Intel and Microsoft; the companies have a long history of supporting education initiatives and believe that, as employers of tomorrow's talent, they share a common interest in improving education. The academic side is led by the University of Melbourne, involving over 250 international researchers, specialists, developers and practitioners. Cognitive labs and pilots are run in six countries (Australia, Costa Rica, Finland, The Netherlands, Singapore and the USA). ATC21S tackles an issue so big, individual stakeholders would not be able to solve it on their own.

The Advisory Board includes PISA OECD, IEA, UNESCO and the World Economic Forum. The project was successfully launched at the International Assessment conference in Amsterdam 2012.

## **4 Conclusions**

Education has played an important part in shaping society. Once the domain of the privileged few, it has become a basic human right – an important social innovation.

The increased challenges in education have led to an increase in multi-stakeholder partnerships. Whilst the ultimate decision power remains with the government, the delivery of education has come to be regarded as a responsibility for both public institutions and private businesses. There is increasing acceptance that the sharing of resources and knowledge will lead to a mutually beneficial ecosystem. To be successful, both sides must share vision and strategy, and be held accountable.

The fast pace of change and of technological development puts considerable strain on traditional resources – innovative ways to reform and resource education are critical for sustainable development and socio-economic growth.

The involvement of multi-stakeholder partnerships in Education has become a tremendous innovation factor. Innovative technologies have been adapted and adopted for new, inclusive and participative ways to deliver Education. Out of

this new environment and development, we see the shaping of proposals for methodologies to provide learners with the skills necessary to thrive in tomorrow's world, which will be increasingly complex and networked. This is a result of large scale collaboration, involving various players of society and economy not traditionally associated with education as an institution: it is in this sense that education has become a construct by the masses, for the masses.

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# Entrepreneurship and Youth Unemployment

Caroline Jenner

## 1 Introduction

The welfare of a community depends on the employability of its young people. The primary objective of an education system is to prepare youth to participate in society and the economy. But in too many European countries, youth unemployment rates have skyrocketed to more than double the national average. Young people are among the most vulnerable in an economic crisis—unlikely to get hired and the first to be let go.

Our school systems are struggling to adapt to the pace of change in skills and jobs, and crisis conditions have increased the pressure. Designed to educate people for a mass labor market, our schools must now also prepare students to create opportunities of their own, become entrepreneurs and more proactive participants in job creation.

Both policy makers and the private sector are looking for solutions that will speed up the process of changing mindsets to embrace entrepreneurship more. Education systems are naturally slow-movers and Europe's start-up rates remain stubbornly low. Yet entrepreneurship is essential to boosting job creation, and there is high demand for entrepreneurial skills across all industries/sectors.

The World Economic Forum in its 2010 report “Educating the Next Wave of Entrepreneurs” talks about the **entrepreneurial ecosystem** where multiple players collaborate to achieve real educational and economic impact—public institutions, the private sector, NGOs (Fig. 1).

The report is a call to action to transform education, work in partnership with numerous actors and concentrate on getting the impact we want. The best practices cited are all **entrepreneurship education** initiatives which have taken root and found sustainable ways to scale. Resources must go farther and faster, the quality of the educational experience must be better and there must be tangible economic outcomes in terms of employability and entrepreneurship.

Entrepreneurship education is one of the most important places where the education and business communities are coming together to address youth unemployment. Entrepreneurship education is about increasing the pool of entrepreneurial potential in the first place, tackling youth unemployment before it happens.

**Fig. 1** Entrepreneurial ecosystem (The entrepreneurial ecosystem. Educating the next wave of entrepreneurs (2010), *World Economic Forum*. (p. 16))



It blends soft and hard skills; it works on an individual's confidence and competencies at the same time; and it is about teaching people how they themselves can turn ideas into action (create value).

The 2012 Report from EURYDICE on the penetration of entrepreneurship education strategies in the EU Member States from 2000 to 2011 gives us a good idea **where** we should be focusing our attention. France, Germany, Italy, are listed as having “no current strategy or ongoing initiative” to implement entrepreneurship education in general education. Spain, Greece and large parts of Central Europe have put broader strategies in place. It is the Scandinavians, parts of the UK, Netherlands and Belgium which lead in explicit national strategies to support entrepreneurship education (Education, Audiovisual and Culture Executive Agency 2012).

Entrepreneurship education depends on cultivating a healthy entrepreneurial ecosystem; it requires an intensive effort inside the school system with active engagement from local communities. The good news is that in country after country, at the very grassroots level, we have seen how getting started young and cultivating positive attitudes towards entrepreneurship *does* deliver the big economic impacts we are all looking for.

## 2 Entrepreneurship Education

“Most of what you hear about entrepreneurship is all wrong. It's not magic; it's not mysterious; and it has nothing to do with genes. It's a discipline and, like any discipline, it can be learned” (Drucker 2006). It is important for policy makers, business people, parents and teachers to understand what we mean when we talk about increasing the entrepreneurial potential of our young people. This paper focuses on what we can do in the formal education system, before university. First we mean that we want them to give entrepreneurship a try (**confidence**). Secondly, we want them to learn and practice the skills they need to start-up and run a mini-business (**competence**). Thirdly, we want them to associate the experience with “cool” and “having fun” (**motivation**) and we want the local community

to see and support them. The combination of the three is what increases the likelihood that someone will actually go on to start a business later on.

Entrepreneurship in education is now a stated priority across the EU but understanding “how” education can move the needle forward on this across 27 Member States is a superior challenge. Both education and business have a role to play here. Keeping them apart will only perpetuate the challenges young people face. We believe the **lack of real engagement between education and business** at lower levels of the school curriculum can be one of the factors lying behind higher numbers of school drop-outs, young people’s inability to find a job after college/university and perpetually low rates of entrepreneurship. More intensive interaction between schools and business changes attitudes towards enterprise and entrepreneurship, narrows skills gaps and raises young people’s awareness of career opportunities. Formal teacher training in entrepreneurship education has been identified as one of the key areas of focus going forward as educators are obviously critical multipliers on the ground. But engaging them with business people in various ways provides teachers with *access to entrepreneurial competence* and expertise that many of them feel they do not have, *validates* how much their students have learned and *reinforces* in young people the value of the experience.

Over the last 10 years, two Directorate Generals at the European Commission, Enterprise and Education, have partnered more and more in this area—sending important political signals that a partnership between education and enterprise was critical to better preparing young people to succeed in today’s global economy.

Not only has “entrepreneurship and initiative” been added to the list of eight core competencies that should be taught in schools, but outcomes from expert groups were clear in their advocacy of using more “entrepreneurial learning methods” (more project-based approaches and group work). The broader meaning of the term “entrepreneurship” is explained as “an individual’s ability to turn ideas into action. It includes creativity, innovation and risk-taking, as well as the ability to plan and manage projects in order to achieve objectives. This supports individuals, not only in their everyday lives at home and in society, but also in the workplace in being aware of the context of their work and being able to seize opportunities, and is a foundation for more specific skills and knowledge needed by those establishing or contributing to social or commercial activity. This should include awareness of ethical values and promote good governance” (Education and Culture Directorate General of the European Commission 2007). DG Education and Culture has fully embraced the importance of entrepreneurship education to the achievement of 21st century learning outcomes. Its “Re-Thinking Education” paper underlines entrepreneurial learning, praises collaboration and partnerships as the way forward and stresses the need for open and flexible approaches. (Education and Culture Directorate General 2012).

Attitudes and behaviors are just as important as the skills required to run an enterprise. Entrepreneurship education means “developing a culture which is through, for and about entrepreneurship” (Enterprise and Industry Directorate General of the European Commission 2011). It is difficult to achieve using traditional teaching methods. Entrepreneurship education requires student-centered approaches and practical engagements with the real world. “The implication of these changes for teachers

is substantial. They mean nothing less than a new role for every teacher: that of learning ‘facilitator’...the core skills and values linked to entrepreneurship education are seldom a priority in initial teacher education programs” (Enterprise and Industry Directorate General of the European Commission 2011).

One of the best known good practices in entrepreneurship education is the “mini-company”. Its success factors, according to the European Commission, are its “connection with businesses,...flexibility and adaptability to different types of education,...enthusiasm and motivation generated, ...and creativity, initiative and innovation it unlocks in young people” (Enterprise and Industry Directorate General of the European Commission 2005). The latest communication from this Directorate General, Entrepreneurship 2020 Action Plan, actually recommends that every young person should have an entrepreneurship experience before they finish school (Entrepreneurship 2020 action plan 2013). Students work with trained teachers and coaches from the business community. They set up a real enterprise (for-profit or non-profit), raise capital, design and develop a product or service, go to market, interact with the local community and sometimes the international community too, handle all the accounting and reporting. It is a course that covers the full school year (2–5 h per week on average), endorsed by education authorities. Besides the mini-company activity, there are local, national and European competitions, trade fairs and other extra-curricular activities.

## ***2.1 The Impact of Mini-Companies***

The research that has been done in Sweden and Norway is likely the best proof so far of the impact of mini-companies. Both countries have made entrepreneurship education a top strategic priority and have achieved high levels of participation inside the school system. Both have invested in large scale teacher training, the participation of business people as mentors and both have taken a multi-stakeholder approach to financing and implementation through cooperation among government, business and NGOs. Both countries have done regular research with past participants over the last decade, and their most recent investigations have taken care to create control groups of individuals who match the target group in terms of number, background and age so that the only important differentiating factor is participation in entrepreneurship education.

Let’s take Norway first: Among the respondents in the survey, the study shows 50 % more start-ups among former students than in the control group. Twelve percent of those who have been a part of the secondary school JA-YE Company Program have established their own business by the age of 25, compared with 8 % of those who did not participate in the JA-YE Company Program (control group). If we include those who said they are in process of setting up their own business, the percentage increases to 17 % among former JA-YE Company Program students and to 13 % in the control group.

Compared with the control group, the research indicates that a higher proportion of JA-YE Company Program participants are involved in business creation, the

desire to become self-employed is stronger, and they score higher on questions about having the necessary knowledge and skills to establish a business. A higher proportion of JA-YE Company Program respondents in the survey have leadership positions in their jobs compared with the control group (Johansen 2011).

- Thirty-three percent of former JA-YE CP students are in a leadership position today compared with 25 % in the control group
- Fifty-five percent of the former CP students claim to have necessary skills and knowledge to establish their own business if the opportunity was there, compared with 41 in the control group.
- Forty-six percent of the former CP students would like to set up their own business compared with 39 % in the control group

And in Sweden, the respondent base was impressive: 166,000 past participants from 1990 to 2009. The average age of the participants in this survey is quite low, only 24.4 years. Even so, the researcher found significant differences: The results show unanimously that creation of new firms, firm survival, and job creation within firms is stronger among JA Sweden Alumni than comparable individuals. The report concludes that the JA-YE Company Program has had strong positive effects on economic outcomes in society. It also shows that such programs have immediate effect. The effects investigated in the Swedish report are based on a sample of young persons who recently finished their education. Since this survey measured the performance among relatively young individuals, it is likely that the impact will be even greater later in their careers. (A Wennberg 2011 Longitudinal Investigation of Junior Achievement (JA) Sweden Alumni and Their Entrepreneurial Careers, 1990–2007)

Taken together, these comparative findings provide strong support for the notion that the JA concept, to allow high school students to “experience” entrepreneurship by setting up, organizing, running, and finally dismantling an independent enterprise, seems a fruitful educational tool that improves both the quantity of entrepreneurship in society and the quality of entrepreneurial efforts. This is interesting for both educators and public policy makers since the relative costs and benefits from public education and support for various types of education and training efforts in entrepreneurship affects the societal returns of these efforts in terms of new firms, job creation, salary growth, and tax payments to the state.

### 3 Why Should Business Engage?

Young people’s biggest disadvantage upon entering the labor market is their lack of professional experience and in most cases their ignorance of what it means to work in the private sector at all. They may not have access to very many role models or given much thought to what really interests them so they may not be making the right education choices. It is business’ natural role to show young people where the opportunities are.

Creative independence and ‘doing your own thing’, in twenty-first century speak, ought to make entrepreneurship a very popular career choice, but the reality

is that after completing their education only between 5 % and 7 % of Europeans actually become entrepreneurs or are involved in entrepreneurial activities (Global Entrepreneurship Monitor 2011). Evidence from the field, however, shows that engagement from the business community and real entrepreneurial experiences in school can turn this around. Students have the benefit of coaching from business people so they are more comfortable with the risks and they know more about what to expect.

*“I think it is an important part of learning to try out the ideas that are not so good—that in itself is learning. It’s a bit like when you invest a lot of time in something that doesn’t work out—you still learn something.” (Mini-Company Student)*

Teachers are learning how business can help by ensuring that young people see the practical relevance of what they are learning. Teachers with experience in entrepreneurship education say that it increases students’ motivation and their interest in school work improves. They know the jobs of the future in Europe will require a more sophisticated skill set with particular strength in Science, Technology, Engineering and Maths (STEM).

There is a growing mismatch between what students have studied and the jobs available. In industries that require technical skills, well-paid jobs go unfilled even during periods of economic downturn because there are not enough young engineers, ICT specialists and graduates with mathematics and science backgrounds (European Round Table of Industrialists 2011).

Business sees a huge need to get involved in education in order to accelerate the system’s capacity to meet the demands of the modern workplace. The European Round Table of Industrialists says in its report that “a shift in attitude towards a more entrepreneurial approach to work in which people seize opportunities to demonstrate their talents would benefit public and private sectors and would contribute significantly to continued prosperity.” According to a survey JA-YE Europe conducted with 517 business leaders: their top three concerns towards society were Education (76 %), Local Community (56 %) and Youth Development (50 %). Sixty-three percent of respondents felt that school systems were not equipping young people well enough for the work force and 78 % said young people were “missing” important soft skills (confidence, presentation skills, networking, motivation, drive and teamwork) as well as entrepreneurship skills and acumen (Freshminds Research 2011).

There is not much public awareness of the extent to which the business community actively participates in education through volunteer schemes, but it is widespread and popular. The kind of skills-based volunteering that entrepreneurship education requires taps into business people’s expertise and experience. The survey cited above, “Closing the Gap”, found that businesses promote volunteering because they can see that it has a high value for the “development of skills in future generations” and for society in general. Seventy-three percent said it contributes to “enthusiasm” inside their organization.

The business of enterprise and entrepreneurship is, after all, a core competence of the private sector. As the European Commission has said, entrepreneurship education should be available across the board but we would advocate that business has a key role to play in increasing its appeal to young people, as much as its quality and effectiveness.

**(a) The Real World is the Best Test**

A teacher's take on a business plan is not necessarily the same as a business person's. What people with business experience can offer educators is real-life relevance to complement theoretical content. Because business people are always in 'competitive mode' and in constant contact with the marketplace, industry trends, and new technologies they add valuable insight as mentors. One of the most exciting experiences for a young person is to see an idea really take shape and to feel that their academic knowledge and skills have helped them succeed in a real life situation. Once you have had to recover from a botched attempt or two, the fear of failure is less acute. A business person can be a good judge of young people's entrepreneurial acumen and students highly value their opinion and encouragement. Their feeling of competence and confidence grows. It's what can give young people that added push to really go all the way with their idea.

*I was asked to write a business plan as part of the curriculum at my university. The business plan was commented on by my professor and he thought I had done a good job according to the way such a plan should look. We corrected a few misspellings and added comments. What I didn't realize was that we never discussed the idea itself. When I later participated in a competition, the business people there told me that they thought I had a really good business idea. They did not look at the format, but at the idea itself. It was the combination of the professor and the business people that helped my success story. Now I am running several businesses based on the idea I started at school. (Past-participant, Mini-Company)*

Moving students into the real world to test the viability of their business concepts is one of the most powerful elements of entrepreneurship education. Exhibitions, market research, selling to customers, pitching to potential investors, coming up with a development strategy, stage presentations, panel interviews with juries . . . it is all part of the "examination process" and validation of competencies. Success means you have handled all the different elements well and you are able to talk about what you learned in the process. Here, students' achievements are dependent on teamwork, organization and attitude. The group is an important driver of learning outcomes and sense of achievement.

A good example of cross-sectorial collaboration to achieve and acquire those skills can be seen in the Intel Business Challenge that is run in close collaboration with JA-YE. It is a European competition for innovative products and smart technologies, where students go through national competitions (going through examination processes and competence validation) before they come to

the European finals. Coaching and providing feedback to the teams is probably the most valuable component of the 3-day finals. Winners of the Intel Business challenge also receive additional mentoring and qualify for the worldwide finals at the University of Berkeley, California.

(b) **Businesses as Contributors to Social Innovation**

Below are just some examples of areas where the business community is collaborating successfully with the school system and JA-YE to add value and relevance. These activities are in addition to standard support for mini-companies and other programmes for lower age groups.

1. **Social Enterprise Skills**

Intel and FERD with the *Social Enterprise Programme*, HP with the *Social Innovation Relay* are leveraging entrepreneurship education to inspire young people to be social entrepreneurs. Students use their enterprising skills to solve social problems and they are also using their digital talent to be more international with their concepts. They compete online and are assessed by business people online. The partnership with business is helping students understand how to ensure their ideas are truly viable and sustainable.

2. **Innovation Skills**

Hundreds of local businesses engaged over 3 years in *Creativity and Innovation Challenges* in order to bring entrepreneurial skills into vocational schools. Entrepreneurship is not a part of the curriculum in VET schools in most countries. One thousand business volunteers worked with 10,000 students to generate more than 2,200 solutions to a vast array of challenges related to their sectors/specializations.

3. **STEM Skills**

We need highly skilled, innovative and entrepreneurial people to tackle the world's biggest challenges. Businesses like Intel (*Sci-preneurship*), ExxonMobil (*Sci-Tech Challenge*), RIM (*Future Friends*), Hyundai (*Skills for the Future*) . . . are all working intensively with young people to combine entrepreneurship with their strengths in science, technology, engineering and maths.

4. **Globalisation Skills**

If young people want to be entrepreneurs, they will need to do business in a very global marketplace. *Enterprise without Borders* supported by Accenture, Nokia, TMF Group encourages young people to explore the cross-border potential of their mini-companies and develop partnerships with students in other countries. Twenty-seven thousand students, 32 countries, hundreds of mini-joint-ventures. International business acumen and an entrepreneurial mindset are essential if young people want to work in or do business with a large global company. These organizations depend on intra-preneurship (entrepreneurship inside existing businesses) as much as a dynamic network of competitive suppliers. The European Round Table of Industrialists is made up of member companies that represent 50 of Europe's largest companies and are working to reach 40,000 young people through the *Global Enterprise*



*Project*—creating cross-border mini-companies (34 countries including Europe, Africa and America are engaged in this), as well as introducing young people to twenty-first century industry challenges through case studies and innovation camps. It is a new way to reach out to the next generation before they make important education and career choices.

#### 5. Financial Skills

Young people's understanding of finance and personal economics needs to be addressed well before they have to apply for their first loan or credit card. Companies like AXA (*Insure Your Success*), HSBC (*More than Money*) are engaged in practical financial education initiatives and helping young people build sustainable livelihoods and enterprises. Citi supports many JA programs including mini-companies all over the world as they are convinced such activities ensure young people learn the link between good financial skills and a successful business.

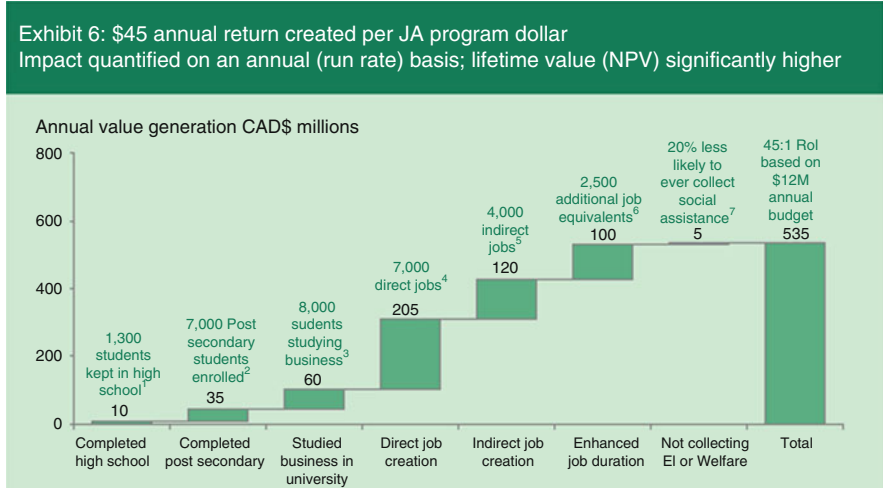
#### (c) Long-Term Social Impact and Prosperity

Boston Consulting Group (BCG) gathered data on 500 past participants in JA-YE entrepreneurship education programmes across Canada and compared it to 5,000 non-participants. Their study reflects the findings in Norway and Sweden but with a focus on the Return on Investment (ROI) of such initiatives. One of BCG's conclusions was that these programmes were having a substantial impact on the Canadian economy because they unlocked potential and maximized personal value creation. On the one hand, past participants were more likely to have completed various levels and types of education and these individuals clearly stated that these programmes were behind that decision. On the other hand, past participants were also more likely to say that these programmes were what motivated them to open a business and their businesses had better survival rates. Put together, BCG attributed 530 million Canadian Dollars in annual impact associated with higher earnings and job creation. For every dollar invested in these programmes, BCG determined that the Canadian economy was getting 45 dollars back (Fig. 2).

The European Commission's recent study on the socio-economic impact of entrepreneurship education draws two important conclusions (among others) (Enterprise and Industry Directorate General of the European Commission 2012):

- The likelihood that entrepreneurship alumni will participate in a business start-up is substantially higher, the frequency with which they set up businesses seems to be higher and they become self-employed earlier in their careers. In addition, the enterprises run by these individuals are perceived as more innovative and the expectations regarding employment growth and turnover growth are higher.
- It seems to be easier for entrepreneurship alumni to find employment immediately after their graduation and the chance of being unemployed in the first years after graduation is lower.

What is interesting to consider here is that the findings at the secondary school level in Sweden and Norway and higher education level covered in this study have



**Fig. 2** Annual return (Exhibit 6: value for society. Making an impact. *Assessing Junior Achievement of Canada's Value Creation* (2011). The Boston Consulting Group. (p. 9))

been similar. Thus it makes sense to consider that providing entrepreneurship education at multiple levels (step-by-step) over a young person's educational career, will only improve the long-term impact.

## 4 Conclusion

Entrepreneurship education is a way to ensure that people have the skills, competence and motivation they need to be more entrepreneurial. It comes in many forms and *requires the participation of all sectors*. The research clearly proves that it gets results and that entrepreneurship can be taught. Education is gradually integrating competence # 7 (initiative and entrepreneurship) and all that this entails. But the situation we have today calls for speed and much higher numbers of schools and young people participating to generate the economic and social impact needed. Entrepreneurship education stimulates social innovation, new business creation, more jobs and is therefore a way to reduce today's frightening levels of youth unemployment.

**JA-YE Europe** ([www.ja-ye.org](http://www.ja-ye.org)) is Europe's largest provider of entrepreneurship education programmes, reaching 3.1 million students in 38 countries in 2012. Funded by businesses, institutions, foundations and individuals, JA-YE brings the public and private sectors together to provide young people in primary and secondary schools and early university with high-quality education programmes to teach them about enterprise, entrepreneurship, business and economics in a practical way. JA-YE Europe is the European Regional Operating Centre for JA Worldwide®

([www.jaworldwide.org](http://www.jaworldwide.org)) and a member of the European Action Group for Entrepreneurship Education (EAG) [www.europeanactiongroup.eu](http://www.europeanactiongroup.eu).

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# Responsible Investing as Social Innovation

Stefanie Hiss

## 1 Introduction

The 2008 financial crisis led to an enormous loss of financial assets.<sup>1</sup> Exuberant profits in the private sector before the crisis were followed by immense public costs, caused in particular by a rise in unemployment. Apart from this alleged “black swan” (Taleb 2007), the pre-crisis financial system can generally be characterized by high private incomes, on the one hand, and immense negative externalities, on the other hand. There are many reasons for this. More than 35 years after Milton Friedman (1970) advocated that “the business of business is to increase its profits,” profit maximization had become a leitmotif of modern financial markets. Scientifically supported by agency theory (Jensen and Meckling 1976) and shareholder value advocacy (Stout 2012), it had deeply impacted financial market institutions. Financial goals were first and foremost, and there was little room for the consideration of social, ecological, or ethical issues. Even worse, the mindset of focusing exclusively on profits passed from financial firms to corporations in the real economy, who increasingly saw little room for taking social, ecological, or ethical issues into account. Considering the direct and indirect impacts of the financial market on the real economy, negative externalities piled up and translated into incredible societal costs and burdens.

Responsible investing (RI) attempts to reduce this burden and decrease negative externalities. Initiated mainly by entrepreneurs from outside the financial sector, it can be considered an innovation responding to a pressing societal problem, a social innovation. The main idea of RI is quite easy, to broaden the perspective of investors from a narrow focus on purely financial indicators to a broader focus which integrates non-financial aspects, such as social, ecological, or ethical ones into the investment process. RI aims to develop tools that financial firms use to recognize, assess, and implement these non-financial concerns into their investment processes. Started in the US in the 1960s, RI has traveled a long way. Today,

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<sup>1</sup> Financial support for the author was provided by The Volkswagen Foundation.

investors all over the world are aware of its existence, whether they apply this social innovation or not. While still a niche within the global financial market, RI is growing, and has created new, formerly unknown investment practices, establishing a possible alternative to the system that triggered the financial crisis. In the course of its evolution from idea to practice, RI has challenged conventional financial market practices and undergone considerable transformation.

In this chapter, we will take a closer look at the social innovation of RI. After a brief review of what is meant by social innovation, we will focus on the problem that it supposes to solve. Next, we will investigate what RI implies, how it came about, and which institutional entrepreneurs brought it into being. Finally, we will discuss how it has changed since its inception and what impact it is able to make today. In this way, we will gain a clearer understanding of the scope and limitations of RI as a social innovation.

## 2 Social Innovation

Innovations do not appear from nowhere. For their successful implementation, they need at least two ingredients: entrepreneurs and the right circumstances. Innovation research shows that entrepreneurs alone – even when determined to cause creative destruction by breaking up existing structures (Schumpeter 1994 [1942]) – are not enough, no matter how brilliant their ideas or how great their entrepreneurial ability. Additionally, the time needs to be ripe in order for the innovation to gain acceptance in its environment. As innovations are the results of complex social processes, their societal environment strongly impacts the likelihood of their realization or rejection.

The same conditions hold true for social innovations. Their implementation is made even harder by the nature of what they seek to change: social issues, challenges, and needs. While successful technical innovations may result in a lucrative payoff for the innovator, the value created by social innovations “accrues primarily to society as a whole rather than private individuals.” One might well ask who, then, has an incentive to come up with novel and “more effective, efficient, sustainable, or just than present solutions” to tackle pressing social needs or problems.<sup>2</sup>

It appears that social innovations, as a specific type of innovation, are closely associated with a special kind of entrepreneur, one who is social as well as institutional. This entrepreneur is social in the sense that innovations for social issues are sought, and institutional in the sense that established practices and institutions are overhauled in the service of social goals. The following sections will discuss the social problem that RI-entrepreneurs aim to tackle, as well as

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<sup>2</sup> Definition of social innovation from the Center for Social Innovation, University of Stanford, <http://csi.gsb.stanford.edu/social-innovation>. Accessed 05 Sept 2012.

analyze who these entrepreneurs are and how they established new RI-practices and institutions.

### **3 The Problem: A Financial Market Producing Negative Externalities**

To someone looking purely at financial information, it may be unclear why social entrepreneurs initiating RI considered the conventional financial market a social problem that they wanted to tackle.<sup>3</sup> Indeed, in the years before the crisis, financial markets were regarded as immensely successful (Lounsbury and Hirsch 2010). Beginning in the 1970s, when the Bretton Woods system collapsed and the flow of capital was liberalized, financial markets grew continuously and significantly. Over the years, this led to the emergence of an increasingly global market, characterized by greater mobility of capital and the widespread use of complex financial products. Financial markets gained power and influence, grew in size and liquidity, and became faster, more transnational, and more accessible to a larger number of actors and corporations. Many duties formerly performed by the state were taken on by financial markets, such as privatizing retirement provisions and many public services. Growing financial markets helped spur the growth of the global economy.

These free, liberalized, deregulated, transnational, and successful financial markets garnered more and more scientific support. According to the efficient market hypothesis (Malkiel 2003), unhindered capital flows to the place where it can be employed most efficiently. Financial markets, set forward as the prime example of efficient markets, “generally get it right when pricing stocks, bonds, and other financial instruments” (Davis 2009: 20). Building on the ideas of Friedrich August von Hayek (1945), the market is the best mechanism for processing information. While neither individual market participants nor the state are able to oversee the market as a whole, they know how to move on it, as market prices contain all the necessary information. Therefore, market prices optimally allocate goods and services, without incorporating social or ecological issues that would only distort the market. Following these considerations, the profits made on these efficient markets can be interpreted as a measurement of societal prosperity. This is because profit, when considered from the perspective of principal agent theory (Jensen and Meckling 1976; Fama 1980), is the residual income that is left over when all other stakeholders (i.e. suppliers, workers, creditors) have been paid off. Thus, “it represents the ‘excess’ value created by the company, a measure of the firm’s enhancement of social welfare” (Davis 2009: 52). According to this logic, when corporations maximize their profits, they simultaneously maximize social wealth. What could be wrong with that?

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<sup>3</sup> Parts of the following sections are based on Hiss (2011).

An alternative reading of the financial market success story may yield different results. In his analysis of financial market capitalism, Windolf (2005, 2008) views the rise of the financial markets with skepticism. Institutional investors, such as pension funds or insurance companies, benefited most from the increasingly influential role of the financial markets. The power of such investors is not only based on the high volume of capital that they control, but also on the strong concentration of property in their hands. Thus, they are able to bundle investors' interests into large mutual funds and to take precedence over stakeholder interests. The combined assets managed by institutional investors, compared to gross national products, have grown considerably in most countries between 1990 and 2000, from 127 % to 195 % in the US, 131–226 % in the UK, and 34–80 % in Germany (Windolf 2005: 35). As a result, institutional investors are currently the most important owners of large stock corporations, owning around 60 % of the total shares in the 1,000 largest publically traded corporations in the US. The 20 largest of such funds own a combined total of around 40 % of these shares. Even though each fund owns a comparably low percentage of any given corporation, their common interest as a group makes them much more powerful. They can act in concert, coordinating their action and influencing companies (Windolf 2008: 518).

Institutional investors are also fierce competitors (Windolf 2005: 35). Each fund tries to offer financial products with the highest returns, in order to beat their competitors. This dynamic continuously intensifies competition in the financial market (Lordon 2003: 40f.). Under these circumstances, where all market actors try to beat the market and outperform their competitors, market benchmarks rise year after year.

Institutional investors pass this pressure to produce high profits onto the companies that they own. They have a whole variety of mechanisms at their disposal to transfer market pressures to the corporations. Mechanisms include quarterly reports, whereby corporations have to account for their financial performance every 3 months; implementation of a general shareholder value orientation; governance of companies via code digits and management by objectives; disciplining the management through a market for corporate control; introducing stock options for motivating the management to act in the interest of the investors; or benchmarking, whereby all of the corporations in which the fund holds stock are compared to the other companies in their sector (Windolf 2008: 518).

These mechanisms and the mindset that they represent result in an exclusive emphasis on short-term profits, regardless of any negative externalities. High competition in combination with ambitious financial goals tempt corporations to maximize profits, at the expense of negative externalizations imposed on the environment, employees – and even the long-term prospects of the corporation itself. Under these conditions, the assumption of economic theory that an exclusive focus on shareholder value and profit maximization would increase societal wealth turns against itself. In reality, while profits are privatized, costs are socialized and ever rising. The financial crisis is an extraordinarily good example of the financial market's potential for individualizing profits and socializing costs, through such

negative externalities as rising unemployment and massive publically funded corporate bailouts.

A possible solution to this problem is to take non-financial criteria into account to create incentives to reduce negative external effects. This is the core idea of RI, which will be discussed in the following section.

## **4 The “Solution”: Responsible Investing as Social Innovation**

Responsible investing is based on the idea that investment decisions should also take into account non-financial criteria, such as ecological, social, or ethical issues. For example, before investing in a company, a sustainable investor might inquire as to whether the company has implemented a robust environmental management system, or ask what it does to improve the work-life balance of its employees, fight corruption, or respect minimum labor standards within its supply chain. In cases where the investor already holds shares in the company and has considerable influence, she or he can challenge the management to improve the corporation's ecological or social activities. This example illustrates the core idea behind RI: to use the power of the investor to influence corporations, trigger organizational change, and help companies become responsible corporate citizens who are not only focused on profit maximization, but who also take societal issues into account.<sup>4</sup>

### ***4.1 Responsible Investing in Practice: Corporations, Investors, and Rating Agencies***

Responsible investing can take shape in a broad variety of forms. The following section will explain who the actors are and what criteria define RI, as well as how these criteria are developed, applied, and enforced. In the following section we will concentrate on the three main areas of the market for RI: (a) on the demand side: governments or corporations seeking out sustainable investment opportunities, with companies producing sustainability reports in order to demonstrate their ability and willingness to be socially responsible; (b) on the supply side: RI-investors supporting sustainable investing opportunities by employing sustainable investment strategies; and (c) RI-research and rating agencies acting as intermediaries, generating information connecting supply and demand, such as sustainable ratings and rankings, or sustainable stock market indices.

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<sup>4</sup>For an overview of RI see Bettignies and Lépineux 2009; Fung et al. 2010; Louche and Lydenberg 2011; Sullivan and Mackenzie 2006.



#### **4.1.1 Corporations**

While RI can be practiced in almost every common asset class represented in the conventional financial market, corporations are one of the most prominent investment objectives for RI. In order to attract sustainable investors, corporations may volunteer information such as sustainability reports regarding their Corporate Social Responsibility. Today, most large corporations have created sustainability divisions that coordinate and publicize sustainability initiatives. Many corporations have also started to integrate non-financial criteria into their annual financial report. This extension of financial accounting is also called ESG accounting, as ecological (E), social (S), and governance (G) issues are taken into consideration.

#### **4.1.2 Investors**

As is the case in the conventional financial market, the variety of investors is huge, including institutional investors, universities, churches, foundations, banks, and high-net worth individuals. Some RI-investors are solely involved in sustainable investment, while others combine conventional and sustainable investment strategies. There is also a wide variety of methods employed by RI-investors. Some prefer negative screening, excluding corporations from their investment portfolio based on certain criteria, such as the production of alcohol or weapons, while others employ positive screening, selecting along positive criteria such as the percentage of women in top management, or the use of climate-friendly technologies. The so-called “best-in-class” method ranks corporations according to positive criteria, with the goal of selecting the best companies within a given class or sector. Investors can also influence corporations by way of shareholder engagement. This includes filing a resolution criticizing corporations during their annual meeting, and cooperating behind the scenes as part of a investor-management dialogue (Wen 2009). Sustainable shareholder activism has its roots in the US, where it is widely practiced, while it is still in its infancy in Germany. In the US and the UK community investing, whereby RI-investors directly invest their money into poor communities or districts, is also wide spread, while it is almost unheard of in Germany.

#### **4.1.3 RI-intermediaries: Research and Rating Agencies**

For supply and demand to meet on the RI-market, sustainable research and rating agencies provide accurate information. Apart from large banks and institutional investors who conduct their own in-house research, small and medium-sized agencies also offer RI-ratings and rankings. Rating and research agencies judge corporations and other investment objectives along the RI-criteria that they have developed. By using diverse sources of publicly available information, such as

company records, media coverage, NGO reports, and databases, as well as by directly interviewing the companies in question, they get an impression of the sustainability performance of given corporations. On the basis of this knowledge and expertise they then rate or rank the companies. In the absence of any rating standard, the variety of criteria and methods used by different agencies for rating and ranking corporations is relatively high.

#### ***4.2 Who Are the Social and Institutional Entrepreneurs and Under What Conditions Have they Been Successful?***

In many respects, RI started in the US. At the beginning of the twentieth century, religious groups such as Quakers and Methodists stopped investing in corporations that conflicted with their religious values and beliefs by such actions as producing alcohol or weapons. Such religious groups were at the vanguard of RI. In the 1960s, RI was modernized; it no longer simply excluded investment objectives, but sought to change the behavior of corporations. The impulse to modernize RI resulted from dissatisfaction with the American economy and political policy. The Vietnam War (1965–1974) not only brought American citizens into conflict with their government, but also in conflict with corporations involved in the war effort. At that time, students were the first to take action, pressuring their universities not to invest their endowments in such corporations (Sparkes 2002). Some of the largest RI-funds, such as the Pax World (Balanced) Fund (1971) and the Dreyfus Third Century Fund (1972) were founded during this time.

Some years later, protests against apartheid in South Africa further boosted the RI-movement. “If Vietnam unlocked the door to socially responsible investment, South Africa kicked it open” (Sparkes 2002: 52). In 1977, Baptist minister Leon Sullivan developed a code of conduct for companies operating in South Africa known as the Sullivan Principles, which were quickly adopted by many universities and churches as a guideline for their investment decisions. In the UK, passionate discussions about South Africa within the Methodist Church led to the implementation of a body charged with counseling the church in all investment matters. The Ethics on Investment Committee “was one of the first ethical advisory committees ever created, and it began with a mandate to produce an annual ‘ethics report’ on its activities” (Sparkes 2002: 55). The resulting demand for more reliable information on the involvement of British companies with South Africa led to the foundation of the Ethical Investment Research Service (EIRIS) by Quakers and Methodists. EIRIS remains one of the most significant RI-research and rating agencies in the UK.

## 5 Conclusion

Responsible Investing has established an alternative infrastructure that systematically takes non-financial issues into consideration. Despite occupying a niche position in the larger financial world, RI has grown in size and prominence, and can no longer be ignored by the conventional financial market. Whether conventional financial market actors use it or not, they are all aware of its existence, and are increasingly called upon to explain themselves when they decline to employ it. In this way, while the new practices created by social and institutional RI-entrepreneurs have not completely abolished existing practices, they have certainly challenged and changed them.

Responsible Investing has evolved from a mere idea to a vibrant practice. While conventional financial markets initially wrote it off and ignored it, they now embrace it – although not without leaving their mark on it. With diverging mindsets and priorities between conventional financial market and RI-actors, it seems quite clear that an adoption of RI-principles by conventional investment institutions will require significant flexibility and translation. Many corporations appear to have initiated RI in a purely symbolic way, or they have adjusted criteria as to what constitutes RI to fit their financial needs. Today, the debate over what may be considered genuine and truly responsible non-financial indicators is raging. In the course of this struggle, the principles of RI have been transformed in a way that is difficult to swallow for some early and idealistic pioneers. To some extent, the mainstreaming of RI has diluted the power of its original values while it has broadened its applicability.

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# Social Innovation by Giving a Voice

Thomas Walker and Florian Beranek

## 1 Introduction

Social innovations are human innovations, made by humans, for humans, in interaction with humans, based on human and ethical values, in a human scale.

Social innovations can never be made isolated from humans. But this often happens. Politicians, managers or other leading people are saying: “We know what is right for you, the community/society! – You have to change this or that; Your behavior should look like this; Your responsibility is that ...”. This is not an innovation. This is a manipulation!

To be able to move from manipulations to social innovations we need methodologies to give humans a voice. Social innovations are always based on the voice of the society/community/people/stakeholders.

This is not as easy as it sounds. We have to re-learn to listen to the people. What are they talking about? What are the values behind? What are the grown values of a community and – very important – what are their future values? To become able to listen to communities, the right questions have to be pronounced. Questions which enable humans to find their own questions which are worth answering. These questions are changing in different contexts like political systems, developing status, social maturity levels, economic power, traditions, needs of future generations and many more.

## 2 Background of the Project in Vietnam

The Project “Helping Vietnamese Small and Medium Enterprises (SMEs) to Adapt and Adopt Corporate Social Responsibility (CSR) for Improved Linkages in Global Supply Chains in Sustainable Production” using the short name of “Adapt – Adopt – Improve

CSR in Vietnamese SMEs” is led by UNIDO (United Nations Industrial Development Organization) and funded under the European Union’s Switch-Asia Programme.

The action is aimed at fostering the adaptation and adoption of Corporate Social Responsibility (CSR) in Vietnamese Small and Medium Enterprises (SMEs) particularly in the apparel, footwear/leather and electronics sectors. The activities are structured under three expected results pertaining respectively to increased awareness and understanding of CSR, implementation of CSR for conformity with procurement standards, and policy advice. A consortium led by the United Nations Industrial Development Organization (UNIDO) and the Vietnam Chamber of Commerce and Industry (VCCI), with further participation of sector associations, Eurocham and relevant technical institutions, implements the action.

The action started in early 2009, yet on the ground activities in Vietnam commenced only in March 2010. Based upon the first round of consultations during the first half of 2010, outputs and activities were adjusted during the second half of 2010 in order to reflect changes in the business environment since formulation of the action in early 2008 (in particular the onset of the global financial crisis and economic downturn and publication of an international CSR guidance standard). The Project is expected to continue until 30. April 2013.

The Action uses the ISO26000 guidance standard on social responsibilities reference for the promotion and implementation of CSR. The communication and awareness strategy was rolled out in full through up to eight thematic CSR forums delivered in both Hanoi and Ho Chi Minh City, which had a joint attendance of over 1,800 participants from enterprises, business membership organizations, government, academia and general public. Thirty-five national experts were trained and completed CSR assessments in 20 SMEs, using practical tools and methods, which were further improved on the basis of company experiences and integrated into a comprehensive CSR toolset – UNIDO reap26.

In this Toolset, three tools showed a big potential to generate “Social Innovations” by giving a voice. Before these tools are explained in detail, the very important first step is shown in the next section. **To whom we should give a voice?**

### 3 The Relevant Society/Stakeholders

The first steps on the way to social innovation are the clarification of the context and the identification of the relevant society. Who is part of the society/community? Who is interested in which areas? Who has more or less influence on future developments/innovations? To whom it is useful to give a voice?

To make this part more tangible you will find enclosed a list of relevant stakeholders of a development organization:

- **Own Organization**
  - Staff/employees
  - Executives/managers
  - Works council
  - Board of directors, ...
- **Donors**
  - European Union,
  - Developed countries in Asia,
  - Foundations,
  - ...
- **Partners**
  - Chamber of commerce
  - Chamber of agriculture
  - Labor unions
  - Cooperatives
  - Developing organizations
  - Networks
  - Foundations
  - Transport services/travel agencies
  - ....
- **Political area**
  - Authorities, administration
  - Politics (member countries, developing countries)
  - Communities
  - Neighborhood
  - Politicians, interest groups, chambers,
  - ...
- **Education and training**
  - Schools, vocational schools
  - Universities,
  - Research institutes
  - ...
- **Public/society**
  - Families of local staff
  - Police, customs,
  - Media and press
  - NGO's, NPO's
  - Associations, foundations
  - Regions (county, district, state)

- General public, government,
- United Nations
- ...

As you can see in this example, a system of relevant stakeholders is highly complex. Therefore, an order is useful to be able to handle their voices and interests. There are different methodologies to manage stakeholders. This depends on the complexity of their interests.

At least, all methodologies have three things common:

- Identification can be never completed. It is a momentary focus which changes in the moment while focusing on it. All good stakeholder methodologies are agile methodologies which deal with this aspect.
- The stakeholder interests change with context. Depending on the context, different dialogue strategies are useful. It is a living system which can be only managed by humans in a non-linear way.
- Humans, and stakeholder are humans, have non trivial behavior patterns. This means nobody is able to estimate what will happen next. Therefore, an open mindset, appreciation, and respect are leading values in dealing with stakeholders.

## 4 Approved Methodologies to Generate Social Innovations

There are many methodologies to give a voice to society/stakeholders. Some are more useful than others in enabling “Social Innovations”. In the following chapters three methodologies are described which worked well in the UNIDO/EU Vietnam CSR Project (and also in other Countries like Singapore, Cambodia, Thailand, India and Austria ...):

- The Weather Report (for large groups of 50 to 500 people)
- The CSR Marketplace (for mid sized groups of 5 to 100 people)
- The Ethical Stand Up Meetings (for small groups of 3 to 12 people)

### 4.1 *The Weather Report*

The method is called ‘Weather Report’ (Timmmler-Lippina [2012](#)) because coloured weather symbols, like in a weather forecast, are used for scaling the answers. These common symbols are widely known and can be easily understood.





The **first secret** of the methodology is to give the participants a **very short time** to think about the questions and to tick boxes in their anonymous answer sheets. The method connects to the intuitive level of the participants, which is very useful for innovations.

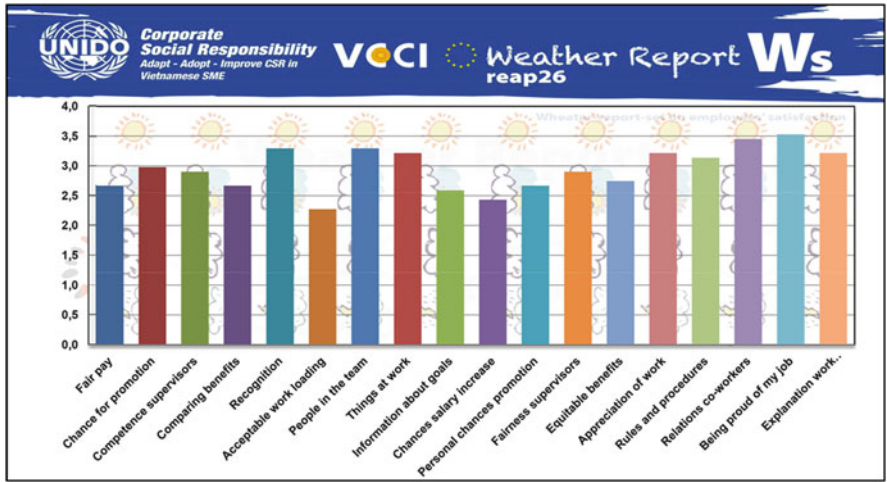
The **second secret** is **the set of the questions**. The questions have to be easily understood by the participants (which is not easy). They should be open questions which **stimulate the subconscious minds** of people. With the right set of questions people start to think about social and sustainable issues over a longer period.

The **third secret** is the set of **intervention framework**. The practical work showed that tangible tools (e.g. printed posters on vinyl instead of Power Point slides) worked better. These tangible tools enabled quick interventions. For example: just go into a factory; stop work for ten minutes; sit all participants down on the floor; pass out anonymous answer sheets and pens; briefly introduce the methodology by showing posters with the symbols; show the first poster of questions and read it loudly; break for three seconds to mark the answer; proceed to the next question; stop after the last question; say thanks; collect the answer sheets; and it is over.

In the Vietnam Project two sets of questions had been developed. – One for employee perception and one for employee satisfaction with the following Questions:

Nr	Satisfaction	Perception
1	Fair pay for my work	Waste reduction
2	Who works well has a chance for promotion	Health and safety protection
3	Competence of supervisors in the job	Wages
4	The benefits are as good as in other companies	Prevention of pollution
5	Doing a good job is recognized	Company cares about problems in society
6	Acceptable work loading	Customer satisfaction
7	I like the people working in my team	Relation with local community
8	I like the things I do at work	Working atmosphere
9	Information about the goals of the company	Social and health insurance
10	My personal chances for salary increase	Saving energy
11	My personal chances for promotion	Cooperation with vocational training schools
12	Fairness of supervisors	Conditions of facilities
13	The benefits are equitable	Environment friendly products
14	Appreciation of my work	Fair treatment
15	Rules and procedures for doing a good job	On-the-job training
16	Relations between co-workers	Vietnamese culture
17	Being proud of my job	Company informs us
18	Work assignments are explained	Work pressure

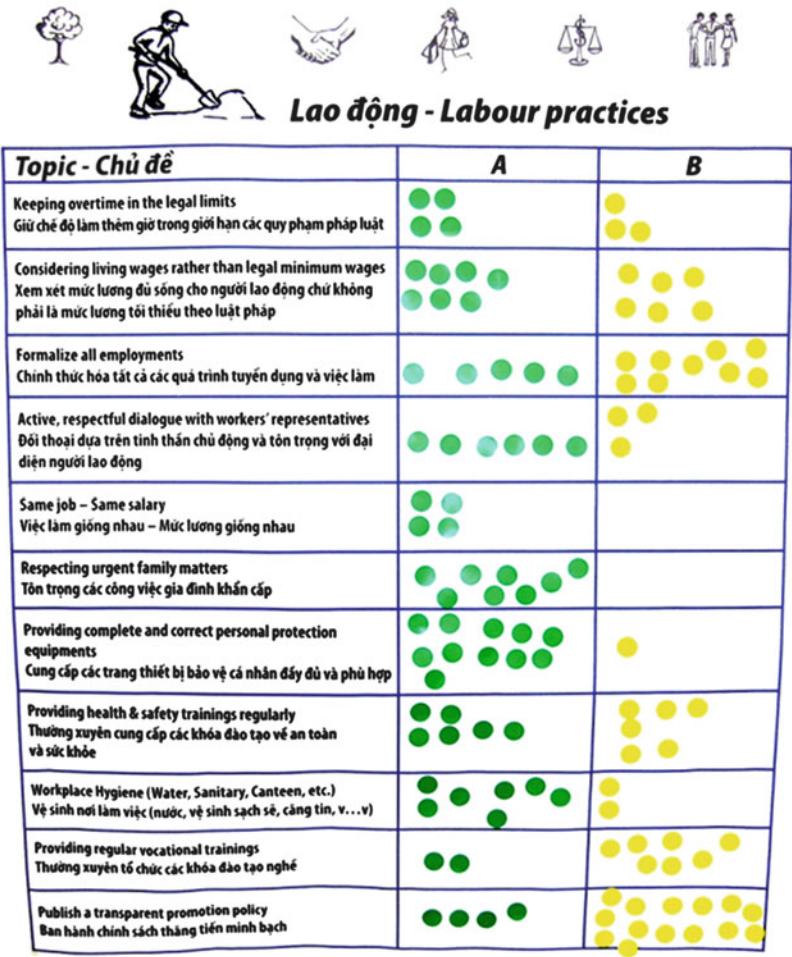
After the intervention, the results are transferred to an Excel Sheet and summarized in a graph:



## 4.2 The CSR Marketplace

The CSR Marketplace (UNIDO reapi26, 2011) is a multipurpose tool for initial sensitization or any kind of reflection throughout all stakeholder groups. Following the six major topics, it gives a number of practical examples followed by two columns (A and B). Each participant receives a limited number of e.g. round stickers (their “money”) in two different colors. Ten stickers per color per person turned out appropriate.

Two questions are raised and the participants will then “spend” their “coins” following their priorities. As default questions you will find one on the current status of the company and another one on future issues.



Other sets of questions might be developed depending on the audience or the purpose of the game. Asking consumers/clients on their perception and expectations might give a quick and rather reliable overview. This can be run during a fair or client event without any effort. Another option already deployed raised the question of the expectations of students related to their future employer on one hand and on the other hand which issues should be covered during their courses in a better/deeper way. Exciting results were also achieved by separating the participants by their gender, which contributes to future improved communication strategies.

Besides the technical explanation of the procedure, no further advice is initially given to the audience in order to identify not only priorities but also lacking understanding and interpretation in the local context.

After all “coins” are spent the facilitator starts an open discussion subject by subject. During this discussion further explanations of single issues are given aiming for a common understanding of the respective content by stories and experiences shared by the participants. Also, the importance of the holistic approach becomes obvious during this exercise as participants experience the complex relations between most of the issues. For instance, the influence of corruption on a large number of processes in a company becomes visible and the related risks become tangible.

In the meanwhile, the CSR Marketplace was translated into Vietnamese, Khmer, English and German. The potential of this initially simple intervention is revealed by every newly developed set of initial questions. A combination of CSR Marketplace and Stakeholder-Mapping can be seen as the next step to ensure a tangible process of strategy-development.

### 4.3 *The “Ethical Stand Up Meetings”*

The “Ethical Stand Up Meetings” (Schneider and Schmidpeter 2012) are based on the practical experiences coming out of the Agile Methodologies (Davies and Sedley 2009). In the area of Agile Developments, short term interaction had been developed, which is useful to enable a learning organization.

In our case, the methodology had been adapted. Humans need other humans to reflect and develop questions on ethical issues in their daily work. Face to face communication enables people to develop sustainable social innovations. But how can this be done in a short time? – Only a structured framework enables focus on essential issues!

First we need basic rules, which have to be accepted by all participants. These rules are:

- Overall objective is to find answers which enable/force a mutual benefit for the organization, society and environment.
- The “Stand Up Meeting” is on a fixed date and time in an open place.
- Each person coming is the right one.
- All people are staying around a common table (e.g. a bistro table).
- The meeting has a fixed agenda and timeframe.
- The meeting has a facilitator who is also the timekeeper.
- Each question and each answer is right and is appreciated.

If all participants committed to these basic rules, the “Stand Up Meeting” follows the steps in the process described next:

#### **“Common voices” (in the group)**

- **“Inquiry”:** (The facilitator gives a voice to all participants by using the following question)  
 “In one word. – What is the essential social/economic/environmental change of the last three weeks?”

- **“Appreciation”**: (The facilitator gives a common voice to all participants by ...)

“Let us appreciate together these changes in our organization” – “A change is always based on humans. To whom do we want to give symbolic flowers of appreciation in this round?”

**“Individual voices”** (Reflection area for each participant, one after each other)

- **“Puzzles me”**: (The facilitator forwards the CSR dice/cards to the first participant)

The first participant takes **the dice**<sup>1</sup> cards are an alternative on the table and plays the dice. Then she or he pronounces loudly following: “In the area of ... (symbol on the dice) I am especially puzzled [in my daily work] by following ...” - The person describes **in one minute** (the timekeeper takes care) what are actually the main questions in their daily work. – Then stop.

(Attention, no discussion during this time. – All others have to listen silently)

- **“Reflecting Team”**: (The facilitator offers all other participants the opportunity to reflect; The “puzzled” participant listens silently!)

The first participant takes a card (there are four cards on the table with the following issues: “Opportunities”; “Risks”; “Benefits for the organization”; “Benefits for the society/environment”) and reflects a maximum of 30 seconds on the following:

If I reflect on what I recognized by listening following ...

- Opportunities
- Risks
- Benefits for our own organization
- Benefits for the society/environment

... come to mind.

The participant puts back (face down) the card and the next participant chooses a card.

- **“Say thanks”**: The puzzled participant says thanks to all others, without discussion or commenting on the feedback.  
Then the next participant plays the dice.

**“Common voices”** (in the group)

- **“I take with me”**: (The facilitator gives a voice to all participants by using the following question)  
“In one word, what is essential from our Stand Up Meeting?”

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<sup>1</sup> In the Vietnam CSR Project a wooden dice had been developed; Following core subjects are placed with symbols on the dice: Organizational Governance and Human Rights; Labor; The Environment; Fair Operation Practices; Consumers and Community Involvement and Development.

These meetings are designed to create self-organizing groups. Therefore, we have to educate people in the organization to do the facilitation and give them the materials they need.

In addition, some “Stand Up Meetings” can be opened to important stakeholders. This is a big force to create awareness and common understanding.

## 5 Conclusion

“Giving Voice” starts literally with silence. The silence is needed to engage with people, to gain their trust and finally to make them speak out. Listening is the key for all interventions and initiatives in order to develop a sustainable understanding of and commitment to the principles of “Doing good business”.

The result of such an appreciative process of listening and subsequent dialogue can be seen in the publication “The CSR Starter” by UNIDO. In simple words, stories and reflections this booklet aims to divulge a replicable overview of a large number of issues important to the sustainable development of both organizations and individuals. The “CSR Starter” can also be used as an initial market development tool for related business service sectors (i.e. the CSR Experts Group Vietnam).



Taking away widespread prejudices by using common language, common human ambiances and physically tangible tools turned out to be critical in order to integrate the core principles of social human development into an organization’s management system. In contradiction to technical processes, the human factor of an organization cannot be subject to a traditional check-list approach. It is furthermore necessary to develop critical thinking and creativity based on a sustained self-understanding. The central credo of this approach is guiding the organization in its way of raising the right questions rather than providing answers on questions never asked by the target group.

Based on the success of the mentioned tools, methodologies and interventions the next steps are already developed and currently piloted in the framework of UNIDO reap26. Further information can be found on [www.reap26.org](http://www.reap26.org)

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# Technology for the Environment to Drive Social Innovation

Raluca Oltean, Thomas Osburg, and Lorie Wigle

## 1 The Environmental Challenge

### 1.1 *Changes Around the World*

Climate change is one of the top three global concerns for people around the world. Studies indicate that climate change will cause weather patterns to shift, resulting in severe drought, wildfires, and water scarcity in some areas, and excessive rainfall and flooding in others. These shifts can be expected to affect the productivity of farms, forests, and fisheries as well as the geography of disease.

Meanwhile, experts estimate that the world's population will grow from seven billion today to somewhere from 9 to 11 billion by 2050. The economies of countries such as China and India continue to expand at a significant rate, increasing the demand for products, energy, and other resources. Combined, these factors place severe stress on our planet's resources.

Observation shows that climate change can have serious ramifications—from economic losses to natural disasters to social strife. Faced with the challenge of inadequate ecosystem management as climate change occurs, governments, development agencies, and private industry are investing in task forces around the globe to plan for and take action at the country, regional, state, and local level.

Climate science clearly indicates that the planet is warming, and that climate is changing at an accelerated rate. However, our collective ability to understand and predict the cascade of ecological, social, and economic effects needed for effective planning and decision making is far from adequate. Accuracy in earth systems modelling relies on data collected from the atmosphere, land, oceans, glaciers, lakes, rivers, forests, species, and human behaviour—all feeding sophisticated and compound climate models supported by high-performance computing. More data and better climate simulations at higher resolutions can help provide the basis for improving our understanding of these issues

From an economic, environmental, social, and national security perspective, the need for data and tools to better manage natural resources and the impact of rising



global temperatures is critical. Effective national policies rely on input from advanced science and complex sets of data.

## ***1.2 EU and Governmental Programs***

Governments around the globe are increasing their efforts to fight those challenges. Countries like Germany are planning to abandon fossil fuels in favor of renewables at an unprecedented speed, and for the moment, without encountering major political or social opposition. Pushed by extraordinary events such as Fukushima as well as a progressive mover of the EU strategy, the German government decided that Germany's energy supply should be generated primarily from renewables by 2050 in an attempt to ensure the safety and stability of the energy supply. This requires the energy supply system to be fundamentally restructured, presenting Germany with economic and technological challenges requiring new forms of social innovation and collaboration across sectors.

The European Union has defined its goals in the Europe 2020 Strategy—the EU's growth strategy for the coming decade to become a smart, sustainable and inclusive economy. The European Union has set five ambitious objectives—on employment, innovation, education, social inclusion and climate/energy—to be reached by 2020. Each Member State has adopted its own national targets in each of these areas. Concrete actions at EU and national levels underpin the strategy. Within the Europe 2020 framework, the European Union has set the following targets for the section “Climate change/energy”: (1) Greenhouse gas emissions 20 % (or even 30 %, if the conditions are right) lower than 1990, (2) 20 % of Energy from renewables and (3) 20 % increase in Energy efficiency. As of today, there is still a huge variety of achievement levels between the member states (EU 2012).

Both the national and EU goals require an enormous amount of coordination and collaboration between the private and the public sector to drive Innovation. These new forms of cooperation are driving Social Innovation in the Energy Sector.

## **2 The Role of Technology**

Technology for the Environment means applying technology solutions to environmental challenges. Technology gives individuals, NGO's, companies, and governments information they can use to be more sustainable in their initiatives and across industries—helping to reduce the environmental footprint of cities and countries.

Since the first successful numerical weather forecast in 1950, computers have become an increasingly important tool for atmospheric scientists trying to address a variety of societal concerns. Their concerns range from the devastating, immediate and localized impact of weather-related disasters to the alarming long-term and global threats from a shifting climate.

The accuracy of climate predictions is still limited by computing power. It is important to continue the active research and development of more powerful climate models to reduce the remaining uncertainties in climate projections. Companies like Intel provide computing technology in essentially all layers of the climate ecosystem—a position that lends itself to new business opportunities for current and future products while at the same time having a positive impact for the world we live in. This ranges from supplying sensor platforms for atmospheric measurements to delivering high-performance computing platforms for essentially any type of modelling, analytics, decision support, or visualization solution to providing storage devices, as well as potentially new applications and services.

Catalysing this marketplace as a whole will lead to expansion, with benefits for everyone interested in participating. Virtually every industry segment is undergoing—or on the verge of undergoing—an “Extreme Makeover: Technology Edition” so that it can respond to future demands and achieve new levels of energy and environmental efficiency.

Electricity grids, homes, commercial buildings, water systems, transportation, agriculture, and so forth are all on a path to becoming infused with information and communications technology (ICT). For some of these segments, the transformation is radical. For example, electricity grids are integrating clean energy generation such as solar and wind. The move from a one-way grid to a two-way grid lets electricity users sell their excess energy back to utilities, or use energy reserves stored in electric vehicle batteries to shave peak loads.

### 3 Social Innovation Solutions

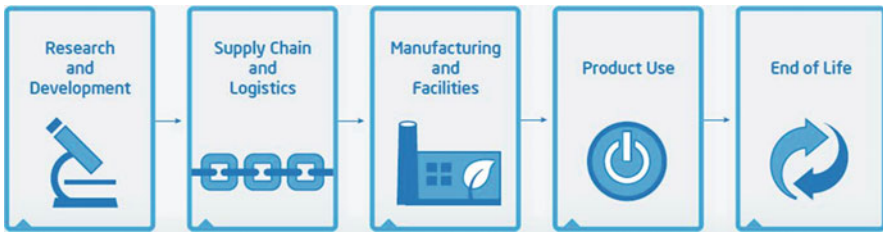
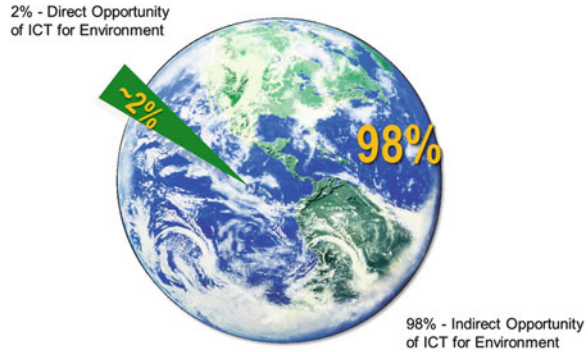
#### 3.1 *The Micro and the Macro Story*

If we look at ICT and Energy transformation, we need to differentiate between the *Micro* and the *Macro* angle, an approach introduced by Intel few years ago. The *Micro* angle focusses to enable IT industry to be more energy-efficient. As of today, about 2 % of the Global Warming can be attributed to the use of ICT around the globe, which is significant. The *Macro* view, however, focusses on how to use energy-efficient computing to help others reduce their own consumption and solve complex environmental challenges facing the planet (Fig. 1).

Regarding the *Micro* side, companies must not only look at the products or services but need to consider the whole Value Chain that they can impact (Fig. 2).

The *Macro* angle in the ICT industry looks at the role of technologies in driving energy efficiency throughout the entire economy. When they looked at the *Macro* energy impacts of ICT, the American Council for an Energy-Efficient Economy (ACEEE) found out that for every additional 1 kWh of electricity demand created by new ICT devices, on average electricity demand decreased in the economy as a whole by 10 kWh. This 10X impact is the aggregate result of many different

**Fig. 1** Direct and indirect opportunities for ICT for environment



**Fig. 2** Value chain for consideration within the Micro angle

applications of microprocessors and other ICT in thousands of applications—including B-to-B and B-to-C e-commerce, other uses of the Internet, smarter industrial process controls, smarter and more energy efficient automobiles, just to name a few (Laitner and Ehrhardt-Martinez 2008). Through using 2006 data on investments in information technologies, the series of regression models led us to estimate that for each kilowatt-hour of (mostly) electricity needed to power the use of ICT equipment, approximately 6 to 14 equivalent kilowatt-hours of energy were saved. For example, one kilowatt-hour of electricity used by a variety of ICT devices might enable the saving of a gallon of gasoline as a result of reduced travel demand.

### 3.2 *ICT Role in Social Innovation*

The European society is entering a new phase of development in which information and communication technology (ICT) will be a key enabler for social and economic processes. Moreover, ICT has already started to become the most influential key technology in various innovations across all industries. In this line of thinking, the world has to face several challenges in which ICT will play a major role in addressing them, building a stable infrastructure able to address the issues of high social concern. Looking at all the industries, we can easily observe the

transformation phase through which they are going; we are talking about an extreme technological makeover necessary to take place, in order for the industries to be capable of responding to future demands. We can already talk about '*Social Silicon Valleys*' in which we will encounter . . . *places, institutions that will mobilize resources and energies to tackle social problems in ways that are comparable to investments in technology made in the first Silicon Valley* (Mulgan 2006).

Along with the advancements in technological development, industrialization reaching underdeveloped nations and global populations soaring, the appetite for energy consumptions is growing at a very fast pace. Widespread efforts have to be put in place in order to improve the generation, storage and distribution of power; to maximize alternative energy sources and reduce reliance on fossil fuels and petrochemicals and to empower individuals and communities to better understand and more efficiently manage their local power infrastructures.

Companies like Intel are working to develop and promote the technologies and ecosystems that will enable such efforts. Through energy systems research, industry enabling and standards development, Intel is helping augment energy distribution, control and consumption around the world and for future generations. In order to address the concerns related to energy demand and supply, especially during peak hours, governments and public utilities are joining forces to develop 'smart grid' networks, which will be able to provide constant monitoring and control of the energy resources which would be generated and distributed through the public grid.

As we are talking about social innovation, what Intel is trying to reach is to empower the consumer and their communities to improve energy efficiency and power management, moreover, to focus on personal energy system (PESs) which stands for localized and technology-managed collections of intelligent appliances and devices. Through the micro-grid and intelligent control technologies, PESs will give energy consumers more control over power generation, storage and consumption, extending into electrical vehicles and renewable energy sources. Using the industry standard interfaces and micro-grid technologies, PESs can be linked to other micro-grids, smart grids and existing public grids to create a more reliable, efficient and responsible energy infrastructure.

At the moment, individuals and communities have little involvement and awareness of how much energy they consume, which devices consume more in real-time and possible ways to reduce monthly electricity bills. Society needs to proceed to the next step, to be able to become more energy efficient. Individuals and communities should be able to have easier access to their power consumption and to be able to answer questions like which are the greatest areas of energy inefficiency, how can I use the energy more effectively or which devices are having the highest consumption. These can be answered through PES's.

As the digital and physical worlds come together, a new shift will take place, bringing together various stakeholders from companies, academia, governments, policy makers, entrepreneurs and social enterprises. EU President Barroso emphasized that there is a great need . . . *to bring public and private stakeholders together to identify and deploy innovative solutions to address such an issue that is shared throughout the European Union. Together, we need for example to make the*



**Fig. 3** Example of coalitions from Intel

*most and the best of the potential of information and communication technologies (ICTs) for improving our ability to meet those social needs (...)* (Barroso 2011). The overall idea depicted from this is that ICT will be the key player which will be able to promote regional and national development, therefore, stimulating the real and effective participation of new stakeholder groups, contributing to a more dynamic and competitive economy.

### 3.3 Cross Sectorial Collaboration

Securing a reliable, economically viable and environmentally sound energy supply is one of the great challenges of the twenty-first century. Transforming the energy system is more than just a governmental goal: It is also a fundamental ethical and cultural decision and offers unique opportunities for new forms of collaboration.

The need for cross-sectorial collaboration to solve the issues is obvious: For example, Intel works with many different organizations, customers, and businesses to find and lead industry-wide environmental initiatives (see Fig. 3).

Programs such as the *Climate Savers Computing Initiative* that Intel developed with Google and World Wildlife Fund help to minimize the footprint of the computing industry and encourage environmentally responsible computing and business practices. Intel also founded and co-chairs the *Digital Energy Sustainability and Solutions Campaign (DESSC)*. This coalition brings together ICT companies, non-governmental organizations (NGOs), and trade associations to advocate public policies and promote the enabling role that ICT plays in improving our environment and driving long-term economic growth.

## 4 Conclusion

The constant development and propagation of ICT and personal energy systems will revolutionize energy management both on an individual and community basis, fostering an utmost necessity in social innovation, enabling new energy industries and ecosystems. Through the involvement of ICT companies such as Intel, in the personal energy systems, more power will be given to individuals, offering them real-time information, granular control over their energy resources and a wider variety of choices for reducing costs and consumption. Such benefits will extend further than individuals and communities, aligning with smart grids and public utilities for widespread energy reform and a more sustainable future through Social Innovation in the Energy sector.

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# Social Innovation for Decarbonisation: The Atlas School Project

Sandrine Dixson-Declève and Helen Spence-Jackson

## 1 Introduction

The Atlas Project aims to demonstrate the feasibility of a targeted Green House Gas (GHG) reduction in the built environment and in particular the value of looking at a specific subset of buildings (schools). The project seeks to reduce the carbon footprint and energy bills of schools, while also boosting the use of low carbon products and services, creating jobs and growth.

The Atlas low carbon toolkit, developed by the University of Cambridge Programme for Sustainability Leadership, The Prince of Wales's EU Corporate Leaders Group on Climate Change and a variety businesses, helps schools define their holistic carbon footprint, covering energy, travel, products and services. It therefore goes some way beyond more traditional calculator tools, which tend to be focussed purely on energy consumption.

The results of the toolkit help the schools create an action plan to reduce their carbon footprint. When implementing their action plans, the Atlas project plays a crucial role in linking schools and local authorities in implementing low carbon solutions. Identifying the barriers and obstacles that the schools face when implementing their action plans allows the development of a policy case to influence decision makers at national and EU levels in order to build a regulatory environment that is both effective in stimulating the low carbon economy, but also helps the EU achieve its goal of reducing CO<sub>2</sub> by 20 % by 2020.

This chapter sets out the key factors that led to the programme and outlines the cross-sectorial collaboration. It goes on to set out the goals for the project and touches on how the impact will be measured. It will demonstrate that the project is a practical demonstration of social innovation. Atlas cuts across organisational boundaries, stimulates a collaborative approach between business and government, fosters behavioural change across different cultures and creates value added for society as a whole by de-carbonising the school sector.

## **2 The Factors that Led to this Program: The Role of Buildings and Climate Change as a Social Problem**

Global climate change is a widely accepted social problem. Buildings account for 40 % of the total energy consumption of the EU (European Commission 2010) and are one of the most significant sources of GHG emissions, amounting to 36 % of the EU total (Buildings Performance Institute Europe 2011). The school building stock accounts for approximately 20 % of public sector emissions (Buildings Performance Institute Europe). Given that in the EU there are some 530,000 schools (primary/secondary/university) and that 75–80 % of schools are very energy inefficient and use conventional energy sources (Euromonitor 2009), it is clear that there is a very real need to find a novel solution to this social problem.

### ***2.1 Finding an Innovative Solution***

After receiving enthusiastic support from EU and US policy makers, NGOs and business leaders, the Prince of Wales's EU Corporate Leaders Group on Climate Change (EU CLG) business members agreed to launch a low carbon schools project with core stakeholders. The project, known as Atlas schools, fits into a broader strategy of promoting low carbon sectoral agreements and building public-private partnerships between different sectors and governments, with a view towards constructing the building blocks for global climate action. As such, it provides a novel and sustainable solution to a social problem, and has a firm eye on creating value for society as a whole rather than private individuals by starting with schools but also addressing other high carbon emitting systems such as hospitals, and government buildings.

### ***2.2 Objectives***

The main objectives of the project are to:

- Demonstrate the feasibility of a targeted GHG reduction in the built environment and the implementation of the low hanging fruit principle
- Demonstrate the importance of looking at buildings such as school buildings as a system and managing carbon inputs and outputs
- Demonstrate the significance of a multi-sectoral approach to decarbonisation from construction, lighting, materials, transport, food and procurement
- Demonstrate the success of a multi-business and public/private partnership approach to financing de-carbonisation projects
- Demonstrate the potential scale-up impact



- Demonstrate the importance of a holistic integrated approach to education, the benefits from creating a “living laboratory” and improved student learning environments and general well being
- Create a practical link between de-carbonisation efforts and the next generation.

### **3 The Importance of Cross-Sectoral Collaboration**

The Atlas project brings together key stakeholders under a CPSL “Collaboratory” format. Cambridge Collaboratories are organised as small, results-focussed groups of corporate practitioners that meet over a set period of time to solve complex issues with the support of key thinkers and experts. The Collaboratories also involve, as appropriate, faculty and graduate students from the University of Cambridge and other partner Universities, as well as policy makers and civil society organisations.

In practical terms, a launch meeting was held in October 2010, involving representatives from business (AGC, Arup, Cemex, First Solar, Intel, Philips, Skai, Skanska, United Technologies), The University of Cambridge Programme for Sustainability Leadership, and a variety of other stakeholders, including representatives of leading sustainable schools, NGOs, education authorities and local government.

The initial meetings were crucial for gathering feedback on the proposed objectives and ensuring the relevance of the project. Subsequent Collaboratory meetings focused on choosing the right consultants for effective and comprehensive scope 1–3 emissions data collection, i.e. including all direct GHG emissions (scope 1), all indirect GHG emissions from consumption of purchased electricity, heat or steam (scope 2) and other indirect emissions (scope 3) and the proper development of the toolkit. Over the course of the last year, the Collaboratory members have worked with eight demonstration sites in four countries, and have been asked to speak at countless conferences. Now in addition to the final development of the toolkit and policy proposals, the Collaboratory members are working with the Missing Chapter Foundation under the active patronage of Princess Laurentien van Oranje-Nassau on the important role children play not only as next generation actors but as current catalysers for change. This new social revelation that children and young adults should be part of our current decision making processes around sustainability and climate change is also being addressed in the collaboratories’ partnership with the European Commission on “A World you like: A Climate you like!”.

## 4 The Goals of the Project: Toolkit and Policy Development

The Collaboratory agreed upon two key deliverables, which were identified as providing value-added contributions to existing efforts in the area of de-carbonising and greening schools: a low carbon toolkit to help schools measure and act upon their carbon footprint, and a policy document to present the case for low carbon schools to decision makers.

### 4.1 *The Toolkit*

The toolkit was designed to help schools embark on ambitious programmes of decarbonisation across their buildings, transport systems and procurement.

The Atlas Schools toolkit helps a school to:

- Measure its carbon footprint
- Understand how different activities of the school affect carbon emissions
- Identify easy actions that the school can take
- Track its carbon footprint over time

In the long term, we plan to develop the toolkit for all countries in the EU – and perhaps further countries internationally. At this stage, we have demonstration toolkits available for schools in Italy, the Netherlands, Poland and the UK.

Demonstration site “pilot” schools were identified in each of these four countries and all have received training in how to use the toolkit, either from CPSL or one of the businesses linked to the project.

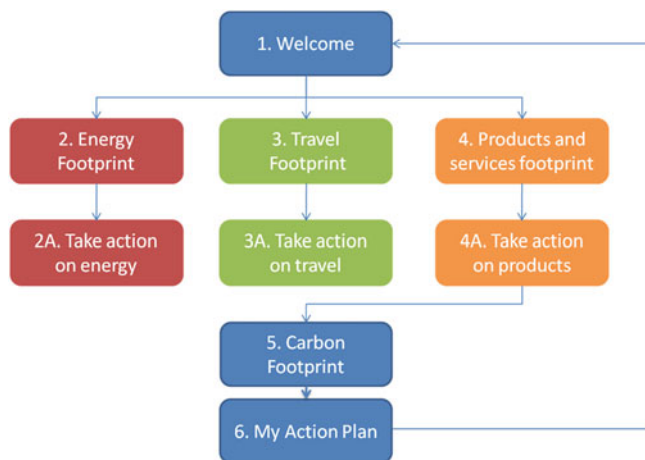
The diagram below demonstrates the basic structure of the toolkit (Fig. 1):

The toolkit asks schools to input data on certain things: how much energy their school uses, how people travel to and from school, and how much is spent on different products and services.

Each of these pieces of data is then expressed in terms of its carbon emissions. So, a kilowatt hour of electricity equates to a certain number of kilos of carbon; a car journey of ten kilometres equates to a different amount of carbon; buying food for school lunches is another amount, and so forth.

The math to make these calculations is actually very simple (Warren 2012). Each activity – each type of energy, mode of transport or type of product – has a carbon factor associated with it. This is a figure which represents the amount of carbon dioxide emitted for every unit used or euro spent. The toolkit simply multiplies the number of units or amount of euros by that carbon factor to find out the individual carbon footprint of each activity.

Once data for each component has been entered, the school can view its overall carbon footprint. The toolkit then offers a list of low-cost or free actions that the school can take which will help to reduce its carbon emissions. The action plans



**Fig. 1** Toolkit

often provide opportunities for pupil and staff engagement as well as more efficient school management.

Even schools that have already commenced their sustainability journey have found the toolkit useful. For example, one of the Dutch pilot sites, which is already a sustainable school and has undertaken many green initiatives, managed to identify that the following actions would help reduce their carbon footprint:

- Switch off computers when not needed
- Encourage more recycling
- Formalise the school's commitment to green procurement
- Think about paper (reduce amount bought by using more efficiently)
- Buy only what is needed
- Do a waste audit
- Recycle more
- Tackle food waste
- Set up a composting system
- Provide sustainable school dinners

Teachers and pupils who have engaged with the toolkit have shown a huge amount of creativity. For example, at one school in the UK, pupils have been encouraged to take the toolkit away and complete a home footprint too. Teachers have identified ways of linking the toolkit to English, maths, science geography, citizenship and even history lessons (looking at how energy is produced).

Pupil engagement is also crucial. Most schools have involved pupils with completion of the toolkit. Sometimes this has taken the form of pupils working in small groups, but for other schools, large numbers of pupils have been involved in carrying out transport surveys. The students in some schools have played a crucial

role in deciding which actions should go in the plan. This angle of the project helps to foster human development through solidarity and cooperation.

The demonstration toolkits were built using Excel, but an online web version is currently being developed, which will provide the same calculations but offer a more intuitive journey for each school in creating and managing its carbon footprint.

Moving to an online version of the toolkit will also allow social networking between schools and directors involved in the Atlas project. Schools at the level of directors, teachers and pupils are curious about what their peers are doing and are particularly keen to learn and communicate across borders. Experience gathered during the pilot phase of the project suggests that it will be useful for those involved with the project to share experiences regarding the actions implemented and to explore effective ways of engaging with local, regional, national and EU policy makers and funding providers.

The data received from schools on the toolkit will be used to create case studies to demonstrate the feasibility of implementing key actions to reduce their carbon emissions, but also to highlight barriers faced by schools in their mission to reduce their carbon footprint.

The completed website with its social interface provides the opportunity to significantly raise the profile of the Atlas project both with schools and policy makers.

## **4.2 *The Policy Case***

The second key deliverable was designed to build on evidence gathered by the toolkit. During a later phase of the project the intention is to prepare a policy case, or white paper, setting out the case for urgent and large-scale action from EU and local governments to establish the enabling conditions necessary to accomplish energy retrofit projects across EU schools and to promote sustainability in procurement, food consumption and transport.

The businesses involved in the project agreed that in the first stage of the project, rather than lobbying for specific textual changes in legislation, attention should be focussed on laying the foundations for a policy piece by developing a matrix setting out key policy and decision makers as well as drafting a short document setting out some key facts in order to demonstrate to policy makers the significance of the Atlas project in reducing carbon emissions.

The need to engage at the policy level is clear. In order for schools to fully implement their action plans, they are likely in many countries to need to work in synergy with their local or regional authority. These relationships are not always well developed. Simply asking the schools to collect energy data for the toolkit, which is sometimes owned by local authorities rather than schools themselves, can be helpful in building a collaborative approach and cutting across organisational boundaries. In addition, the Collaboratory members have shown that by working

with a school on the toolkit, a broader exchange between community actors is fostered beyond pure Corporate Social Responsibility (CSR) principles. Companies who have worked with the sites typically have HQ's or factories in the area and have been able to build closer relationships with the schools and the surrounding communities around both the toolkit and resulting action plans with a view towards reducing GHG emissions through local measures. The intent is to now take the knowledge from this initial phase and focus on scalable impacts at the regional, national and international level. The University of Cambridge Programme for Sustainability Leadership and the members of this Collaboratory are cognizant of the fact that to truly create a paradigm shift in school systems and measureable reductions in emissions, the project must be applied to more schools and more regions, but most importantly, must enable retrofitting of school buildings and changes in high carbon mobility and procurement patterns. In response to these objectives, the next phase of the project, will focus on identifying a region willing to partner with the project and potentially roll the project out with schools in their area. This will allow Atlas to gather information about the condition and performance of schools in a region. The education authority in the region could use the information to plan, facilitate and procure a large scale retrofit of its schools, allowing for buying and delivering solutions at scale, with consequent economies.

In future phases of the project the focus will be placed on enabling concrete actions through a new policy landscape necessary for schools to reduce their carbon footprint. Specific examples will be used from the evidence gathered from schools in order to demonstrate the impact reducing carbon emissions in schools can have in boosting the use of low carbon products and services.

## **5 Conclusion: Measuring the Impact of the Project**

Measuring the impact of a project of this nature is fraught with difficulty. Nonetheless, the project expects to have a very real impact, both at a very local level for the individual schools involved in the programme and the business opportunities generated, but also on the much wider scale of the overarching goal of decarbonisation.

Some of the impact is hard to measure on a tangible basis. For example, making changes to a school's lighting equipment and air systems can have a very positive effect on children's well being and concentration levels, but it is difficult to capture these improvements in a scientific way. Although, one of our partners Philips Lighting is trying to quantify and demonstrate the absolute wellness and performance improvements in school children as a result of their low carbon LED lighting systems.

The project has already shown that the impact for businesses can be very real. Not only are they helping to generate a collaborative approach and building relationships with governments on regulatory issues, some will benefit from the boost to jobs that retrofitting can provide in a variety of sectors from renewable

energy technology to glass to lighting to building construction. For example, a report by the Buildings Performance Institute Europe (BPIE) suggests that 1.1 million new annual net jobs in the construction sector could be created by 2050 through deep buildings renovation (Europe's Buildings Under the Microscope, BPIE 2011).

Increasing the numbers of schools using the toolkit will be one practical way of measuring the success of the project. A 5–10 % penetration rate of the Atlas toolkit and equivalent policies would equate to approximately 0.23–2.26 m tons CO<sub>2</sub> equivalent annual savings. This level of coverage would touch between four and eight million pupils in the EU. Clearly this offers enormous potential for both generating behaviour change and lowering carbon emissions due to the well being impacts from being in a more sustainable building and school environment.

On the policy side, opening relevant funding streams to help develop and promote the use of tools offered by the Atlas project will be a key measurement. Encouraging the establishment of national school building refurbishment targets will be an additional success factor.

The unique nature of the toolkit and its holistic approach, going beyond the energy dimension, means that impact will also be measured by promoting sustainability in national and local procurement criteria for school purchasing requirements.

Finally, the relationships that the project fosters between all the stakeholders needed to help de-carbonise the school sector will be one of the most crucial impacts. The legacy the project leaves could then lead to additional social innovation, with the potential to apply this system's approach to decarbonisation in other areas, such as hospital and government buildings, thus laying additional building blocks to help achieve global climate action. It is already clear from the small sample of demonstration sites and interactions with local authorities and schools that any decision to monitor emissions and involve children/young adults in carbon footprinting immediately catalyses a general discussion around social values from mutual respect to the necessity of protecting our natural capital. This in and of itself is one of the most successful outcomes of the project and hopefully will have some role in catalysing a paradigm shift in behavioural change across different cultures and create value added for society as a whole.

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# Social Innovation and the Power of Technology

Peter A. Bruck and Martina A. Roth

## 1 Introduction

Ubiquitous technology has changed the way people work, live and play. In contemporary society, people use information and communication technology (ICT) to search for information, make purchases, apply for jobs, share opinions, and stay in touch with friends and relatives. In business, people use technology to work in teams to create new ideas, products, and services and share these with colleagues, customers, or a larger audience. At the same time, contemporary society faces myriad problems that must be addressed: persistent poverty, HIV/AIDS, food security, energy shortage, global climate change, and environmental degradation. In this context, it is crucial to respond flexibly to complex problems, to communicate effectively, to manage information dynamically, to work and create solutions in teams, to use technology effectively, and to produce new knowledge, continuously (Kozma and Roth 2012).

Creating content, solutions, use models of socio-economic relevance, of great user experience and impact – that’s what makes the difference. Technology solutions and the internet offer unlimited opportunities globally, and every day additional solutions and new devices, features and functions are added. Everybody can become a creator and innovator. But not everybody does. What makes the difference?

A lot of organisations are seeing the opportunities, many are working on solutions, some have successful solutions in place and few even enable others and the users to make them happen – including youth, first of all. The Intel Education Initiative is one of these initiatives, supporting education transformation globally and locally, innovation and talent growth. One example is the Intel International Science and Engineering Fair (Intel ISEF), the world’s largest international pre-college science competition, provides an annual forum for more than 1,500 high school students from about 70 countries, regions, and territories to showcase their independent research as they compete for over \$3 million annually. ([www.societyforscience.org/isef](http://www.societyforscience.org/isef)) Another example is the Intel Global Challenge, a collaboration between UC Berkeley and Intel, to support and promote

entrepreneurship globally. The competition, held annually at the Haas School of Business in Berkeley, California, hosts teams from around the world and showcases global business opportunities that have the greatest potential for a positive impact on society through the deployment of new and truly innovative technologies. (<http://entrepreneurship.intel.com/intelchallenge>)

An excellent example of social innovation and public private partnership is the World Summit Youth Award (WSYA) illustrates the scope, range and depth of innovation through outstanding content and creative applications by young people. Through generating content of social relevance and impact, young people started new parts of their lives by becoming young entrepreneurs in the best spirit of the word, passionate and willing to make the world a better place.

Under the umbrella of the UN, run by International Center for New Media (ICNM), supported and promoted by UNESCO, ITU, Intel, UNIDO, ISOC, Telfree – this talent contest has become a model of social innovation promotion for youth.

WSYA uses the mechanism of an open contest for the best and most innovative solution and it is broadly promoted in over 120 UN member states. WSYA's vision of innovation has a twist. It invites young people (under the age of 30) to use the Internet and Mobility to take action on the United Nations Millennium development goals.

Their use of technology is directed to solving the most pressing problems in their community, city, region, or country. Their solutions are often scalable worldwide. They are not innovators by pay or profession, but by heart and effect. They live their solutions and struggle with them, for them, and for the change they seek.

Here social innovation is no theoretical endeavour or academic project. It is part of the irrepressible quest of young people to not accept the way things are, but to seek improvements to their situation and betterment of their lives.

They do not only work with technology, they "speak" it. They "occupy" it. They make change with it. They innovate the social relations and fabric which they experience. And, they create business models to scale and sustain.

In this chapter you will find a selected overview of engaging and innovative projects from the 2012 contest – selected out of 1,224 submissions from 122 UN member states. Their goals? To fight poverty, hunger, disease, inequality, lack of education and environmental degradation with the use of ICT. The projects vividly demonstrate what can be achieved when young people stand up and act together for a liveable future, making best use of their talent, responsibility and technology at its best.

## **2 WSYA: Social Innovation with Internet and Mobility**

With shift in the location of innovation, ICTs (Information- and Communication Technologies) have become more than tools or extensions of human senses. They structure lives. Young people around the world live in technology, on the Internet, using mobiles and multiple mobile devices.



The majority of young people under the age of 30 are in countries like Nigeria or Egypt, Brazil or India, China or Turkey. It is no surprise that young people in these countries use nearly as much tech today as in the developed ones. Notwithstanding significant inequalities of access and costs, Internet and mobile devices are pervasive for young people all around this world. It is their language, their way to communicate and collaborate, this is how they relate and live.

UNICEF reported in mid-September 2012 that about 19,000 children die every day. (2) They die of extreme poverty – no fault of their own – avoidable hunger – no fault of their own – and preventable diseases – no fault of their own! 792 kids under the age of five, every hour! Is this acceptable? Is this normal? Many young people say NO (UN 2012).

Their efforts are linked up to the Millennium Development Goals (MDGs) of the United Nations by the WSYA. ([www.un.org/millenniumgoals](http://www.un.org/millenniumgoals))

The MDGs are the first and only undertaking of all of humanity to do more than merely pray and talk about ending misery and injustice, gender inequality and lack of education.

The MDGs state clear measurable goals. They set milestones. They provide a deadline. In 2015, the heads of states and governments committed themselves to review what had been achieved towards the goals set by the UN General Assembly in the year 2000.

There is worldwide concern and criticism that the MDGs will very likely not be achieved by 2015, The Global Monitoring Report by UNESCO states this loud and clear (UNESCO 2012)

The World Summit Youth Award (WSYA) is the open contest mechanism within the World Summit Award ([www.wsis-award.org](http://www.wsis-award.org)) for all those young people who want to contribute to the MDG's and want to make a difference. They use the Internet and mobile technology to change the world and contribute to achieving the MDGs. They act and their actions speak.

### **3 Watching Governments: Innovations in Citizens' Quest for Accountability**

Changes in Governments and structures often go hand in hand with socio-economic challenges. Young people recognize this, think about it and step up with offers of how to facilitate solutions and improvements.

They use the power of the media to effect change. Not by presenting opinions, but by pulling the facts into the open. They create the new public sphere, twenty-first century style.

### ***3.1 Checking a President: MorsiMeter***

For the first time in the electoral history of Egypt, the Middle East and the Arab Region, a digital initiative set out to follow and evaluate democratic change.

Morsi Meter ([www.morsimeter.com](http://www.morsimeter.com)) is an interactive website, and that attempts to monitor the performance of the recently elected Egyptian president, Mohamed Morsi, by documenting what has actually been achieved in contrast to campaign promises.

Amr Sobhy produced Morsi Meter together with Abbas Adel and Safwat Ibrahim as senior software developers to itemize the list of Morsi's ambitious election commitments and plans to track his progress in achieving them. Content categories include Sanitation, Security, Bread, Fuel, and Traffic.

When and if Morsi completes a self-assigned task, the site will mark the commitment as fulfilled. A tracking form in the header shows what percentage of Morsi's commitments has been completed, alongside a countdown of the first 100 days of his new government. Ms. Naglaa Metwally acted as lawyer in the team of social innovators.

### ***3.2 Promises to be Kept: iWatch Nigeria***

iWatch ([www.iwatchlive.org](http://www.iwatchlive.org)) is a platform where citizens can find detailed reports about the projects and budget allocations promised by governments in Nigeria, from the local to the federal, and can air their opinions and concerns about what governments are doing. iWatch aims to improve accountability and keep governments on their toes in terms of their constitutional obligations and service delivery. The date provided by iWatch on nationwide government initiatives, tells you who is acting, what is being done, when people will be affected, where the efforts are being focussed and why the project is being carried out.

iWatch was developed by Olusegun Fodeke and uses crowd-sourced reviews to generate performance reports on the plans made by government and makes these publicly available. Activist groups focused on transparency can champion discussions and raise the alarm, in order to increase the citizen awareness and participation required for good governance. Bringing government to civil society on every level, iWatch keeps people informed about government projects that will affect the way they live, change the way they do business or promote development to secure their future.

Hardly ever before has there been an unbiased, open, coordinated and well-planned system in Nigeria for people to voice their expectations and observations about government promises and actions. iWatch keeps watch.

### ***3.3 Music Against Corruption: Fair Play Youth Voices***

Fair Play Anti-Corruption Youth Voices (<http://anticorruptionmusic.org>) is a global anti-corruption music video competition for young musicians aged 18–35 yrs. Corruption has a profound negative impact on the lives of youth around the globe: bribes demanded by health sector officials cut youth off from proper medical care; police corruption perpetuates violence within communities driving youth into the frontlines of gun battles; and barriers to accessing education and employment push youth into depression, drugs, and alcoholism.

The impact of corruption on the attitudes of youth is no less harmful – the embezzlement of public funds and international aid by politicians and institutions erodes their trust in public systems; bribes offered by politicians in exchange for votes seed frustration, as the confidence of youth to influence public policy and realize social change is undermined.

The Fair Play Anti-Corruption Youth Voices project, implemented in partnership with the JMI Foundation, the World Bank Institute, and the Global Youth Anti-Corruption Network, aims to engage young musicians as ambassadors for the anti-corruption cause, utilizing the appeal of music videos to deliver a global anti-corruption message. The Fair Play website ([www.anticorruptionmusic.org](http://www.anticorruptionmusic.org)) showcases all the videos submitted to Fair Play, over 100 artists/bands, and serves as a platform for connecting socially conscious artists (or ‘artists’) and audiences around the world. The music includes: Say No to Corruption, Hand in Hand and We Are One People.

## **4 ICT 4 Empowerment: Information and Education for All**

In this section, we present innovative content, platforms and solutions which connect women through mobile phones to market data, and provide boys and girls advanced tools for personal development and education. The Internet is used to achieve a high level of learning and knowledge as well as local youth cultures.

### ***4.1 Connecting Women Farmers to Markets: Farmerline***

Farmerline ([www.farmerline.org](http://www.farmerline.org)) is a service that delivers information to farmers through voice or text messages to their mobile phone. It addresses the problem of accessing timely and area-specific information missed by many Ghanaian smallholder farmers who are mainly women.

Lack of access to information affects their yield, income and autonomy, making it difficult to orient decisions according to larger trends such as market demand, or to get the voices of farmers heard. With 30 % of the world’s food supply produced by smallholder farmer, low yields are everybody’s problem.

Mobile phones used throughout Ghana offer an ideal information pathway. Users choose a service package that delivers information several times a week on

one of several specific topics, including supplier locations and price, best agricultural practices, or buyer demands.

Alloysius Attah has set up Farmerline as a limited company together with Emmanuel Owusu Addai. They get the information from partners such as the Ministry of Food and Agriculture and Kwameh Nkrumah University of Science and Technology and send out messages in local languages. They also offers bulk voice-messaging, a medium accessible to illiterate farmers.

Farmerline partnered recently with the Canadian NGO Engineers Without Borders to conduct field research involving user feedback to assess the commercial marketability of the service. Incoming results confirm the need for an innovative service like Farmerline.

## ***4.2 Organising One's Learning: Funda***

Funda ([www.funda.ac](http://www.funda.ac)) is an online program that puts together educational resources for students and teachers in South Africa. Students often struggle to take charge of their educational journey, finding the management of resources to be difficult, especially when content is not specific to the Matric Curriculum used in their school system.

By aggregating local content from publishers, schools, teachers, universities and online resource portals, Funda gets relevant personalised content to students and teachers, who access it through their phones, ipads or laptops in a format that is best suited to them, whether it be chapters of a book, notes, past papers, videos, podcasts or mms's.

The young Funda team of Kumbirai Gundani, Kolawole Olajide, Kennedy Kitheka, Sameer Rawjee, Jason Muloongo, Luke Zhang, and Rinaat Abdrashitov developed a special calendar, recognizing that this may well be the heart of any organised student's life. Funda can thus be used for planning, diarising, referencing and keeping on track.

This has given rise to the Funda TIMELINE concept. Resources are placed in an agenda, with a daily and weekly overview. As educators or users add assignments, tests and appointments, even sports events, to their TIMELINE, automatic updates are created.

In the spirit of integrating every party on Funda, students, teachers and parents can access assignments, diagnostic details or results of tests, ensuring that the student report gives a holistic account of the student's learning experience. In turn, teachers can tailor lessons plans to students' needs, closing the gap in the education cycle.

### ***4.3 Environmental Friendly Education: SMILES: Building the Nation***

SMILES ([www.thenationsmiles.org](http://www.thenationsmiles.org)) is a youth initiative for the development of online education using engineering and technology in an environmentally friendly way, creating infrastructure, as well as improved health and job opportunities in the rural villages of Nepal.

SMILES uses green energy to provide electricity for rural villages in Nepal in a reliable, health-sustaining and affordable way, aiming to connect local schools to the global communication nexus via wireless communication technology.

Computerized education gives villagers in remote areas the opportunity to increase their literacy and overall knowledge. It also helps students and adults to gain a better understanding of proper sanitation and good health, leading to the construction of public toilets where no toilets existed previously.

The SMILES team is headed by Santosh Poudel, Founder, with Sibjan Chaulagain, as Co-founder and Dharendra Chaudhary, Surya Thapa, Neelu Shrestha, Rameela Bhujel, and Santosh Dhakal as team members. They aim to create sustainable incomes and community entrepreneurship through increased job opportunities, such as in e-commerce, small scale industry and tourism promotion.

SMILES puts a light in every house of the village, brings computers into the villages, provides telemedicine and connects villagers to relatives working far away from home. Enabling education via the internet and health care via telemedicine, combined with work in the field of sanitation, will improve the standard of health in rural villages. All SMILES work is done in collaboration with the villagers, making interventions sustainable and responsive to community needs.

### ***4.4 Your Mobile, Your Expression: Youth Languages***

Youth Languages ([www.puertajoven.org/movil](http://www.puertajoven.org/movil)) is a project empowering young Mexicans to produce short cell phone films expressing their culture, as well as their ideas for improving their education or the living conditions in their community.

Arce Aldo who works at Puerta Joven- Juventud, Cultura y Desarrollo, started Youth Languages based on the premise that social exclusion can only be overcome by helping those affected to exercise their rights of participation, expression and access to culture.

Following the principle: “Your mobile, your expression,” young professional artists visit community centres and schools offering youngsters skill-building sessions on story board development, photography, video animation, video editing, urban art and music. Project topics currently include: Cultural Diversity, Sustainable Environment, Non-violence and Gender Equality.

The program is directed at indigenous, migrant and socially disadvantaged youths at risk, providing them with creative tools to express themselves and be heard. Participants learn concrete skills while reflecting at the same time on their

own cultural identity, their communities and gender roles, in order to create media messages via mobile phones which give value to their roots, their community and their identity as young people.

As many targeted youth do not have a cell or smart phone, “Your mobile, your expression” asks young people from universities to donate mobile and smart phones with cameras, so that all who wish to join the project, can participate.

## **5 Go Green: Social Innovation to Save a Liveable Environment**

In this section we provide an overview of winning applications and content addressing the natural environment, promoting environmental sustainability, integrating the principles of environmentally sustainable development into policy programmes, reversing the loss of environmental resources and biodiversity.

The innovations are designed and developed by students and young activists, showing an entrepreneurial drive for environmental protection.

### ***5.1 No Paper to Waste: ecoCheck***

Corbinian Kling, Maximilian Maier and Alexander Renner are students pursuing Bachelor of Art degrees in the Digital Arts program at the University of Applied Sciences in Ulm, Germany. They did not want to waste their time, nor the paper they use.

ecoCheck Papier ([www.dm.hs-ulm.de/showcase/oekocheck/](http://www.dm.hs-ulm.de/showcase/oekocheck/)) is their mobile app giving the user an informative hands-on experience with fun. Civilizational eras are known by the dominant materials of the time, whether Stone, Bronze or Iron Ages. Which name would today’s age deserve?

Today as resources become scarce, all people must adopt economically sustainable choices. This key trend towards an ecologically conscious usage of resources is seen today in the many recycled products available.

ecoCheck Papier thus strives to portray paper not only as the everyday material that it is known as, but also to make users aware of its environmental impact. Videos and tools are provided with essential and surprising facts, as well as a self-check test comparing the user’s consumption to the national average.

What really sets the app apart is the challenge to grab some paper and learn to recognize different kinds of paper where all one saw before was a blank page. Put sheets on the screen of any tablet computer and activate ecoCheck’s light table with an integrated guided tour. Once completed, users have probably unlocked another feature, a folding manual for a shot glass—made of paper: a great trick for any party.

## ***5.2 Playing Shield and Defend to Save Trees: Haki***

Haki, meaning rights or justice in Swahili, is a mobile game series that is not only fun to play, but also carries a message with social impact. Shield and Defend, the first instalment of the game, deals with environmental protection and has the player save trees from illegal loggers.

Kenya has a long history of struggle around the environment and conservation. Powerful individuals with political ties abuse power to promote rampant illegal grabbing of massive tracts of land, including game reserves and the largest forested areas, Kenya's natural water towers, while coercing votes in elections to preserve corrupt power.

Nathan Muema Masyuko, who works as a business development manager at Afroes Company Ltd. was inspired by Prof. Wangari Maathai, founder of the Green Belt Movement in which poor women planted 30 million trees over 30 years, and who was awarded the Nobel Peace Prize in 2004 for her courageous work on behalf of sustainable development, democracy and peace. The project bears witness to this inspiration.

While produced in Kenya for Kenyans, the game looks to the surrounding region, as issues faced by one African country are often shared by others. Haki: Shield and Defend, spreads an important message using simple means: saving trees makes you a hero, so take this message outside of the game and live it in day to day life.

## ***5.3 Changing for the Positive: Climate for Children***

Climate for Children is a prototype of multimedia interactive presentations and games for interactive boards in classrooms, to involve elementary and high school students in the climate change awareness process and teach them about the impact of their everyday actions on the world's future.

Darko Bozhinoski, a student at FON University in Macedonia, recognizes climate change as one of the most critical issues of today. At stake are recent gains in the fight against poverty, hunger and disease, as well as, the lives and livelihoods of billions of people in developing countries.

The presentations in "Climate for Children" use different sets of data, making learning easier and more exciting. Combining open data from the World Bank and the Human Development Reports' databases with new technologies such as interactive boards, teachers can improve students' experiences by intensifying the emotional energy in the classroom. Students interact with the content for a specific country they care about, and discover how to help solve a particular problem.

Combining a rich learning environment with traditional classroom settings and group activities, interactive boards boost creativity, encourage collaboration, and move away from teacher-centric to personalized learning. Climate for Children

aims to mobilize children from early ages to social responsibility and enables teachers to enrich their lessons using the latest technology.

## **6 Power 2 Women: Innovation for Justice and Respect**

The next projects demonstrate inspiring content and communities which promote gender equality and empower women, eliminate gender disparity in education and at the workplace, facilitate access for women to all levels of political decision making and strengthen women's contribution to the peaceful resolution of conflicts.

The applications use gaming interfaces, game structures and social media to intervene and change social perceptions, norms and – most importantly – behaviours.

### ***6.1 Play to Fight Gender Violence: Moraba***

Moraba ([www.playunite.org](http://www.playunite.org)) is a mobile game targeting young people to inform and to mobilize action against gender-based violence (GBV). The project is part of the UNiTE campaign to End Violence against Women and Girls, run by Afroes, the Southern African Regional Office of UN Women.

Social research indicates a lack of information regarding acceptable practice in relationships between girls and boys, including misinformation around rape vs. consensual sex and use of physical force vs. discussion with one's partner to resolve a domestic incident.

Mxolisi Sakhile Xaba is male and with Moraba he challenges mind-sets surrounding gender stereotypes, harmful social norms, cultural practices and peer pressure – and seeks to change behaviours.

The free mobile game is a quiz adaptation of the hugely popular Southern African board game Morabaraba – also known as Umlabalaba or Zulu Chess. The game adds a quiz element that requires users to answer questions about GBV, while educating and empowering. The quiz includes difficult concepts such as acceptable boundaries, intimate partner rape, and emotional or economic abuse.

The game moves users to take action to actively address GBV by encouraging reporting and the sharing of testimonies, calling for individual interventions, as well as, promoting safe behaviour and use of help services. The game can be downloaded from a mobile internet browser at [www.playunite.org](http://www.playunite.org)

### ***6.2 Fight the Deadly Gaze: GotStared.At***

In India, the belief that women provoke violence and sexual assault by dressing immodestly or in a provocative fashion is widespread.



GotStared.At ([www.gotstared.at](http://www.gotstared.at) & <http://www.facebook.com/gotstared>) challenges this belief by issuing an invitation to women everywhere to post a picture of what they were wearing when they got stared at lewdly or harassed.

Dhruv Arora and the Youth Collective behind this initiative are out to prove that the intentions of the onlooker make the difference, not the clothes worn by a woman or the fact that she might be alone.

Team-led, the GotStaredAt Facebook page addresses gender-related issues pertinent to Indian society today, a conceptual laboratory to design and post bold posters which are simple, easily understood, and to which women of diverse backgrounds and ages can relate. The posters also include an element of humour as a motivation for people to share these posters further and to create as much conversation as possible around taboo topics such as sexual harassment, prostitution, or homosexuality.

The main website – [www.gotstared.at](http://www.gotstared.at) – features a tumblr interface that is run by users: women everywhere are invited to come to the website. The idea of GotStared.At, to create as much conversation as possible around these often-ignored issues, is slowly and steadily growing viral!

### ***6.3 Fighting Bullying and Mobbing: WeStopHate***

WeStopHate (WSH) is a non-profit program from Realize Inc. dedicated to raising self-esteem in teens – teen-esteem – through social media platforms that engage teens to help each other gain confidence.

Emily-Anne Rigal, who heads the project, believes teens who are happy with themselves won't put others down. WSH is more than just an anti-bullying program. It is a call-to-action to stop hate: stop hating yourself, stop hating others, stop letting others, as the pop song says, hate on you.

Run by teens, WSH is one-of-a-kind: we get our message out to our audience directly by utilizing well-known teen YouTubers, the perfect role models and trusted sources for teen admirers.

While other organizations accept videos from all people, the WSH focus is to continue being for teens by teens, drawing its success from a social media strategy and commitment to teens. As the voice of teens, WSH exists where teens live: online.

WSH has directly impacted the quality of teen life for over 100,000 teens. Its powerful videos and individual video comment section give teens the chance to talk and think together. Teens express their responses and appreciation for each video and share how they have become more open-minded. As a result, WeStopHate has changed lives and is life-changing.

## 6.4 *Fighting for a Positive Identity: I [heart] Being a Girl*

The aim of the I ♥ Being a Girl project (<http://iheartbeingagirl.blogspot.be>) is to promote a positive approach to the image of young women, by collecting testimonies of empowered young women and encouraging a positively framed dialogue about gender equality, femininity and sexuality. Core values include self-esteem, a positive view of sexuality and equality in diversity.

I [heart] Being a Girl extends the discourse concerning female identity to involve emotions, as well as, qualitative data – talking with girls instead of just providing medical or other advice. Testimonies are collected to highlight the real experiences and thoughts of young women, who feel good about themselves and their gender.

Magnhild Bogseth, who also works as coordinator of YSAFE (Youth Sexual Awareness For Europe) made it a key task to challenge the contradictory messages and social pressures many girls experience as they grow up. By having space to discuss insecurities and get support, I [heart] Being a Girl emphasizes all kinds of empowerment, in order to make informed choices about one's relationships, sexual behaviour and reproductive choices.

Distribution of the testimonies takes place through the I [heart] Being a Girl blog, YouTube and social media like Facebook and Twitter, in order to reach as many girls and women as possible, regardless of geography, providing a good platform for continuing updates and follow-up debates.

## 7 An Invitation as Conclusion

The WSYA is organised for and by young people with a focus on innovations as a follow up activity of the UN World Summit on Information Society ([www.wsis.org](http://www.wsis.org)) and its action plan towards the year 2015.

The winning innovation projects presented in this chapter have been selected by an international jury of young innovators in digital media from Costa Rica and Canada, India and Italy, South Africa and Senegal, to name a few. The criteria focuses on innovation and creativity in application design and content development and the demonstration of significant originality and initiative. The quality, comprehensiveness and impact of content and the relevance for MDGs is also considered, as is the level of engagement and action offered to users.

The WSYA Team, led by Anna Rechberger und Lucie Jagu, is based at the International Centre for New Media (ICNM), an independent non-profit NGO in Salzburg, Austria.

The reward for winners consists of being recognized on a world stage, to be invited to the winners' events (with all related costs covered by organizers), to be able to connect with each other and speak with renowned experts in the field of ICT for development. The Youth Award offers no cash award. It focuses on social entrepreneurs and their will to change the world.

Anyone wishing to share the innovations presented in this chapter please contact the team at: [www.youthaward.org](http://www.youthaward.org). Be invited to get involved: [wsya@icnm.net](mailto:wsya@icnm.net).

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## **V Looking Ahead on Social Innovation**

# The Role of Business in Society

Mollie Painter-Morland

## 1 Introduction

When thinking about the role of business in society we find ourselves already confined by certain implicit assumptions. In fact, our phrasing of our topic betrays a specific understanding of the concepts of ‘business’ and of ‘society’ as separate constructs that have to be brought into some kind of role-relationship to one another. However, if we join Habisch and Jonker (2005: 3) in understanding society itself as ‘an equilibrium between various institutions and corresponding behavioural patterns’, we notice a much more intricate relationship between business and society. In fact, as one of the most important human institutions, business is central to the way in which we constitute a society and how we live within society. Business therefore helps define society as such. By the same token, our views about ‘society’ ought to give shape to what is perceived as ‘business’. When one conceives of the relationship between business and society as one of codetermination, a lot is at stake. It is in and through this relationship, amongst some others, that we define who we are and how we want to live.

Unfortunately, in much of what is written in the field of CSR and business ethics, this insight has been lost. We will plot the various theoretical approaches to the role of business in society, and indicate that most approaches fail to recognize the intricate relationship between business and society in terms of the creation of behavioural patterns that guide our everyday decisions and actions. It will become clear that a focus on the protection of various stakeholder rights, or pay-off arguments that motivate social, environmental and ethical concern by trying to show its financial benefits, will not foster real change towards a more sustainable future for all on the planet.

Instead, a more in-depth focus on social innovation in and through business activity may allow us the rare opportunity to get out of these dead-ends. We have the chance to explore in a much more fundamental way how business can develop and sustain the kind of products, work patterns and consumer behaviours that redefines how we live, work and play in ways that allow for sustainable societies

to emerge. But in order to get to theoretical models that help us understand what is required, we may want to retrace our steps and challenge possible misconceptions. How did we come to this minimalist understanding of the role of business in society?

## 2 Approaches to Business in Society

We will start by summarizing some basic theoretical descriptions of the role of business in society and point out that many of them tend to miss, or at least underestimate the fact that business is not a “thing” that makes money, or an “agent” or “person” whose interests are pitted against that of society. Instead, business is a way of human cooperation that has richly contributed to the behavioural patterns that have emerged over time and that now constitute “society”. Business has in fact shaped to how we understand ourselves and how we live. It can do so again, and herein lies the power of social innovation – it could allow us to cooperate in different ways for different purposes, so as to change society in fundamental ways.

But what may stand in the way of such innovation? We would like to argue that we might need to revisit and refine some of our theories about the role of business in society. In what follows, we will see that each one of these theoretical approaches assigns business particular functions in society, and offers some rationale for these functions. Though this provides important procedural guidelines in terms of how business should not do, it cannot fully account for which kind of value it is supposed to create, if not just profit/monetary wealth.

### 2.1 *Business as Wealth Generators and Creators of Stakeholder Value*

Ed Freeman’s famous book, *Strategic Management: A Stakeholder approach to the firm* (1984), published 25 years ago, made the link between business societal role and its success in generating wealth imminently clear. This book articulated the way in which business strategy could benefit from taking a variety of stakeholder interests into account. Since then, stakeholder theory has informed business managers and strategic planning processes all over the world, and a lot have been gained.

In the first place there is now general acceptance of the fact that business managers serve all stakeholders and not just shareholders, and that a stakeholder-based model of management can be fully aligned with a successful profit-driven operation. The separation fallacy i.e. the belief that business is essentially an amoral pursuit that should be seen as completely separate from ethical considerations, has been successfully dismantled. With it, the fallacy that business value and social

value operate separately has also been undermined. But what remains to be done for social innovation to flourish? We would like to argue that what is required is not just a better balance of financial versus social value, but a radical reconception of value as such. This requires a normative consideration of what it means to live a good life, and which kind of behavioural patterns facilitate such a life and shape such a society.

Though stakeholder theory has come a long way, much remains to be done, as its architects have recently acknowledged. In a recent volume that tracks the overview of the development of stakeholder theory over the last quarter century, Freeman and his colleagues (2010: 281) articulated the subtle shifts in assumptions that will be required for stakeholder capitalism to fulfil its promise. They identified the following 6 principles of stakeholder capitalism:

1. **Stakeholder cooperation:** The social nature of value creation must be acknowledged. Value is created through shared assumptions and beliefs in a community;
2. **Stakeholder engagement:** It is not about whose rights trump others, but recognizing that a multitude of stakeholders is necessary to sustain value;
3. **Stakeholder responsibility:** Parties to an agreement must accept responsibility for the consequences of their actions;
4. **Complexity:** Value is created by human beings who are complex psychological and socially situated creatures, with complex motivations;
5. **Continuous creation of new value:** It must be acknowledged that self-interest is not the only source of innovation or progress – working for others and for society can be too.
6. **Competition** is an emergent property rather than a necessary assumption to capitalism.

When one considers these principles, we see that the architects of stakeholder theory are acknowledging some of the complexity that is part of understanding the intricate relationship between business and society. Social innovation can only succeed if there is some acknowledgement of how business has shaped human motivation and behaviour over centuries, and how much needs to be done to reverse or change some of these behaviours. This is by no means a simple task, but acknowledging the challenge at least helps us to get started.

## ***2.2 Businesses as Participants in Social Contracts***

The corporate social responsibility (CSR) movement is based on the belief that the corporation is interwoven with the rest of society and has at least the following responsibilities: the economic responsibility to be profitable, the legal responsibility to abide by societal laws, the ethical responsibility to do what is right even when not compelled by law, and the philanthropic responsibility to contribute to what is desired in society. Matten et al. (2003) argue that the third and fourth areas are not mandatory and fall entirely within the discretion of corporations.

The question that then emerges is what the normative basis should be for deciding how much and what exactly corporations should contribute to society. One of the most common ways in which we have come to think about this within CSR and Business Ethics, is to view the normative parameters that bind corporations in terms of “social contracts”. Within a globalized business world, the terms of the social contract have become more and more difficult to define. In response to challenges within the area of international business ethics, Donaldson and Dunfee (1999: 88) developed an approach called “Integrative Social Contracts Theory” (ISCT).

A central concept in Donaldson and Dunfee’s ISCT is the idea of “hypernorms”. Hypernorms represent universal limits to that which the members of a community can consent to in micro social contracts. Hypernorms are principles so fundamental to society that they shape and inform all those “second-order” norms that are formulated to guide specific kinds of social behaviour. Procedural hypernorms specify the rights of exit and voice essential to support micro-social contractual consent. Structural hypernorms are necessary for political and social organization, for example, the right to property is supported by an economic hypernorm that obliges members of society to honour institutions that promote justice and economic welfare. Finally, substantive hypernorms specify fundamental conceptions of the right and the good. These substantive norms present areas of consensus that cut across religious, cultural and philosophical beliefs and boil down to basic respect for human rights.

The downside of ISCT lies in the level of generalization that is required for a moral priority to rise to the status of “hypernorm.” Hypernorms have to be both general enough to allow universal application, and concise enough to guide particular decisions. As a consequence, it is often too vague to have real effect, or too restrictive in its specifications. Donaldson and Dunfee insist, of course, that ISCT does allow contextual contingencies and individual biases to come into play in the formulation of micro-contracts at the individual and community level. ISCT recognizes the existence of a *moral free space*, which allows an individual or community to self-define significant aspects of their moral commitments.

The question that however emerges is how moral free space should be managed in a pluralistic context in which there are many disagreements as to what is valuable and worthy of protection. For instance: Is the inferior treatment of women and certain racial minorities within the workplace acceptable because of the cultural prejudices within certain communities? Should certain social innovations be barred because they change the power-dynamics between men and women in certain societies and cause societal upheaval, as was the case in certain context where micro-lending innovations were implemented? Social contracts theory and its reference to hypernorms cannot really help multinational corporations to make decisions on these questions, because of the complexity of the range of societal dynamics that are at stake.



### 2.3 *Businesses as Citizens*

Closely related to the view that businesses are bound by social contracts, is the notion that they have the same rights, duties and responsibilities as other citizens in society. In the early years of the CSR movement, corporate social responsibility discourses restricted the forms of corporate participation in community life to charitable contributions and community development. As a result, more active corporate participation in societal governance and the overall impact that businesses have on society was not adequately acknowledged. More recently, revisions of this understanding of corporate citizenship (CC) have been proposed. The main reason is that the context within which CC operates had changed significantly. The power role that the nation state plays in guaranteeing citizenship rights has been weakened, whereas the power of corporations has increased. Moon, Crane and Matten (2005: 429) argue for a more rigorous definition of how corporations should function as ‘citizens’ in a global context. They claim that corporate citizenship cannot be sustained on the basis of corporations’ legal and administrative status. Though they may operate *like* citizens in some respects, they are not citizens in the real sense of the word.

Nevertheless, Moon, Crane and Matten argue that corporations do operate like citizens in three important ways. In the first place, they participate in their communities’ processes of societal governance through lobbying, pressure group activity, and even directly in governing in and through everyday economic activities. Secondly, corporations are involved in developmental democracy to the extent that they safeguard certain civil and social rights of other citizens. This has been particularly important when MNC’s operate in countries guilty of human rights abuses (China and Apartheid South Africa), and in developing countries where the state cannot adequately protect and deliver certain social rights, such as healthcare, education and infrastructure. Thirdly, corporations also engage in deliberative democracy in and through their involvement in collective problem-solving. The notion of “stakeholder democracy” is central here – corporations open the possibility for deliberation amongst societal groups and also respond to stakeholder concerns. Moon, Crane, and Matten therefore argue that corporations may not be entitled to certain rights as ‘real’ citizens would be, but they are powerful public actors who have the responsibility to respect and even protect ‘real’ citizenship rights in society. In fact, Crane et al. argue (2004) that corporations should be viewed as administrators of certain citizenship rights. The main thrust of this argument is that corporations are taking over what were previously governmental functions. This raises all kinds of questions regarding the participation of those whose rights are defended and administered by corporations in the process of informing, controlling and accounting for corporate decisions. In addition, multiple scholars object to the ‘personhood’ of corporations on philosophical and ethical grounds (Jones and Haigh 2007; Van Oosterhout 2005), but these debates go beyond the scope of this chapter.

What is important in the context of a text that wants to offer perspectives on business' role in fostering social innovation, is to consider whether thinking about businesses as 'citizens' is indeed helpful. While some individual minds may have generated scientific breakthroughs in earlier centuries, we may now need a much more cooperative model to come up with the innovations that befit the challenges of our time. Business facilitates such cooperative processes. However, it seems unnecessary to assign them the status of 'citizens', especially since the 'community' that such citizens would belong to is hard to define. The 'global village' may be helpful metaphor for our globalized world, but one that we could hardly think apt. Our globalized world is a far cry from a village with homogeneous norms, cultural cohesion and structured societal patterns. In fact, for social innovation to work it may be best to acknowledge the diversity of societies and behavioural patterns that are at play. These specificities need to be considered in particular, rather than general terms.

Assigning corporations the task to protect certain citizenship rights in the absence of other authorities doing so, is controversial in and of itself. Too often is business perceived as culturally intrusive, or insensitive. This does not mean that business cannot enter into productive relationships with other societal institutions to systematically reconsider the behavioural patterns and practices in any given context. But if this is to happen, it should be the result of a bottom-up process of cooperation between the various institutions involved in a particular context. In the context of social innovation, there is much to be said for a cross-sectoral approach. Recent initiatives to stimulate thinking around the 'convergence economy' have opened the door for fruitful conversations between multinationals, governments and NGOs around topics that would have in the past have been characterized by adversarial interactions. If the world's problems are to be addressed through social innovation, this kind of cooperation is essential.

### **3 Rethinking the Role of Business in Society**

#### ***3.1 The Limits of Current Theories on Business in Society***

One of the most important limitations of theoretical approaches discussed above lies in the fact that it is difficult to account for the contextual richness and diversity of value-orientations that characterize different societies. Abstraction and overgeneralization characterize most theoretical approaches, and as such, most theoretical approaches cannot guide the kind of social innovation that emerges out of particular needs and values existing in a specific context.

In a study of successful CSR approaches across Europe (Habisch et al. 2005), it has been made clear that CSR functions best if it draws on the particularities of a specific context. A rigorous theory must therefore be capable of building contextual complexity into its framework, without losing its general explanatory force. The

problem is that in an attempt to acknowledge contextual specificities like cultural orientations, theory-building is often prone to essentialism. For instance, though distinctions between Anglo-Saxon ‘market-oriented’ governance models, versus ‘network-oriented’ Rhineland models, versus Latin ‘shareholder reference’ models, are helpful in mapping particular differences (Lenssen and Vorobey 2005: 367), it has to be acknowledged that even these broad categorizations have their limitations. Not only are many multinational corporations operating across these different regional models, but there are also often exceptions to the general rule in each context. In what follows, we briefly explore a few options for rethinking the role of business in society. The emphasis here lies on re-establishing the intricate links between business operations and societal dynamics.

### ***3.2 Rediscovering Purpose***

The limitations of our current theoretical frameworks are evident in its inability to engender change at the speed and scale that is required to meet the most pressing global challenges of resource depletion, inequality, poverty and political conflict. The reason may lie in the fact that our approaches focus on the protection of the rights of various stakeholder groups, instead of asking what can be more positively accomplished in terms of value-creation. What we are left with are attempts to constrain the operations of business so as to ‘do no harm’ to society, or to distribute the benefits of its operations more fairly within society. This approach leads us to believe that the best way to guide business operations is by means of legal parameters and accountability structures, but unfortunately, this leads to minimalist compliance measures. It tends to tell business what it should not do, but not how it can be positively involved in shaping society. All in all, legalistic arguments have not proved successful in providing a basis for deep change towards more ethical and sustainable business models.

In order for business and society to co-evolve in the direction of sustainable lives for all on the planet, the purpose of business has to be radically rethought. There was a time when business’ purpose was much more closely aligned to the societies of which they were a part. The shift in the purpose of business over time is evident in Bobby Banerjee’s (2006: 57) discussion of the evolution of corporate entities over the last two centuries. Banerjee makes it clear that the corporation as we know it today does not resemble the role that was originally envisaged in the emergence of these entities in the 1800s. At that time, the state could revoke the charter of a corporation if it did not act in the interest of the public good, and it often did so. By the twentieth century however, these expectations of corporations have all but disappeared.

What would it mean to rediscover a business purpose that is more closely aligned to its contribution to the shaping of sustainable societal patterns? In the first place, it would entail an acknowledgement of its role in creating and sustaining negative patterns of consumption and unsustainable lifestyles. Offering certain products and

services perpetuate such lifestyles and behavioural patterns, and though some may be profitable in the short-term, they do not necessarily create sustainable value. Since consumption is deeply intertwined with cultural norms and social relations, companies that embark on the path to sustainability will have to step up to the plate in generating behavioural change on various levels (Carrigan et al. 2010: 515). The questions that emerge include: How can business purpose be redefined to reflect a concern with societal value-creation in the broadest sense? Is business ready to redefine value and to alter its strategies to generate, protect and sustain such value? How would business models and the institutions that support it have to be changed to pursue such value?

### 3.3 *Rethinking ‘Value’*

Unfortunately, it may not be so easy to radically rethink value. Though a lot is certainly being written about ‘shared value’ (Porter 2011) and ‘valuing non-financial performance’, one has to ask questions as to whether this takes us far enough in terms of redefining value. A central agenda of this research has been to motivate business’ contribution to society by means of arguing that it is in its own self-interest. i.e. the arguing that companies’ non-financial performance enhances its financial performance (Waddock and Graves 1997; Verschoor 1999, 2004, 2005; Carroll 2008; Godfrey et al. 2009; and Carroll and Shabana 2010). However, no clear consensus on whether this is indeed the case has emerged as yet. Even though more and more scholars are trying to find metrics to measure and prove such a positive relationship (Valor 2008; de Schutter 2008; Becchetti and Ciciretti 2009), some disagree with such pursuits. For instance, McWilliams and Siegel (2000) claim no positive correlation between social and environmental agendas and business results, and dispute the methodology of scholars who argue otherwise.

The debate continues, and though it is important to continue to seek metrics that would allow us to measure progress and indicate the benefits of social and environmental performance, it most likely will not deliver the change in mindsets that could truly foster a more sustainable way of living globally. The preoccupation with translating all kinds of social, environmental and ethical value back into financial value tends to reduce various kinds of ‘value’ to monetary value, and misses the fact that people are not only motivated and satisfied by money. In some ways, this has been the limitation of ecopreneurship as well – it had to show its worth primarily in terms of its financial benefits. Kury (2012: 66) argues that social entrepreneurship allows for a more systemic understanding of the linkages between social and environmental problems, and offer better ways of finding innovative solutions to them.

What is needed is an understanding of ‘value’ that goes beyond financial value and creates ways of living that allows for this value to be created and safeguarded. For this to happen, we need to fundamentally reassess what we value, and how business can help shape the behavioural patterns that produces, protects and sustains such value. In the words of Schaltegger and Wagner (2001: 230): *To achieve the*

*change for sustainable development beyond market impacts requires a different and societal institutions.* In a very real sense, we will have to go back to the drawing board in terms of theorizing about organisations. As Suddaby et al. (2011: 237–239) argue, most organisational theories cannot adequately accommodate complexity, nor are they particularly open to innovation, since most tend to be cautious and conservative. What is needed to generate new insights, is what these authors call “blending” among non-contiguous domains. It is towards such experimentations that those interested in social innovation may have to turn to engender the kind of theory robust enough to explain and drive real change.

### ***3.4 Innovation and the Nurturing of Social Capital***

The challenge of fostering innovation, and more especially social innovation, requires us to engage in complex analysis of societal behavioural patterning. This book is bound to contribute significantly to helping us think through these challenges. What seems clear from the emerging body of literature in this field, is that in order for innovation to flourish, it is necessary to nurture various forms of social capital. Kaasa et al. (2007: 9) explain that social capital can be defined as formal and informal networks that consist of ties between individuals and through them also between firms. Networks have a synergy effect that bring together complementary ideals, skills and also finance to create breakthrough innovations. But in order for networks to function, trust is needed. It also requires an acknowledgement that competition cannot be the most important driving force in business interactions.

The question is how best to facilitate this? A rights-based model of corporate citizenship tends to focus mainly on negative rights, i.e. making sure that certain basic human rights and property rights are safeguarded. Necessary as this may be in certain contexts where these rights are under threat, this must be coupled by a commitment to making a positive contribution to value creation. Therefore, instead of acting as the protectors of citizenship rights, business could facilitate the kind of patterns of cooperation that build trust, rather than focus on rule-abidingness. Kaasa et al. (2007: 19) for instance found that the norm of orderliness, which is associated with law and rule-abidingness, displays a negative relationship to innovation in their research. One can therefore hypothesize that legalistic approaches may not be the best theoretical models to support business’ involvement in social innovation.

The success of social innovation requires multi-sectoral engagement and cooperation. It is in this respect that business and society are intimately related. For instance, Kaasa et al. (ibid: 26) found that civic participation have important impacts on patenting intensity within organisations. Though many CSR scholars have emphasized the positive effect of employees’ civic participation on workplace productivity and loyalty to their employers, there is now further proof that civic participation also enhances social innovation. We make this point not to merely to signal the potential of new profit-generating schemes or to enhance the capacity of

business to make money off their employees' ingenuity, but to fundamentally rethink what business can be. What is important to note here, is that human motivation is complex, and that an understanding of how serving others can motivate people and enhance creativity, may be key in redefining value within a business context.

What is needed at this critical juncture in the search for sustainable business, is to rediscover the fact that business is a deeply human institution. Recently, the main architect of stakeholder theory, Ed Freeman et al. (2011: 184) urged us to remember that what is distinctive about all of us as human beings is our orientation towards cooperation with others. We often cooperate freely, enjoyably and without expectation of reward. It is this search for cooperation that enables and sustains business in the first place. Only if business rediscovers its roots as an integral part of society, will capitalism realize its full potential, which is to create and sustain sustainable value in and for society. Let us therefore end on an optimistic note, echoing the words of Ed Freeman (2010: xiii): *In fact, capitalism may well be the greatest system of social cooperation that we have ever invented. But then, it must stand the critical test of our best thinking, if for no reason than to make it better.*

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# Interview: Social Innovation from the Perspective of DG Employment, Social Affairs and Inclusion, European Commission

Sue Bird

*R.S. What is the European commission's perspective on Social Innovation (SI) and what are the current discussions in the field of SI?*

**S.B.** I deal with corporate social responsibility, and as far as that is concerned in relation to social innovation, we are looking, for example, at innovations in products and processes which have social goals. I am thinking of companies who are making devices for disabled or blind people and they bring about innovations in those processes, which enable disabled people or blind people to have a better quality of life. More broadly SI for me is also a softer concept, about companies innovating in information and communication processes, in the obtaining of knowledge and in the use of that knowledge to improve the efficiency and effectiveness of their employees. Diversity is another field of Social Innovation: maintaining efficiency and effectiveness with a diversified work force is a challenge. To ensure companies still remain cost effective at the same time as diversifying their ways of doing things to cope with the complexities of market forces is, for me, relevant to community, people management, identities, culture, interaction, and networking in the workplace. It is about having and using new ideas and ways of doing things to make the best and most productive use of a work force.

*R.S. Do you see a differences in the discussion about CSR and SI or is it pretty much related to each other?*

**S. B.** No I don't think they are necessarily the same. I think Social Innovation is a particular application of CSR. The European Commission wrote a CSR communication towards the end of 2011. In it we did not draw attention to SI, although social innovation implicitly could underlie a lot of what was said in it. Social Innovation is in evolution as a concept.

*R.S. You named a lot of social challenges like handicapped people. What are the most important social problems Europe is facing right now? Where could the SI concept be applied to?*

**S.B.** SI could be involved in any or all of our social challenges. One of the most intractable challenges we face at the moment in the social and employment field in the EU is to ensure that everyone has the skills and competencies for the jobs of today and tomorrow. Quality of employment is key and ensuring that, for instance,



green technologies and white technologies are used optimally will make a difference to how the EU tackles the markets of the future. Social inclusion is an issue. How can we work in new ways to draw people into community, whatever that community may consist of? Coming back to CSR, how can businesses foster new ways of dealing with their human rights footprint, especially in relation to knowing conditions within their supply chains?

*R.S. How can SI tackle these issues? What can be the contribution of the concept of SI?*

**S.B.** Staying with human rights, there are companies today that invest in developing countries, for example, some of which respect human rights and some of which do not. Together with the UN, the EU is seeking new ways of engaging with local communities to make sure that human rights are respected. Before a large multinational invests in an area where, for example, there is conflict, we are advising that they undertake multi-stakeholder dialogue in order to bring all relevant interests at the local level together to discuss how the investment can best be made. It is important for companies to do this because what is proven to be the case in a number of high profile cases is that respect for human rights has been denied in the past at the hands of multinational companies, including European based multinational companies. Company reputation has suffered because of it. Reputation is important, and when brand image suffers, the client base goes down and so profitability goes down. So innovative ways of engaging from the start are key issues of social innovation for companies wishing to do business in developing country environments while respecting human rights.

*R.S. How do you see the relationship between politics, business and NGO in the field of SI?*

**S.B.** Let me speak firstly about NGOs. NGOs play a very valuable role for us in CSR, as they present an alternative view to what company representatives sometimes present to us. NGOs undertake case studies and come to us with the results. The research contributes to our own knowledge, understanding, and policy development and gives us a more grounded view of the full picture in relation to respect for human rights by business. NGOs point out where we need to take better account of the full circumstances in local environments. The Commission is open to discussion with companies, trade unions, employer representatives, NGOs and other special interest groups all of whom we try to give an equal hearing. We also engage with Member State governments. Each has a different view, and if we were only to listen to NGOs then we would receive a biased story, in the same way that there would be bias if we listened only to companies. We foster a multi-stakeholder dialogue on CSR, which can lead the way to the best forms of social innovation because it is inclusive. This is the essence of the relationship between politics, business and NGOs.

*R.S. Who else do you see as a key driver for the concept of SI in Europe? Are there any major players willing to foster the concept of SI?*

**S.B.** Any or all of the stakeholders I've drawn attention to would be keen to foster SI within their own spheres of influence and in the workplace. Broadly, NGOs will be keen on developing countries' issues, trade unions will be interested in new ways of engaging in CSR associated with social dialogue and international

framework agreements, and companies will be interested in voluntary action to foster CSR initiatives that influence new ideas, creativity and spontaneity.

*R.S. Are there any government structures you can think of which foster SI? Where do we need a new kind of political government structure or framework in this field?*

**S.B.** In terms of governance, I am sure company boards are very aware of the latest trends, technologies and business influences in relation to their particular sector and company. They will be aware of social and environmental trends across the macroeconomic and microeconomic circumstances in which they work. They will be aware of changes in government policies and their implications. Governments can use incentives or restraining influences such as legislation to encourage companies to act in the way that they would wish them to act. The combination of companies looking to be profitable through innovation and the public sector performing its own governance function is where the greatest social innovation can occur.

*R.S. Which direction is SI heading. How will the discussion look like in 5 or 10 years time?*

**S.B.** I think that within 5 years there will be a greater understanding of the concept of SI. The effects of the financial and economic crisis will mean that its importance will increase. For example, we have learned a hard lesson through the crisis about being responsible with money and resources. This began with banks. CSR is related to responsible business and managing long term expectations. Social and environmental sustainability in the longer-term of the investments that companies make is becoming more important. And this is where social innovation is needed. In 5 years time I hope we will have learned to bring in a more balanced longer term business perspective through innovation than we have today. I am quite optimistic!

**R.S. Thank you!**

*Interview with Sue Bird by René Schmidpeter*

# Sustainable Development: Social Innovation at the Interface of Business, Society and Ecology

Nigel John Roome

## 1 Introduction

Social innovation has attracted much recent attention from academics, policy makers and practitioners during the past 10 years, although examples of social innovation can be traced far back to the early nineteenth century, see for example the pioneering reformer Robert Owen at the New Lanark Woolen Mill (Owen 2012). The main argument about social innovation is that it has the potential to effect change in conventional sectors of the economy and society. These sectors include government and the public sector, non-profits, as well as the for-profit sector. Social innovation can also include more loosely organized actors within a community or engaged in a community venture. By its very nature, social innovation does not conform to the neat boxes of sectors instead it often intersects and overlaps sectors.

This chapter focuses on the link between sustainable development and social innovation in relation to business. It takes the position that the call for sustainable development is the greatest challenge to humanity of our time. Sustainable development represents a new and overarching paradigm for development – it stands as a new way of understanding and promoting human activities that contribute to economic and social development within the environmental limits of our natural resources and processes. Sustainable development raises key questions about how our behavior contributes to the continuation of human life at current or better levels of development given population growth. By definition sustainable development as a new paradigm represents a form of social innovation that has the potential to influence almost every aspect of human existence and cut across all sectors of our societies.

Traditionally, business has been regarded as an engine of innovation, and through that a driver of industrial and economic growth, which is commonly linked to social as well as economic development. Because of its role in development, business will have to be a full-player in the creation of the new patterns of production and consumption necessary to achieve sustainable development.

Therefore, we need to understand better what sustainable development as a form of social innovation will mean for the more traditional routes to innovation in business. To that end the chapter is divided into three sections. The first section provides some introductory remarks about the nature of social innovation. This is followed by a section that addresses the core concepts of sustainable development and links those concepts to social innovation. This leads to some conclusions on what sustainable development as social innovation means for the way business managers and leaders participate in the advance toward sustainable development.

## 2 Background

Innovation means developing new ideas and having them adopted in practice. Those ideas can be expressed in a range of forms – technologies, physical artifacts, ways of thinking and working, organizational and institutions systems and structures. The label “social” in social innovation signifies that the innovation process involves actors who are not necessarily professional inventors and innovators. It is located in a more social context involving a range of actors. “Social” also says something about the intent of innovation – for example advancing a “social” purpose. In this respect it is important to be clear that no social purpose can be treated in isolation from the rest of society. Innovation implies change and change invariably brings with it unintended as well as intended outcomes and impacts. Moreover, outcomes are rarely perceived by all audiences or actors in the same way: Some will see an outcome as desirable, others as undesirable. Some actors might gain others might lose. This means that social innovation is not inherently any better than any other form of innovation. The process through which ideas become adopted therefore requires the same careful consideration and screening as all innovations.

Interest in social innovation has accompanied growing awareness of the gaps in services provided by states or by traditional business. Markets and public services do not always meet societal needs. Even where public policies and services are well developed the traditional pillared or hierarchic modes of policy-delivery, which can be successful in times of stability, are less flexible and responsive in times of change. These structures are not always as responsive as they need to be in meeting joined-up problems.

The professionalization of roles in providing services can mean that, over time, constructions of policy problems come to reflect how professionals see those problems rather than reflecting the needs and experiences of clients. Professionals often develop models of problems that are abstractions of reality – these models are only as good as the limits of what they explain and, when reality changes rapidly, the models often explain less than they did before.

Professional groups are defined by their professional language as well as the models they use to make sense of the world or system of which they are part. Professional language and models provide the basis for a professional practice but

also serve to separate different professionals into cadres, while separating the providers of services from those they serve.

This means that conventional ways to respond to social needs or problems can encounter “lock-ins” – barriers to change that arise from bureaucracies, professional boundaries, as well as the limits of professional knowledge and the models used to understand the world. These factors contribute to lags in response to changing circumstances and serve to limit the effectiveness and relevance of the responses on offer.

The rigidities of many professionalized systems were recognized over 40 years ago. For example pioneering and innovative ideas about community-based approaches to planning were set out in the Skeffington Report in the UK of 1969. This was before other voices advocated that meeting social needs was best done by moving towards markets and following market signals.

Let us be clear about the historical context of these ideas. This was before globalization of our economies provoked tensions in our system that gave rise to the search for novel social processes and solutions. Well before arguments were put forward that we needed to pursue more sustainable forms of development. And well before globalization and sustainable development collided. Although the environmental and social challenges of sustainability would provoke wider questions about whether public structures were fit for purpose and whether conventional business thinking and practice was able to contribute in any meaningful way to the achievement of a more sustainable future (Roome 2011).

Since 1969 many trends have combined to lead us to revise how we think and act and how we work with others – laying the ground for the social innovation movement of today. Factors include the speed of change; the intersection of economic and social issues – (as exemplified by the environmental catastrophes of the Exxon-Valdez or Bhopal or the problems of child labor encountered by Nike); the challenge to long-held images of what organizations are, as boundaries between businesses, government, and NGOs breakdown; and as we struggle with whether organizations are real or virtual, hierarchical or networked.

The last 40 years have brought forward challenges arising from the complexity we have created for ourselves through our own actions. For example we have moved from a world shaped by the interaction between natural and human systems, to a world where natural systems are dominated by human activities. A phenomenon that has been called the ‘anthropocene’; an era of global history in which humans and their activities dominate the character of the planet (Crutzen and Stoermer 2000). That move was anticipated by those who crafted the agenda for sustainable development and caused them to propose an approach to development that would enable humans to satisfy needs in ways that would not jeopardize the future and the opportunities it would need to provide.

While more and more attention has been placed on the need to address a wide range of social and environmental issues and to meet human needs through approaches that sit outside the normal structures and institutions of our economy and society, we might look back to some of the thinking that inspired the call for sustainable development rather than re-inventing this particular wheel yet again.

### 3 Sustainable Development and Its Relationship to Social Innovation

This section sets out to examine more deeply the concept of sustainable development. Its concern is to examine the ideas that underpinned the work that led up to the definition of sustainable development rather than with the arguments about the environmental changes that created the need for sustainable development or the agenda for action that followed. It then identifies what this implies about sustainable development as social innovation.

The imperative to move toward more sustainable forms of development was set out in the seminal report of the United Nations Commission on Environment and Development (Brundtland 1987). It was shaped into an agenda for action at the Earth Summit in Rio de Janeiro in 1992 (United Nations 1992). Despite a seemingly endless discussion of the meaning of sustainable development, the principles behind sustainable development are clear. Human-beings engage in activities that shape economic and social development. These activities require inputs from natural environmental resources, processes and systems and those same human activities can have a positive or negative impact on environmental resources and systems. Looking forward it was anticipated that the environmental demands and impacts of developed economies, the growing demands of developing economies, coupled with the anticipated growth of population and its technological advance could not be supported indefinitely by natural systems, processes and resources. This gave rise to the need to consider how to better integrate environmental considerations into the development process of both developed and developing economies so as to ensure that development could be sustained in the long term. This approach to development was termed sustainable development.

Two critical points emerge from this description of sustainable development. First, at the time of the Brundtland report contemporary approaches to economic and social development in developed and developing economies were not seen as sustainable. Second, this implied that any move toward sustainable development would require changes in the way actors in all sectors of society including business understand and act out their contribution to the development process. This means that sustainable development is best understood as a new paradigm for development. A paradigm represents an intellectual perception or view that is held by a group of actors or a society providing a clear example, or model, of how things work in the world (Kuhn 1970). Sustainable development was advanced to replace traditional models of development that were not regarded as sustainable. By definition the development of a new paradigm involves innovation and change, requiring the inclusion of a wider range of human considerations and environmental limits in the frame of the many choices that contribute to economic and social development – in other words sustainable development constitutes a ‘grand social innovation project’.

Insight into the nature of sustainable development as a form of social innovation is gained by looking more deeply into the core ideas that fed into the Brundtland

report and Agenda 21 that defined the need and the approach to sustainable development.

Three lines of thinking can be detected: Ideas from systems science and cybernetics, approaches that deal with social complexity, and, the functional interaction of people in teams and organizations in ecologies.

### ***3.1 Systems Science and General Systems Theory***

In the lead up to the Brundtland report there were a series of influential reports and meetings addressing environmental concerns provoked by human activity. Notably these included the work of the Club of Rome (Meadows et al. 1972), the Stockholm Environment Conference (United Nations 1972) and the World Conservation Strategy (IUCN 1981). The thrust of this work was to draw attention to the increasingly precarious state of the planet in terms of natural processes, the use of resources, the reduction of key habitats and ecosystems and the limits on pollution sinks and the effects of human activity. It drew attention to the need for new public policies and institutions that would attach greater account to environmental issues that had until then been the province of specialized ministries at the periphery of government. The focus was on public policy but the concern was with the continued lack of attention in social choices to environmental limits and concerns.

The analysis of problems and the suggestions for institutional change were informed by the work of authors such as Ashby (1962), Beer (1972, 1984), Boulding (1966), and von Bertalanffy (1968). While these authors came from a variety of backgrounds each explored ideas that linked biological systems, organizational systems, physical systems and social and economic systems. They suggested that there were fundamental system archetypes and that these would offer insights into how to function at the interface between natural and social and organizational systems. Their work had significant impact on the search for solutions to environmental degradation and change. At the core of this body of work is systems thinking which stands in stark contrast to 'classical' models of human and natural behavior and 'classical' views of knowledge that are found in the discipline-based approaches to knowledge and the functional divisions in practice that have characterized development since the enlightenment. In contrast, systems thinking seeks to develop a more holistic view of relationships within and between systems and to strive to link knowledge and theory more closely with the realities of everyday life.

Systems thinking and the systems theories that derive from it represent an innovation in how we develop knowledge, how we think about problems and how we model the World. In practical terms the new paradigm of sustainable development was based on models themselves based on systems thinking, whereas conventional development had been associated with the reduction of knowledge and the division of knowledge and practice. Of course since the concept of sustainable development was presented to a wider public the tendency has been for academics

and practitioners to interpret sustainable development through the lenses of reductionist science and knowledge. Trying to understand a new paradigm through the lens of the old paradigm and its theories is somewhat paradoxical.

### 3.2 *Social Complexity*

Insights into organizational responses to complex social problems also contributed to the development of the sustainable development paradigm. Since the 1960s a class of social problems had been identified that were variously called meta-problems (Chevalier and Cartwright 1966), wicked problems (Rittel & Weber 1973) or messes (Ackoff 1974). The characteristics of this class of problems is that they are problem sets that are made up of interconnected problems. These individual problems and their solutions are ambiguous and contestable. Moreover, the interactions between problems in the problem-set mean that when an organization goes about responding to the problems of concern to it, its policies and actions have the potential to impact other problems in the set and through that the interests of other organizations. Individual un-coordinated actions undermine the ability of other organizations to meet their mission and obligations.

Normally no organization has an overview of the problem-set as a whole. It is more common for organizations to have distinct responsibilities and interests and to take into account only their view of the problems they are addressing. Summing these different perspectives does not constitute a picture of the system as a whole. When Chevalier and Cartwright first discussed meta-problems they centered on public sector organizations and their interests in relation to problems such as poverty, pollution and health. Yet the same principles of their analysis apply to other types of organizations.

The solution they advanced to the problems created by meta-problems required some coordination of policies and actions. As different organizations see the meta-problem through different lenses they all have a contribution to make in constructing a picture of the problem-set as a whole. The search for policy options and actions that would address problems; the assessment of the possible outcomes arising from those options; their implications for other problems and interests in the set; and the selection of which options are pursued, are regarded as necessary pre-conditions for the development of actions to improve conditions in the problem-set as a whole.

The fashioning of coordinated and integrated actions in response to problems of this kind requires organizations simultaneously to hold a focus on their area of policy and interest while also developing a shared perspective on the problem-set as a whole. That process requires a forum or platform through which actors can contribute to a strategy for the problem set as a whole that also determines the freedom of manoeuvre for the strategy, policies and actions of individual organizations.

This account suggests the need for innovative organizational structures to address meta-problems such as pollution, poverty and health. Of course those approaches are also appropriate in tackling sustainable development, which constitutes a meta-



problem of even greater proportion than the problem-sets' identified in the 1960s – pollution, health and poverty. Add to this the complexity of sustainability development that comes from the multiple overlapping levels of organization and scale it has to consider – local, regional or bioregional and global – and it is evident that sustainable development demands innovation in the way organizations work together. It also requires organizations and their managers to work together to build a collective or holistic view of the problem set.

### ***3.3 People, Teams, Organizations and Ecologies***

Other authors built on these ideas, notable Fred Emery and Eric Trist. Their work began by looking at participative work designs and how team members work together, then at how the parts of organizations interact with one another and then at how organizations work in the context of social ecologies (Emery and Trist 1973). This echoes the idea gained from general systems theory that systems conform to common properties, irrespective of scale. That is they have recursive properties.

Trist also developed ideas about how actors respond when faced by turbulent fields that link with the ideas of Ackoff, and Chevalier and Cartwright, about meta-problems. Trist (1983) argued that turbulent fields arise when the actions of one actor interact with the field and with the actions of other actors. These interactions can become very complex and under these circumstances the pursuit of organizational self-interest can create chains of interaction that potentially contribute to systems collapse. Faced with this possibility actors in the field have to join together and agree 'new rules for the game' that seek to eliminate the cause of the turbulent interactions so that the actors can then continue to compete but in a stable field (Trist 1983). This approach implies the ability of actors to be able to discriminate between when and how to co-operate and when and how to compete.

Emery and Trist's contribution to the paradigm of sustainable development is also found in the process used at the Earth Summit at Rio de Janeiro in 1992. This was organized along the lines of a 'search conference' following the model they first developed in 1958 (see for example: Emery and Purser 1996). Search conferences are platforms where individuals (managers, citizens, politicians, policy-makers) become a 'planning or design community', learning together. In these settings participants do not represent others – they are not then stakeholders representing an interest rather they are co-actors that come together to develop a plan or design for the future, that supports their shared human aspirations and ideals. The process leading to the plan involves establishing those shared values, appreciating the nature of the changing context, knowing where the 'system' they are dealing with comes from and assessing and agreeing where it is going. The plan involves creating a practical vision of the future, establishing some appreciation for current reality and identifying the steps to move from today toward that future. The plan is put into action by the participants. This process offers a practical response to

any socially and institutionally complex system confronted by turbulence and uncertainty. Despite being established in the late 1950s the approach of the search conference is an innovation in planning and action even when it involves collaboration. Its adoption is hampered by many things – not least the very simple but unhelpful notion that there are stakeholders that represent interest claims rather than actors who are committed to innovation and change.

### ***3.4 Relationships to Social Innovation***

The description above presents in brief the major strands of thinking that contributed to the generation of the new paradigm of sustainable development as well as the thinking that underpinned the design of the process of the Earth Summit that led to Agenda 21 (United Nations 1992). It shows something of the qualities of the process as a way of thinking, a way of planning and a way of acting. The basic perspective derives from the notion of building a holistic view through a collaborative systems perspective. It brings together natural processes and systems on the one side and human and organizational systems on the other. The approach recognizes that no one actor, individual or organization, possesses adequate knowledge of the system or has the capacity to construct a vision and design of a more desirable future or take meaningful action on their own. The search conference provides one means to facilitate a collective, participative process that draws on the knowledge and perspectives of participants as well as building the commitment of many people to change. Practicing this approach more widely would constitute a social innovation with major impacts for how we think and learn and act when confronted by social and environmental problems and needs – as well as for how we define knowledge and measure progress. Sustainable development then has to be regarded as a new paradigm precisely for these reasons and, as with all paradigm shifts, its adoption would make many aspects of our past understanding of the World obsolete.

## **4 Sustainable Development, Social Innovation and Business**

This chapter argues that sustainable development is a new paradigm that will involve all actors in society that participate in economic and social development and to envision their role in the processes of development in practical terms that has consequences for all organizations including business. If business is to contribute to sustainable development in an effective way it will have to participate in the types of processes described above. This will mean business and its managers participating in a grand form of social innovation.

It will require a capacity for managers to engage in platforms that bring actors together in a planning or design process that builds through steps from the development of shared values, constructing a practical vision of the future, establishing

the character of current reality, identifying and assessing the options to move toward that future and agreeing among the partners which pathway to take.

This will require new skills to communicate and collaborate across old divisions created by disciplines, functions and sectors – it goes beyond professionalism as specialization promoting instead professionalism as the capacity to engage with diverse communities of actors to facilitate learning, innovation and change. It goes beyond competition as the driver of change to a more complex blend of co-operation coupled with competition. Co-operation that helps to define where it is we want to go and where we are now, and competition in terms of how to get there and where opportunities and performance are measured in terms of economic, environmental and social impacts rather than returns.

It will mean trying to develop an agreed view on the key systems on which the quality of human existence depends. These include: nutrition; energy; water and the hydrological cycle; household services; transport & communication; health; entertainment; finance and insurance; the carbon-cycle and weather system and our ecology.

It will involve far greater attention to environmental limits and impacts than has been the case to date as well as attention to the demands of those confronted by poverty and lack of opportunity. This is a completely different orientation to innovation than is normal for business. It is a process that turns every actor into a potential agent of change.

It will turn much of our current understanding of management education and leadership on its head.

This is a radical vision of business and management. To be realistic it seems unlikely that companies and managers who have only recently begun to emerge from a period of hyper-competition and a belief in the supremacy of market signals will yet accept the need to address more fundamental questions about the role of business and its guiding purpose. Sustainable development and the principles outlined above, on which it is founded, seem to run counter to the thinking dominant in most business education programs and to the practices found in many companies. But this is precisely why what is discussed above represents a social innovation – innovation without which sustainable development will simply to be a grand illusion rather than a paradigm in practice.

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# Sustainability and Social Innovation

Matthias S. Fifka and Samuel O. Idowu

## 1 Introduction

Since the publication of *Our Common Future* by the World Commission on Environment and Development in 1987 and Elkington's (1997) *Cannibals with Forks: The Triple Bottom Line of Twenty-First Century Business* 10 years later, it is widely accepted that sustainability has three dimensions: an economic, an environmental, and a social one.

Out of these three dimensions or pillars, as they are sometimes known, the social one has received the least interest, also when it comes to reporting (Fifka and Drabble 2012). While the economic dimension seems to be the overriding pillar, the ecological one has also been given considerable attention, especially with regard to the development of new environmentally friendly technologies. Thus, in this regard, a mutual interdependency between sustainability and its ecological dimension can be observed. On the one hand, ecology can be regarded as one vital element of sustainability. On the other hand, sustainability can be seen as a driver for eco-friendly technologies, as it (be it on a company or government level) encourages the drive for the respective innovation in the environmental arena. On the company level, it has also been argued for a considerable period of time that environmental awareness and eco-friendly innovation lead to competitive advantage (e.g., Welford and Gouldson 1993; Azzone and Bertele 1994; Dechant et al. 1994).

In contrast, the possibility of sustainability as a driver for social innovation has been discussed to a much lesser extent, though pioneers like Peter Drucker had already elaborated on the subject in the 1980s. Drucker (1984) argued for turning social problems into business opportunities: "The proper social responsibility of business is to tame the dragon, that is, to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth." Though he sees opportunities arising due to the scope of addressing existing social problems, the motivation, according to him, is grounded in increasing economic benefit through innovative business

practices and not the pursuit of social innovation. Rake and Grayson (2009) provide a more recent dimension to the capability of CSR being a catalyst which could be used to turn social problems into social opportunities. These two scholars and senior business executives argue that the issues we face as a global economy and increasingly as a global society are very real and indeed very urgent but these challenges if managed sustainably could turn out to be great sources of social opportunities for everyone.

It is the purpose of this chapter to discuss how sustainability can perform this function. Thus, the central question we pursue is how sustainable corporate behavior can create or lead to social innovation. Before we discuss this question, it is necessary to define what the phenomenon of social innovation constitutes and how it could create sustainable value.

## **2 Social Innovation**

Social innovation is a broad term that defies a singular understanding and has been discussed from the perspective of various academic disciplines for a considerable time. Moreover, the borders to related concepts such as social entrepreneurship or social enterprise cannot be clearly drawn, which we will discuss below.

### ***2.1 Defining Social Innovation***

Despite the existing differences, there are some commonalities in the perception of what social innovation means. There is general agreement on the idea that social innovation refers to innovations that have been made with the explicit intention of finding solutions for current social problems or future challenges. In a narrow sense, social can be seen as relating to human interaction. Thus, social media could be considered a social innovation, as it has changed how people communicate. In a broader and more normative sense, social can mean “good for society and its members”. Disagreement can arise as there will be different opinions on what is good for society. Moreover, social benefit is difficult to measure or quantify. Consequentially, there is dispute on when an innovation, e.g. of technical nature, can be considered a social innovation. Social media is undoubtedly a technical innovation, but whether it has created a social benefit or not is subject to opinion. Regardless of that potential dispute, there is widespread agreement that social innovation does not only aim at changing how people communicate, but at generating benefit for society in its entirety. This is reflected by a definition by Adams and Hess (2011), who point out that “innovative social action can create social value beyond the capability of existing systems.”

Furthermore, there is dispute on who should benefit primarily from social innovation. As pointed out above, Drucker emphasized that addressing social

problems should be seen as business opportunities, and thus focused on the benefit of business. Young (2011) in turn focuses on the members of society who make use of innovation. He defines social innovation as “a novel mechanism that increases the welfare of the individuals who adopt it compared with the status quo.” Phills et al. (2008) even takes this understanding a step further and explicitly claims that the benefit must fall to society as a whole and not only private individuals: “A novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals.” Thus, in contrast to the understanding of Drucker, society in its entirety should be the benefactor of social innovation and not private individuals, who can be seen to include companies or their owners and shareholders; in other words: stakeholders should be the benefactors. Nevertheless, even this view displayed by Phills et al. (2008) does not exclude the possibility that a company should benefit from social innovation, but it should not be the primary or sole motivation behind activities directed towards social innovation.

It must be pointed out that there is usually no trade-off between individual (economic) benefit and social value, as the latter is often created with the drive for commercial innovation in mind. Pharmaceuticals are a prime example. They allow the respective companies to generate profit and at the same time improve public health. Thus, in many cases, social problems are addressed through market mechanisms, like Drucker had in mind. However, when markets fail, which usually happens in the case of public goods, then traditional commercial innovation does not contribute to finding solutions, as incentives are non-existent, and social innovation becomes necessary (Phills et al. 2008).

## ***2.2 Social Innovation Versus Social Entrepreneurship and Social Enterprise***

Another question that arises is what sets social innovation apart from the concepts of social entrepreneurship and social enterprise? Is it something new, (if we choose not to say innovative), in comparison to what is currently available? Social entrepreneurship, like the traditional concept of entrepreneurship, focuses on the personality of the entrepreneur and the respective qualities that are needed in order to be successful, like creativity, ambition, resourcefulness, and perseverance (Bornstein 2007). Social entrepreneurs can be defined as “nonprofit seeking executives who pay attention to market forces without losing sight of their organizations’ underlying missions and seek to use the language and skills of the business world to advance the material well-being of their members or clients” (Dees et al. 2001). Likewise, social enterprise places an emphasis on the organizational dimension and the necessary structures to set up a successful social venture. Both social entrepreneurship and social enterprise aim at creating social value (Elkington and Hartigan 2008).

The two concepts essentially stem from the nonprofit sector and thus neglect companies and public organizations, with the exception of venture philanthropy, where a business or a business entrepreneur establishes or supports a social enterprise. As Phills et al. (2008) correctly point out, social entrepreneurs and enterprises are important for delivering innovation, but “they are not the only, and certainly not always the best, ways to achieve these goals.” Social innovation can also originate from profit seeking and public organizations. Due to their resources, networks, and experience they might even be better suited to generate social innovation.

Thus, social innovation does not remain confined to one sector of society – government, business, and non-profit/civil society – but encompasses all and often occurs out of a cooperation between one or more of these sectors. As a hybrid model, it takes economic and social considerations into account, with the focus being upon the latter. As sustainability is a concept also incorporating these two dimensions, it can be seen as a natural driver of social innovation.

### **3 Sustainability as a Driver of Social Innovation**

In this section we will discuss and give examples of how sustainability can drive social innovation. As pointed out in the introduction, there is wide agreement on sustainability being built on an economic, social, and environmental pillar. Thus, individuals or organizations that pursue sustainable behavior attempt to achieve progress in one dimension, while at the same time also making progress in another or at least not worsening the conditions to be found in the other dimensions. Reduced economic profit or benefit may be accepted as a consequence.

As we have agreed on the social dimension being central to social innovation, sustainability could be seen as leading to social innovation if the respective behavior or action improves the social conditions in a society and improves or at least maintains the status quo with regard to the economic and environmental dimensions.

A prime example of when sustainability leads to social innovation is the establishment of fair trade networks. It also shows how the involvement of different groups from different sectors of society – the farmers as producers, the workers as employees, the buyers as vendors, an NGO as labeling organization, and finally the consumers – can produce sustainable social innovation. Fair trade as a principle is based on modified market-principles and a social movement. Its aim is to improve the situation of farmers and farm workers, mostly in third world countries, and to foster agriculture under environmental premises. The central principle of fair trade is that producers and the cooperatives they are organized in receive a price premium for their products if they meet certain standards determined by FairTrade Labeling Organizations International (FLO), a labeling organization. The buyer, usually a large trader or vendor from an industrialized country, agrees to pay the premium, which is then passed on fully or partially to the producer (Nicholls and Opal 2004).



The vendor and the consumer agree to pay the social premium because it will be used for socio-economic development purposes in the producers' countries, e.g., in the construction of health care facilities, clean water supply, schools, sanitation, and other community projects (Elad 2012). The social premium which the retailer and final consumer pay would also be used to address environmentally related factors in the farmers' country. Another noteworthy effect of the "social premium" is that it goes to the farmer directly to enable him to improve his and his family's social and economic situation or to the cooperative that can use it for investments in schools or hospitals and other social services. Under traditional market principles, where the price is the overriding determining factor, such transactions would not occur. Still market principles exist as no participant is forced to buy or sell the product at a higher price and can also choose from non-labeled alternatives. The labeling is usually provided by non-governmental organizations, among which Fairtrade International is the most famous one. The respective standards are determined in a multi-stakeholder process, and the certification is then provided by the sister organization FLO-CERT.

The idea to support small farmers, who otherwise suffer from insufficient negotiating power when dealing with large buyers, through a guaranteed price premium – usually 10 % above the regular market price – has found wide acclaim. There are now 827 Fairtrade certified producer organizations in 58 countries, which represent more than 1.2 million farmers and workers. Fair trade certified sales amounted to app. €3.4 billion (Fairtrade International 2012).

Thus, the cooperation from different actors creates social and environmental benefits through an innovative model of sales and purchases. What is characterized here is that an existing social progress was not addressed by creating a social enterprise or through governmental intervention, but by designing novel market structures through the participation of all actors involved along the value chain.

Another prime example for social innovation is microfinance. The core idea of microfinance, or to be more specific microcredit in our case, is to provide loans to people who otherwise would not be able to obtain a loan because they lack the necessary collateral, do not have a credit history or stable employment, or simply do not have access to financial services in general. The aim is to support the creation of businesses and, thus, to create income and reduce poverty. Moreover, microcredit can be seen as a way to improve education and health, and empower the poor and also women in some of the less advanced countries of the world where they are still under-privileged.

Modern microcredit is generally regarded to have begun with the founding of Grameen Bank by later Nobel Laureate Muhammad Yunus in Dhaka, Bangladesh in 1976 (Islam 2007). Thus, it has started out as a form of social entrepreneurship as Yunus invented a new business model that created considerable social benefit. However, when microlending expanded, it turned into a social innovation, as it did not remain confined to newly created organizations specialized in microlending. Today, microcredit is also provided by commercial banks, governmental organizations and even by individuals who can engage in lending through platforms such as Kiva or Zidisha. Traditionally, credit was almost exclusively provided by

commercial banks, which only lent to customers that would meet certain requirements on collateral or income. The innovation here is twofold. First, lending is now being done by actors from all three sectors of society. Second, credit is given to people who would not have been able to obtain a loan under traditional standards.

Though the effects of microcredit are disputed, it is an excellent example for how traditional economic processes can be changed into social opportunities and how social benefits can be created through innovation, when different sectors of society participate.

## 4 Conclusion

Despite the great contribution that social innovation can make to address social problems, it should not be regarded as a panacea. It is not a cure for all social ills. Social innovation can hardly be generated in the same way as technological innovation, which can be made through continuous and systematic research processes. Social innovation, however, is created through individual ideas that are capable of being applied on a larger scope. This application or adaptation process is a difficult one, as social innovation will be most effective when many different actors from different sectors of society participate. This means that the reluctance among important groups will endanger or even prohibit the potential successes of social innovation. Fair trade would not exist if consumers were unwilling to buy the products, even if producers and vendors were eager and ready to pursue the idea. Microfinance would be much less effective if commercial banks had not joined in, because non-profit organizations have neither the resources or the organizational skills and capabilities to provide loans on a wider geographic and financial scale. Therefore, we believe there are multiple ways in which social innovation can contribute to progress in our ever changing world.

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# Social Innovation: Quo Vadis?

Thomas Osburg and René Schmidpeter

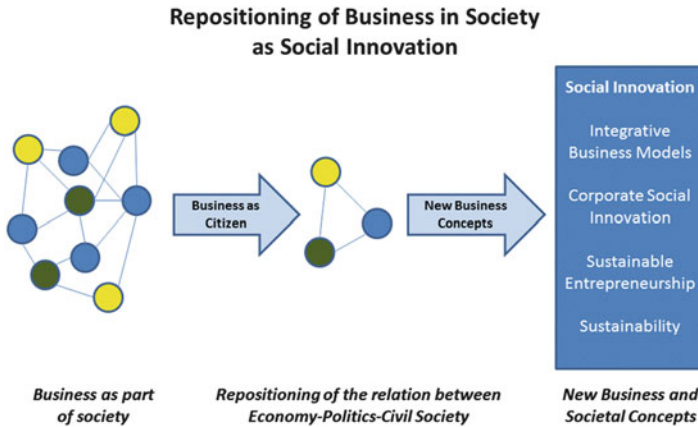
## 1 Where Do We Stand?

The broad range of contributions by the authors in this publication shows clearly that a new paradigm *Sustainability* is emerging and that academia as well as business is setting a new course for achieving a common sustainable future. Business, Politics, and NGOs are now in the process of reshaping our societies in terms of economic, political, as well as academic thinking. The relations between the different sectors are changing and the linkages have to be proactively managed (Fig. 1).

This requires novel management approaches as well as a broad variety of expertise and, most importantly, a lot of respect for the mutual efforts in order to make our world more sustainable. Every new concept is a chance to find new answers but also to raise the dynamic of thinking for our future – so is the discussion about Social Innovation.

Social Innovation is a concept emerging within this background. It gets a lot of attention these days and, at first glance, there seem to be many different understandings about the concept. Is it the next CSR or a new label for existing concepts? Doesn't all Innovation have a social component? What is the innovative character of traditional CSR? And so forth. However, despite all definitorial differences and theoretical discussions, what is emerging is a new concept of solving problems in new ways of cross-sectorial collaborations.

This, however, implies that the concept of Social Innovation goes beyond traditional CSR, as it adds a proactive and forward-looking component to the responsibility of the company. Corporate Responsibility, in its pure form, is about the responsible behavior of the firm in all aspects of the business and their impact on society. This includes such diverse concepts as Good Corporate Governance, respecting Human Rights, Employee motivation, or Community investment through Volunteering or Education programs.



**Fig. 1** Business in society

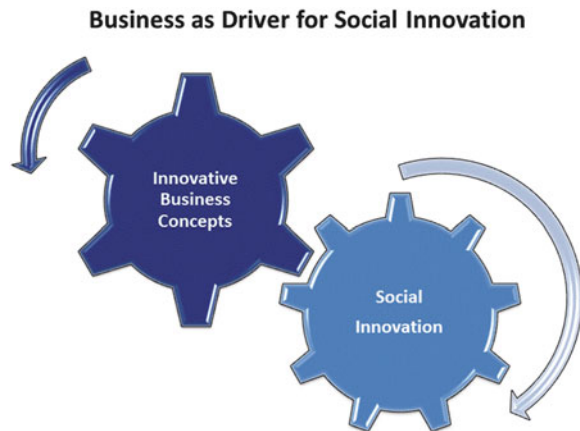
The ultimate goal of all of this is to behave as a good Corporate Citizen, act responsibly, and *do what is the right thing to do*. Even though, from a business perspective, the creation of reputation is one driver for a lot of activities, the approach to solve social problems that are close to the core business of the firm mostly remains in the foreground. Social Innovation, however, takes a different approach and adds a Business perspective to it by creating solutions for the market place that create shared value for participating stakeholders. In order to achieve this, Social Innovation should be embedded into the Innovation process of the firm.

Innovation was always and will always be the key driver for companies to thrive. However, Innovation per se is neither positive nor negative, it is just new. Framing and guiding this innovation towards a direction that benefits society as much as the company is the ultimate goal of Social Innovation. Within this, Open Innovation is a key concept as it requires companies to internalize external knowledge but also to externalize internal knowledge, leading to new cross-sectorial partnerships that go far beyond traditional approaches of Public-Private-Partnerships.

Therefore, new business concepts emerge which are leading to social innovation. Inclusive Business Models, Corporate Social Innovation, Social Entrepreneurship etc. are different ways to recalibrate the role of business in society and also rethink the strategic management of corporations. On the one hand, the theoretical and practical examples of the publication show that the above mentioned innovative business approaches have the power to foster social innovation. On the other hand, those business concepts can be considered as social innovation themselves (Fig. 2).

Another major advantage of rooting Social Innovation more strongly into the core Innovation processes of firms is the sustainability of the solutions. If Social Innovation concepts are only seen as temporary or non-core business solutions, they run the risk of potentially being at stake in tougher economic times. If, however, they are fully embedded into the company portfolio, they are much less likely to be

**Fig. 2** Innovative business concepts and social innovation



cut when people or tactics change. The more Social Innovations move from an *add-on* to the *core business*, the more likely they are to succeed long term.

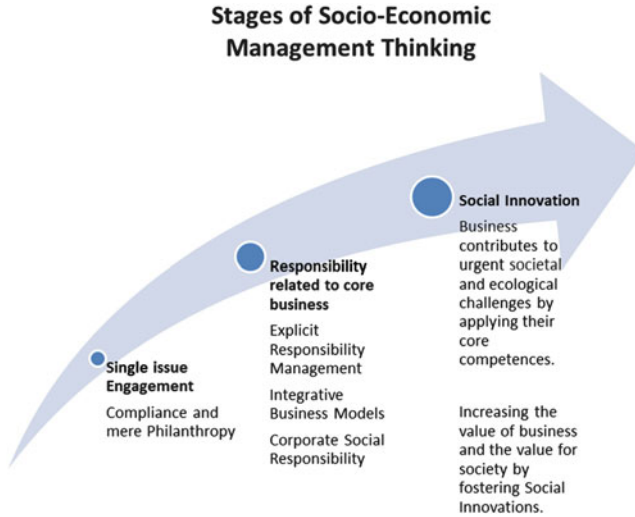
## 2 Where Do We Go from Here?

Social Innovation is still in its infancy, even though the theoretical concept has been around for some time. However, a lot of different understandings still hinders a quicker dissemination in practice. The key to make Social Innovation successful within companies will most likely be in linking it more strongly into the core Innovation processes of the firm and describing the Business Value.

As of today, a lot of Social Innovation initiatives predominantly focus on the Social side of the coin, on the problem to solve and then trying to bring in companies to help to solve it. With this approach, the success of a Social Innovation depends on the *interest* of the firm (or sometime even on the interest of one manager). To overcome this, we need to embed the concept of creating Shared Value, not only in the CSR departments of a firm, but even more into the Innovation process of the whole enterprise. This will undoubtedly lead to Open Innovation and the needed cross-sectorial partnerships, as the knowledge for such an Innovation usually does not reside within one stakeholder alone (Fig. 3).

Social Innovation will be more and more adding the social or responsible dimension to company innovations. Current focus areas for Innovations, like e-Health or e-Mobility, offer tremendous business opportunities for many companies but a lot of research still has to be done about the social implications of those innovations. Do elderly people really want to stay at home instead of going to the doctor? Aren't silent cars a possible danger for blind people? A lot of questions are unresolved today and offer tremendous opportunities for true Social Innovation in its pure sense – a new cross sectorial collaboration to create societal value.

Embedding Social Innovation deeply into the Innovation process will also help to overcome the Chasm – bringing an idea from invention to true innovation that



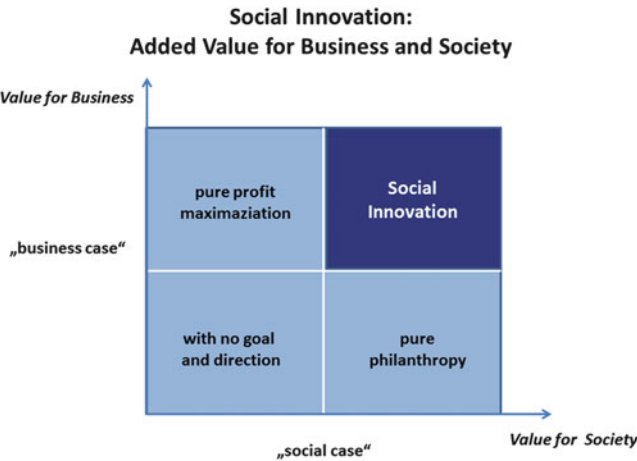
**Fig. 3** Stages of socio-economic management thinking

has an impact and is scalable. The goal of Innovation processes usually is not only to invent the next big thing, but to think at the same time how to market it successfully. A lot of today's Social Innovations are unable to cross this Chasm, as the initial idea is maybe good but it is not clear to scale the solution.

One thing seems pretty clear also: Only if business becomes a problem solver rather than being part of the problem, will we have resources big enough to tackle the world's most urgent social and ecological problems. This new role of business adds not only value to society, but also offers great business opportunities, especially in times when old business concepts are not functioning any longer. Instead of an "Either profit OR social value" thinking, we need to implement an "economic AND social value added" perspective. This new paradigm systematically fosters business to search for Social Innovation which is urgently needed in order to make our business models as well as society as a whole more sustainable (Fig. 4).

Ultimately, companies will have a major interest in developing Social Innovations, as long as they serve both business needs and societal challenges. Social Innovations are the most promising way to create Sustainability for all – the capacity of companies and society to endure together. We now have to develop instruments and measures to implement this new concept. Therefore, innovative accounting as well as marketing approaches will be key. The creation of new learning environments and study concepts in order to teach the new paradigm of sustainability to the next generation will be crucial. The application of the latest insights of innovation management as well as product cycle management to the area of sustainability will certainly provide new ideas to how social innovation can be systematically developed.

The economic and financial crises can be an important catalyst in order to bring those new management concepts into being. Therefore, it is probably only the



**Fig. 4** Added value for business and society

beginning of a broad public debate about how to transform our societies and what the role of business should look like. The underlying questions and answers of the contributions in this publication have the potential to fundamentally challenge the structure of our societies as well as the way we do business.



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**Mirjam Schöning** is a pioneer in social entrepreneurship, having joined the Schwab Foundation for Social Entrepreneurship at its inception in 2000 and leading the Foundation from February 2008 to September 2012. As part of the Foundation’s “Social Entrepreneur of the Year” selection process, Mirjam screened thousands of social enterprises spanning education, health, environment and enterprise development around the world. Mirjam currently serves on the board of various social enterprises and support organizations, including Dialogue Social Enterprises, Thomson Reuters Trust Law Foundation, Siemens “Empower People Award” and Duke University’s CASE Impact Investing Initiative. Mirjam holds an MBA from the University of St. Gallen, Switzerland. She graduated with a Masters in Public Administration from the Harvard Kennedy School of Government. Previously, she was a consultant at Bain & Company.

**Uwe Schulte** After his PhD in chemistry, Uwe Schulte joined Lever Sunlicht in 1980. From 1983 to 1985, he worked as a research scientist in England. In 1990, Schulte moved to Brazil as head of development of Lever. He moved back to Germany in 1992 heading a Personal Care factory. Schulte joined the Elida board in 1996. In 1997, he became responsible for the Personal Care supply chain, Europe. He was appointed as VP Supply Global Management in London in 2001. In 2009, he founded Prosolvo with a focus on CSR and sustainability. From 2010 until 2012, Schulte led the INSEAD Social Innovation Centre as executive director.

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