

**Deloitte.**



License to innovate  
Breakthrough strategies  
for social impact



# Contents

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Foreword	3
Introduction	4
The business case for social impact	7
A view on demand	7
A view on supply	8
Barriers to innovating for social impact	10
Five social innovation strategies	11
Invest in external solutions	15
Engage a network	17
Accelerate externally	19
Sandbox solutions	21
Innovate in house	23
Recognizing a company's readiness for social innovation	25
Choosing the "best fit" strategy	27
Conclusion	28
Acknowledgements	30

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# Foreword

Many of the shifts in “business as usual” to address social challenges that we see today have been years in the making. Back in 2010, 29 leading global companies spanning 14 industries recognised that the way goods are produced and consumed could benefit from a fundamental rethink. Businesses seemed to be falling far short of the positive impact they could achieve through market-based solutions in areas ranging from education to healthcare to mobility. These aspirations were captured in the World Business Council for Sustainable Development’s (WBCSD) Vision 2050, which decisively viewed society’s pressing challenges as tremendous opportunities for businesses to innovate more impactful solutions.

This vision and drive could not be more relevant today, as demonstrated by this past autumn’s launch of the Sustainable Development Goals (SDGs), which explicitly call on business to creatively and collaboratively address sustainability challenges such as poverty, gender equality, HIV/AIDS, and climate change.

Forward-looking companies are already finding ways to address the biggest issues facing society through business-led ventures that are impactful, scalable, measurable, replicable, and that go beyond traditional business as usual. As this report investigates, companies face an expanding set of reasons why pursuing social impact is in their best interests. Both the scale of demand and the preferences of stakeholders – who extend far beyond shareholders and consumers – are applying unprecedented pressure on companies to deliver offerings that, in addition to their intrinsic utility, provide value to society. This can be seen in a range of contexts, from the discerning millennial customer who takes to social media to rave or rant about a company’s practices, to the rising global middle class that seeks education and health services that improve wellbeing and future prospects in their communities. It is now the rarity for a multinational corporation to be unaware and unresponsive to these stakeholder expectations, pervasive as they are.



**Peter Bakker**  
President and CEO, World Business Council  
for Sustainable Development

Trends on the “supply” side are also reinforcing this shift. Some are clear opportunities: businesses are able to reach more customers and be responsive to their needs at a lower cost through technology. New legal and financial structures ease the perceived tension between financial and social impact. Others threaten the status quo: “born social” companies whose entire brands are built around their positive impacts on society challenge industry norms, leaving established companies struggling to keep up. Resource scarcity and climate change are pushing companies towards greater efficiency, which has provoked particularly intense discussion surrounding the COP21.

If one thing is clear, it is that business as usual is not sustainable and that social innovation offers one compelling alternative.

The WBCSD and its members, Deloitte among them, recognise that collaborative problem solving will be a critical part of how companies redefine the value they provide to society and innovate to solve global challenges. Developed well, these new business solutions may enable companies to better manage their risks, anticipate consumers’ demand, build positions in growth markets, secure access to needed resources, and strengthen their supply chains.

Through this paper, the WBCSD and Deloitte seek to illustrate not only why but primarily how companies can develop and integrate business solutions with social impact into their core business. By understanding both the successes and failures of early movers, the report looks to help companies understand if they are ready for social innovation and, if they are, which strategies may best suit their company’s potential offering. This is done with the hope to encourage more companies to actively pursue social innovation as a means to achieve greater long term sustainability, financial growth, and social impact.



**David Cruikshank**  
Global Chairman,  
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# Introduction

Can a company of scientists actually change the world? Can it be commercially compelling enough to transform “business as usual,” propelling business towards a vision for the future that is larger than its own? If the first challenge was not ambitious enough, the latter certainly adds complexity. Yet Novozymes leadership saw—and seized—the potential to deploy their industrial biotechnology capabilities towards this bold aspiration.<sup>1</sup>

Determining what such an undertaking would entail would prove to be a task in itself. Innovation “insiders” within the research and development (R&D) division and intrapreneurial employees from other parts of the company excitedly explored possible projects, only to find themselves in a Goldilocks scenario; projects were one by one crossed off for requiring too long a time horizon, too significant an investment, not yielding enough impact or returns.

Finally, in 2008 an employee brought an idea to Novozymes leadership that felt promising, even if other business units were not convinced. The concept involved providing a clean cooking solution to replace charcoal use in the fast-growing capital city of Maputo, Mozambique, by locally producing ethanol from sustainably grown cassava. The Novozymes CEO approved the project, which would report directly to his office, to see how the completely new business model would develop.

Over the following months the idea evolved into a business plan, which turned into a partnership between local and global organizations and ultimately a fully funded company in Mozambique that encompassed an entirely new value chain. The new business equipped urban households with a cheaper alternative to fossil fuel energy, reduced charcoal-based deforestation, and offered increased incomes and more productive lands in the region.<sup>2</sup>

For many at Novozymes, witnessing the positive societal outcomes of the Mozambique business offered an exhilarating taste of a different kind of business opportunity. The fact that the country was also a rare

example of double-digit annual GDP growth and an entry point into a burgeoning middle class market only strengthened the business case.<sup>3</sup> The business developed, with thousands of engaged suppliers and customers and millions of dollars raised. It didn’t take long for word to spread. Awards were won, receptions attended, interviews held.

Just when the new venture seemed on the cusp of much greater success in 2012, it began to falter. What started as observed challenges within the value chain turned into large cost-overruns. Local conflict between the government and rebels caused supply disruptions and reduced sales. The local management team struggled to keep ahead of the challenges. Eventually, after several rounds of rescue attempts, the investment needs exceeded shareholder appetites—and the venture was wound down in 2014.<sup>4</sup>

In hindsight, Novozymes recognizes that despite its best efforts and will to achieve social progress the company did not have the necessary local context and capabilities to properly incubate the venture. Governance was too weak and slow, partnerships were inadequately designed to deal with conflict, and it was unwise to let the project remain separate from any core business unit that might have had the interest and strength to protect it in times of trouble.

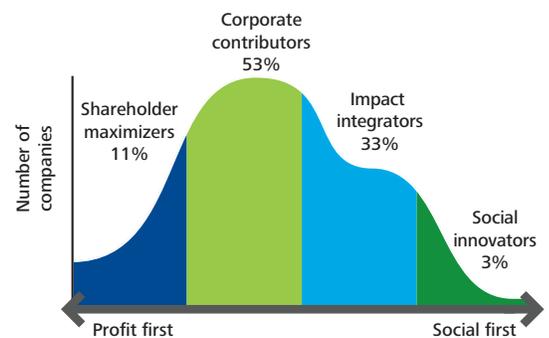
Projects that strive for more modest goals than reinventing an entire value chain—and plenty of the companies pursuing equally ambitious objectives—struggle with these same challenges. Such projects, as we will explore more in this report, take time, distinct skill sets, and geographic reach, which all require companies to stretch beyond their previous ways of operating and quantifying impact.

These requirements are not deterring companies from pursuing social impact efforts. Quite the contrary, companies increasingly view these solutions as an integral part of the business. Consider a couple of the stories that emerged from our research, which will be explored further in this report; the oil and gas giant that gradually became a life sciences-centered company and no longer makes investments that fail to satisfy its “people-planet-profit” test. Or the snack food company that increased their R&D in the basic sciences tenfold to create healthier ingredients that don’t sacrifice flavor. But this scale of transformation still represents the minority of large multinationals.

## Only three percent of *Fortune* 500 companies register as true “social innovators,” while fully one-third of *Fast Company’s* most innovative companies qualify.

This is consistent with an analysis performed by Deloitte’s Social Impact practice of *Fortune* 500 companies, where only three percent registered as true “social innovators,”

while fully one-third of *Fast Company’s* “Most Innovative Companies” qualify. By this measure, most established multinationals have much to learn from the emerging “born social” companies that are valued for their ability to put a social purpose on par with their financial targets.<sup>5</sup> If becoming a “social innovator” is the aspiration of a widening set of multinationals, the majority may still be described as either “corporate contributors” who are reacting to external pressures for improved transparency and socially responsibility or “impact integrators” that more proactively embed social impact into their offerings. Read more about these “archetypes” in the box below. Those companies looking to move towards achieving greater social impact through their core business are the prime audience for this report.



### The four corporate archetypes

In 2015 Deloitte analyzed how *Fortune* 500 companies—which span six industries, 53 sub-industries, and over 40 countries—prioritize social impact by examining their public information across 60 metrics. Scores across those metrics were simplified into four “archetypes” based on the extent to which they integrate social impact into their core business. Those archetypes are defined below, as well as the distribution of companies across the 4 archetypes.

- **Shareholder maximizer:** The primary motivation of the shareholder maximizer is short-term shareholder value. Their strategy emphasizes risk mitigation.
- **Corporate contributor:** Social impact for the corporate contributor is driven by external factors, including key stakeholder relationships. Their strategy is siloed within the firm.
- **Impact integrator:** For an impact integrator, social impact is integrated within firm strategy and across business units.
- **Social innovator:** Social impact is an integral piece of the overall strategy for a social innovator. Their business creates socially-conscious goods/services and markets.

Given the strong interest of corporate contributors and impact integrators to innovate new offerings that yield social impact, taking cues from top social innovators, the five strategies introduced in this report can help companies advance on this path.

John Mennel and Nate Wong, “Driving corporate growth through social impact,” Deloitte, 2015, [www2.deloitte.com/us/corporate-archetypes.html](http://www2.deloitte.com/us/corporate-archetypes.html)

Our interviews with ~20 companies and secondary research have surfaced many companies that are mid-process and have already navigated—and often overcome—significant hurdles along the path to achieving impact and growth.

We will share the rationale of this vanguard, beginning with the trends that many large companies are viewing as grounds to embed social criteria into significant decisions about where to operate and what to sell. It is worth noting that this paper centers on achieving growth alongside social impact, where social impact represents measurable improvements on issues that affect society, from education to well-being to more equal access to opportunity, particularly where it concerns previously unserved or underserved populations. In some cases companies may make environmental impact an additional criteria guiding their strategic decisions. This report includes some examples where both social and environmental impact are pursued, but the focus of this report is to identify and explore strategies that specifically target social impact.

Once it is clear “why” some companies are pursuing social impact as a growth opportunity, we can focus the bulk of this report on the much harder question of “how” companies might do this. We have identified five different strategies that span varying levels of company ownership of the innovation process, from fully advancing social innovation in-house to engaging external contributors for large parts of the process. A company may choose to

pursue a hybrid of these strategies. To inform a company’s choice of which to pursue, we will offer examples and suggestions of ways to effectively deploy each strategy and what to avoid. As a company prepares to embark on its selected path, we offer conditions within a company, its industry, and the broader environment that appear to set companies up for success when pursuing social impact.

Open-mindedness that enables a company to be resilient in the face of missteps is a critical condition, as occasional failure is an inevitable consequence of pioneering in new territory. Giving up on the venture in Mozambique could have precipitated a pivot for Novozymes away from its bold vision to pursue high-impact business ventures. Instead it prompted consideration of the systemic challenges that were faced—both internally and externally—and a discussion about what it might take to address these challenges for Novozymes and other corporations with similar ambitions.

Novozymes has since chosen to partner with the WBCSD to develop an incubator that addresses many of the challenges faced by large corporations desiring to pursue high-impact ventures. The incubator is called DIVA (Development through Impact Venture Acceleration) and offers a chance to help others navigate the stumbling blocks that Novozymes encountered with the Mozambique business. This is in line with its corporate strategy of “partnering for impact,” where Novozymes explicitly aims to help achieve the SDGs.<sup>6</sup> This spirit of resilience and collaboration is critical to truly redefine the role and impact of a business’s offerings in society.

#### Distinguishing between “social innovation” and “social impact”

“Social impact” and “social innovation” are sometimes referred to as interchangeable concepts, which ignores a subtle but important distinction between a process and its outcomes. A company ostensibly embarks on an innovation process to develop breakthrough business solutions; in the case of social innovation the “breakthrough” has the dual dimensions of social impact and financial viability, often with an eye for measuring the impact achieved through the solution.

# The business case for social impact

Successful businesses would not prioritize social impact on the scale it is currently being pursued if they did not see a compelling business case, encouraging them to stretch beyond their traditional customers and offerings. After all, social innovation is not without its risks and challenges. There is the potential risk to the brand, the outlay of financial resources with great uncertainty of returns, the time that could be spent pursuing more immediate opportunities closer to the company's comfort zone, the effort involved in evaluating whether a solution actually improves social outcomes.

However, market transformations in recent years have exposed the cost of inaction in a fast-changing world: irrelevance, lost market share, and perhaps even obsolescence. Reminders of Joseph Schumpeter's creative destruction abound, in some cases wreaking havoc on entire industries. Recent years have seen upheaval in the

music industry with the arrival of streaming services and in the print journalism world with the proliferation of profuse free and cheap digital content. Whereas making it into the *Fortune* 500 fifty years ago meant you had 75 years, on average, to maintain a leading position, now that average is less than 15 years.<sup>7</sup> Companies today, more than ever, recognize the importance of taking notice of today's peripheral actors and trends as they may bring significant changes to the company's own business. For many of the reasons we are about to acknowledge, social impact is one such topic that has moved from a niche to a more mainstream discussion. Multinational companies that disregard the widespread support for global objectives such as those coming out of the COP21 meetings on climate change and the Sustainable Development Goals, not to mention the social issues that directly relate to their business, do so at their own peril.

## A view on demand



It may seem ironic that competitiveness is now a driving force pushing companies to pursue social impact. A powerful contributor to this trend is the influence that buyers, or those on the "demand" side of the global economy, exert through both their scale and preferences.

**The sheer volume of demand globally is unprecedented, driven in large part by the doubling of the middle class in emerging markets.** Whereas developed economies are most recently characterized by stagnating living standards and a hollowing middle class, for the first time in history a truly global middle class is emerging. With rapid growth in China, India, and parts of Southeast Asia, the global middle class is expected to more than double in size by 2030, from 2 billion today to 4.9 billion.<sup>8</sup> The International Finance Corporation values the purchasing power of the 4.5 billion people at the base of the pyramid (BOP) today—those with significantly less purchasing power than the middle class—at US \$5 trillion. Many of the products and services they are seeking en masse, such as schooling and access to health clinics, advance social outcomes.<sup>9</sup>

Additionally, **the majority of both consumers and talent favor transparency and socially responsible business practices and that contingent is only growing.** Today, 81% of consumers read some sort of customer review or rating prior to making a purchase.<sup>10</sup> Consumers' expectations of "socially responsible practices" are also expanding to include aspects of the business that may not have previously been included, from the diversity of a company's workforce to the perceived health of ingredients to how consumer data is used. A company's ability to perfectly capture the smell or taste of strawberry in an artificial flavoring is of little interest to consumers seeking unprocessed food and natural ingredients, hurting sales of processed foods and fast food chains in some regions. A recent survey indicated that millennials in particular are driving this shift, with 42% of millennials surveyed expressing distrust of large food companies compared to 18 percent of non-millennial customers.<sup>11</sup> Millennials also tend to gravitate to businesses that have a purpose to "improve society" over those that simply "generate profit."<sup>12</sup> Looking globally, even the poorest populations are typically able to be resourceful and discerning in where they spend their precious resources with their mobile phones and the ability to compare prices and options.

**Shareholders are increasingly looking to invest in companies that share their values.** From promoting sustainability and measures against climate change to fighting predatory lending practices and supporting human and labor rights, shareholders are using their power to encourage responsible business. Money managers increasingly integrate environmental, social, and governance (ESG) criteria into their portfolio investment decisions, with the assets invested in this way expanding fourfold between 2012 and 2014 in the US.<sup>13</sup> 2015 was on track to set a record for the number of shareholder resolutions filed on social and environmental issues.<sup>14</sup> Achieving the majority of shareholder votes on these resolutions, while rare, nevertheless puts public pressure on the company to change policies and is often pursued in parallel with a consumer and/or media campaign to raise awareness about the complaint.

**Consumers and shareholders are just two of an expanding set of stakeholders** to which companies must be responsive. Indra Nooyi, chairman and CEO of PepsiCo, states that “being a CEO is no longer [just] dealing with your employees, your customers, suppliers, your investors. This is dealing with governments, NGOs, with any interested party who decides to challenge your company.”<sup>15</sup> In recent years the scrutiny has been acute, a symptom of the fact that only 57% of consumers report that they trust the business sector.<sup>16</sup> Those harboring distrust are known for being vocal and creativity is the limit for expressing strong opinions online that may go viral, whether by a backlash on Twitter or an artistic (but no less scathing) social commentary, such as distorting a company’s recognizable logo to make a statement, as has occurred in the lead up to the 2022 World Cup.<sup>17</sup>

## A view on supply



The growing demand that companies face to deliver social impact spans from opportunities (new consumers, new products) to threats (public outrage that tarnishes the brand and reduces sales), both of which encourage companies to respond to this call, even if for opposite reasons. But market demand is only half the story; various trends on the “supply” side are stimulating the development of business models that yield social impact.

**Technology is enabling businesses to achieve impact for a larger population at a lower cost.** Take Safaricom, which saw opportunity in a country where financial inclusion was limited and transporting cash was typically both risky and slow. Within a decade M-Pesa, the company’s platform for money transfers and micro-financing services, has become nearly ubiquitous in the daily lives of Kenyans, extending financial inclusion to nearly 20 million Kenyans and facilitating the creation of thousands of small businesses.<sup>18</sup> Technology is shortening the distance to reach customers, expanding the capabilities that companies can offer them, and allowing for greater agility to respond to shifting customer needs.

**When access is valued over ownership in the “sharing economy,” services tend to drive growth more than products.** Technology has made it easy to share cars, accommodations, knowledge, even the equipment individuals need to create their own custom solutions in “maker spaces” like Fab Labs, numbering over 300 globally.<sup>19</sup> Millennials are earning a reputation for leading the charge, generally expressing less interest in ownership across a range of product categories. New sources of competition are forcing local taxi companies and multinational hotel chains alike to reevaluate their business models, while at the same time offering new flexible work arrangements and revenue sources for individuals who can act as service providers. The employment prospects and expanded access to mobility and other services are social goods generated through these new businesses.

**Diverse funding options with a social impact focus are providing resources to develop innovative business models.** Companies today have numerous options to invest for financial and social returns, including impact investing and blended funding structures that combine philanthropic and commercial capital. More companies are also bringing social and environmental criteria to their corporate venturing, which represents 20% of all venture capital deals.<sup>20</sup> The latest JP Morgan/GIIN Impact Investor survey covered 146 leading impact investors who reportedly invested US \$10.6 billion in impact investments in 2014 and planned to invest an additional 16% in 2015.<sup>21</sup>

**“Born Social” new entrants are providing compelling alternatives to the offerings of large companies while delivering measurable social impact.** Companies like The Honest Company and Method are directly competing on the same shelves as traditional consumer brands, while other startups are catering to changing consumer preferences to shop online, offering subscription programs to healthy snacks and online ordering of buy-one-give-one products that directly provide social services and staples to low income populations. Once these new entrants are able to demonstrate the individual impact and profitability of their model, they tend to become attractive targets for investors and for acquisition, such as Bain Capital taking a 50% stake in TOMS.

**New legal structures make it easier for companies to prioritize social impact than in the past,** when companies subscribed to shareholder wealth maximization and measured success by financial targets alone. Companies can now incorporate under the legal status of a low-profit limited liability company (L3C) or benefit corporation (B Corps), reducing their risk of lawsuit under accusations that they are failing their fiduciary responsibilities by pursuing social impact. To date “benefit corporation” legislation has passed in over 40 countries.<sup>22</sup> Both older and brand-new companies have registered as B Corps, including Patagonia, Warby Parker, and Kickstarter.

**Climate change and the scarcity of natural resources is also pushing many companies to seek greater resource efficiency in their practices and products,** spurring development of new technologies in areas such as renewable energy and green buildings as well as improvements in sourcing and supply chains to reduce waste. Ninety percent of Europeans want their governments to set higher targets for renewables in the energy mix by 2030.<sup>23</sup> In India, renewable energy was a prominent election topic in 2014, with many voters arguing for greater use of renewable energy to improve electrification rates in the country.<sup>24</sup> But the Chinese have taken their commitment to the next level and are looking to capitalize: Chinese companies have “invested a record-level \$89 billion in renewable energy projects in 2014, 31% higher than 2013 investments”—becoming the world’s leading investor in the sector.<sup>25</sup>

Some of the supply-side shifts described here have made it easier for companies to prioritize social impact while others have made it essential. Taken together with the shifts in demand, the combined effect is one that involves companies developing a strong point of view on the type of social impact they are in the business of creating. In some industries and parts of the world this offers an opportunity for a company to differentiate from competitors and guard against new entrants, while for others it is now an industry-wide necessity that represents part of a company’s “license to operate.” Even those in the latter camp are increasingly looking to move beyond simply meeting the standards and expectations of the industries and geographies where they operate to a “license to grow” position, which allows the company “to be invited into communities—not just tolerated” in the words of Dan Bena, senior director for Sustainable Development at PepsiCo.

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In some industries and parts of the world social impact offerings can differentiate a company from competitors and guard against new entrants, while for others it is now an industry-wide necessity that represents part of a company’s “license to operate.”

#### Our methodology

The findings of this report are informed by 20+ interviews with company representatives of multinational corporations, international organizations, and social innovation experts. Their input regarding the internal conditions and partnerships necessary for developing business solutions for social impact shaped much of the thinking of this report. The combined experience of WBCSD member companies who are already pursuing the five social innovation strategies described in this report provides insight into what makes each strategy effective.

# Barriers to innovating for social impact

The supply- and demand-driven trends just described provide companies with ample reasons to pioneer ways to make their business more socially impactful, but even the most innovative companies often struggle to translate what works well in other parts of the business into offerings that measurably link to and improve specific social outcomes. This tends to be especially true when it involves reaching populations and needs they have not served before. Below are some of the common internal and external barriers that surfaced in our research.



## Internal

**Lack of legitimacy and support:** Whether the company culture is one that generally resists change or there are specific aspects of the “social impact” agenda that people are resistant to, social impact efforts lack internal support.

**The potential solutions are too immature/early-stage:** Even if key decision makers can agree that the company is well positioned to make progress against a specific high-priority issue and the societal problem is well understood, they may not have confidence yet that a business model will effectively deliver the desired outcomes.

**Limited resources and high opportunity cost of investment:** The lack of internal human and/or financial resources that can be dedicated towards developing “social impact” offerings may stall or prevent action. Even when external financing options exist, the company may be unfamiliar with them or find them unattractive (perhaps due to the terms and/or time horizon). Further, the investments may have lower expected rates of return than other opportunities because the cost or risk of the “social impact” offering is high, anticipated margins are low, and/or a long time horizon is needed to break even.

**Strategic and operational misalignment:** If the company still views “social impact” as living solely in a corporate social responsibility or communications part of the company, existing operating structures and processes likely cannot be leveraged to develop new offerings and those within the core business may not have strong incentive to contribute.



## External

**The complexity of addressing systemic social challenges:** Companies that are used to acting quickly on their own may struggle to take a systemic view, as it involves investing the time and effort to develop solutions that draw on the collective intelligence of multiple sectors and disciplines in order to address the root causes of a social challenge. Without engaging key organizations and institutions, the absence of a “minimum viable ecosystem” will preclude tackling systemic issues.

**The difficulty of demonstrating attributable, measurable social impact:** Many companies face intense pressure from internal and external stakeholders to quantify the impact their offerings are having against the targeted social issue in a transparent way that clearly links to the company’s own actions. Absent an evaluation regime that embraces the rigor of randomized control trials, isolating the effects of an intervention amidst numerous other variables can prove challenging.

**Not enough—or the wrong kind—of financing:** Developing a new solution that requires external investment hinges on finding terms of financing that match the specific needs of social impact ventures at each stage of their development, whether that entails a longer time horizon to evaluate the social outcomes of an offering or investment in capability building, not just financial resources. Securing funding from sources that understand these constraints and can supply such support is competitive and may be resource-intensive to acquire, with elaborate up-front applications and ongoing evaluation requirements.

These are barriers which, with the right strategic forethought, can be mitigated or altogether avoided. The strategies introduced in the next section aim to help companies identify ways to advance social impact through a path that is the right fit for the skills, resources, and support that the company brings internally as well as the external pressures that the company is up against.

# Five social innovation strategies

The companies that participated in our research span industries and geographic regions globally and yet the trends just described were recurring themes in our interviews that help explain why companies today feel compelled to consider social impact in the same breath as profits when deciding which opportunities to pursue. Common stimuli may compel all of these companies to act, but how they choose to respond is where they diverge.

Some companies are early into engaging business units in corporate social responsibility-led initiatives; others have included social criteria when investing through corporate venturing for years. In all cases the desire to cultivate a strong culture of tackling ambitious societal issues was deeply aspirational; regardless of the current activity it was insufficient and could be improved upon, which reflects both the determined vision and candor of those we spoke with. Even for those who conclude that they have the foundational conditions in place to pursue social innovation, there is the open question of how to execute on the vision in a way that is most impactful, financially compelling, and authentic to the company's mission.

Fortunately, much can be learned from both the successes and struggles of "social innovators" that are years into experimenting with how to achieve such progress, including many that we engaged in this research. Companies prone to a stance of "fast followership" may look to these organizations and question the feasibility of exactly replicating their choices rather than developing

their own efforts from scratch. Clearly learning from others can infuse fresh thinking and helps companies sidestep the stumbling blocks of those who went before them. Pearson's Amanda Gardiner, vice president of sustainability and social innovation, speaks admirably of what has been learned by engaging with companies such as Barclays, GSK, and Mars around developing the in-house capabilities to design products and services for low-income and marginalized populations. As Gardiner's team works to link offerings to learning outcomes, Pearson's growing experience in this area may likewise prove beneficial to other companies looking to measure impact. In these instances collaborative learning supports a company's own innovation process, but in other cases a company may try to bypass innovation completely by instead selling copycat versions of items already on the market.<sup>26</sup>

The five strategies that emerged in our research reflect the approaches of companies looking to develop their own unique offerings, as opposed to merely reproducing existing products. In large part this is motivated by a desire to deliver true innovation that delivers measurable impact, earning the company a reputation of a groundbreaking problem solver while earning compelling returns. To this end, the five strategies defined in figure 1 reflect approaches that these companies are either actively engaged in or are working towards today.

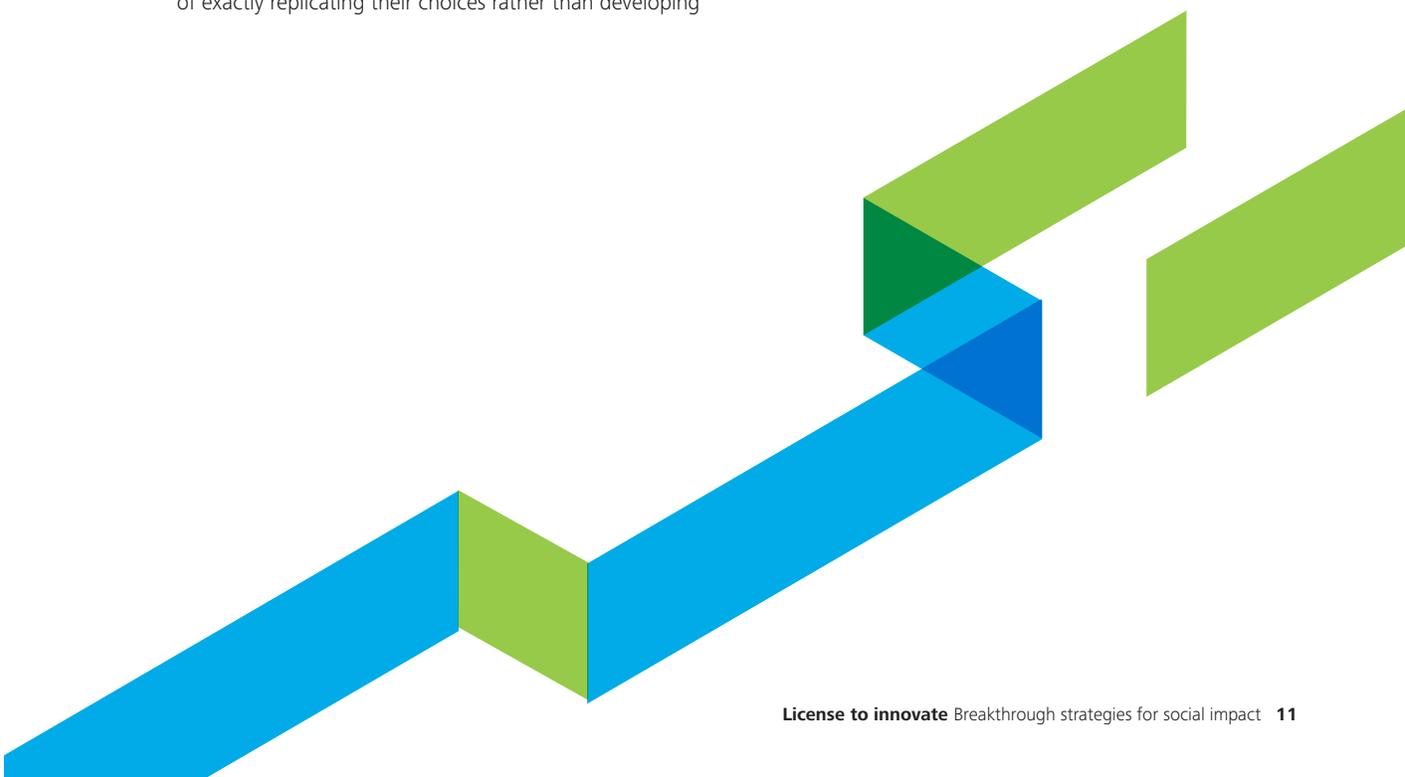
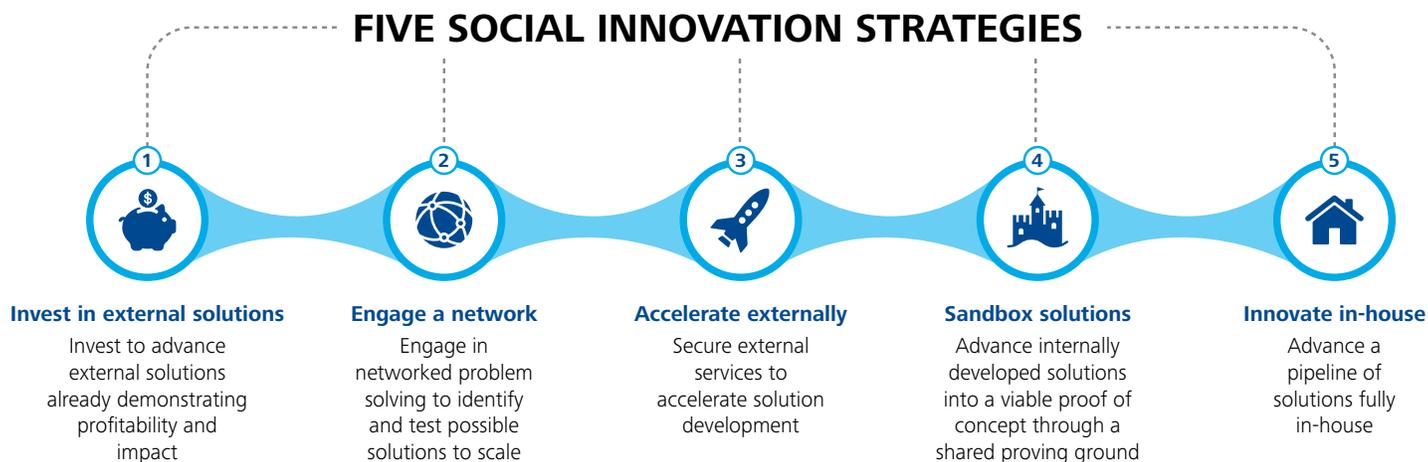


Figure 1: Five social innovation strategies



The definitions in figure 1 and the examples that follow will illustrate what each of these strategies entails in practice, but first it is worth noting that there is no “best” or “worst” among these options. Rather, a company’s motivation, capabilities, and desired role in social innovation will all help determine the organization’s “best fit” strategy (or combination of strategies). A company may pursue a combination of strategies to support its diverse portfolio of offerings.

“Motivation” refers to how social impact reflects the culture and mission of the organization and is prioritized by leadership. A company that wants to be known for impactful work may choose to spearhead the entire social innovation process **5**, whereas a company just looking to dip a toe into the space or try out a variety of different emerging solutions may opt to invest in startups **1**. But aspiration is insufficient; certain skills and resources may be needed that lie outside a company’s current capabilities.

When a company sets its sights on tackling a pressing societal issue it is often with the recognition that the problem has earned a reputation for being intractable because of the significant resources, capabilities, and timeline that extinguishing it requires. Increasingly companies are finding creative ways to work across sectors and ecosystems and even activate individual contributors through networks dedicated to a shared goal **2**. In some cases this level of collaboration will surface and help develop solutions that achieve the desired progress; this has proven true for a host of efforts ranging from nutritionally fortifying staple grains and improving crop resilience during the “Green Revolution” in the second half of the twentieth century to more recent efforts to make cities more energy efficient and healthy. In the case

of the former; however, it helped to have the Rockefeller Foundation commit more than \$100 million in funding over 15 years to shepherd the international cooperation and cross-disciplinary research required to engineer a more nutrient-dense variety of rice.<sup>27</sup>

In some cases where the scale of investment required (combined with questionable financial returns) precludes companies from individually getting involved, a joint venture that pools resources and expertise to help overcome systemic barriers can turn the venture into a compelling proposition **4**. Often referred to as a “sandbox,” shared proving grounds are an approach traditionally favored in capital-intensive, high-tech industries such as defense and, most recently, the automotive industry as companies develop self-driving vehicles. Renewable energy and healthcare are two spaces in particular where this strategy may accelerate the development of new market-based solutions.

Choosing the “sandbox solutions” strategy assumes that a company has a solution ready to refine, but some companies hire firms to help develop the solution. Perhaps a company observes unmet demand for a specific health solution in India, but recognizes that its limited familiarity with the laws and market conditions in the region may hinder its efforts. The company may therefore choose to expedite its product development and market entry by engaging an accelerator that brings relevant expertise **3**. A company’s “role” in this context hinges on the extent to which it can (and chooses to) independently produce viable solutions that deliver the desired impact and growth, versus engage other partners in the solution development process.

## Partnerships and the five strategies

In all except the in-house strategy **5**, a company engages an external contributor in some capacity. In some cases the exchange is more transactional, such as investing in a fund **1**. But others involve more give-and-take and collaborative problem solving, essential elements of a sound partnership.

To help accelerate a solution externally **3**, a partner with complimentary competencies is able to help develop the idea in ways the company alone could not and the fee-based nature of this work makes a service provider a trading partner. Engaging a network **2** and sandboxing solutions **4** entails assembling a whole combination of peer-level partners; in the case of the former to experiment with early-stage solutions that may realize different kinds of impact on a common issue and in the latter to test a certain solution in a shared environment to overcome systemic barriers. As such, partnerships are a component of multiple strategies.

The fundamental question of how much ownership a company takes of the innovation process, and which strategies to pursue, is relevant to everything the company produces. To make or to buy, to compete with or to acquire, to hire help or to team with others, the company's self-assessment and scanning of the external landscape will determine what phases of the innovation process the company should "own" for its investments and offerings.<sup>28</sup>

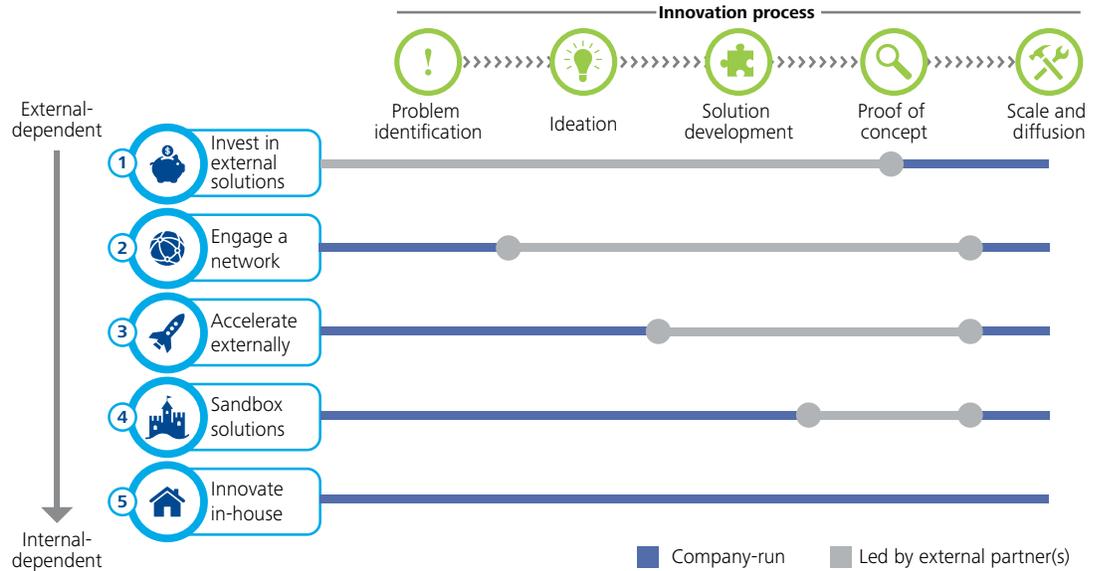
Each of the five phases in figure 2 is an essential step in the process of originating, developing, and launching a new solution. A company may prefer to specialize in a part of this process, perhaps scaling numerous solutions once there are viable proofs of concept. Alternatively, the company may differ its strategy depending on the type of solution under development, depending on its area of expertise. In figure 3 each of the five strategies is charted against the parts of the innovation process typically run by the company versus external partner(s).

Applying a classic innovation frame to the five social innovation strategies aims to highlight how internal-versus-external ownership of the process varies across the strategies. However, although the five phases may be identical to a typical innovation process, the realities of crafting a solution that measurably improves outcomes often carries additional challenges. The capabilities required to innovate for social impact might fall outside a company's core competency, whether that is due to the challenges that come with serving remote and/or low income segments, the need for specialized ethnographic and human-centered awareness of a population's unique needs, or the complex ecosystem of organizations involved in addressing the selected societal issue(s), among other potential sources of complexity. Any combination of these factors may lead a company that is accustomed to running a full innovation process in-house to seek outside support earlier in the social innovation process. The considerations that are unique to social innovation for each strategy will be explored further in the next section.

Figure 2: Five phases of innovation<sup>29</sup>



Figure 3: Ownership by innovation phase for the five strategies



Building on the distinctions that were just made between the five strategies, each strategy will now be more fully defined. Examples based on our interviews help to illustrate what motivations have led companies to each strategy, the various forms it can take, and how companies are acting on a strategy.

These examples offer a starting point, with full recognition that the ways each of these strategies manifest is limited only by the creativity of the companies pursuing them. The common advantages and disadvantages of each strategy, keys to getting it right, and pitfalls that surfaced in our research are also described. This detail can help inform a company's choice of which strategies represent a promising next step towards achieving social impact through new business offerings.



# Invest in external solutions



*Invest to advance external solutions already demonstrating profitability and impact*

This option is the most transactional, straightforward approach of investing in intellectual property (IP)-creators outside the company through corporate venture capital or a different co-investing method. Corporate venture capital refers to a “business development activity within the parent company that identifies, incubates, and accelerates ideas, technology, and innovation for key business lines” and typically involves an equity stake.<sup>30</sup> In some cases, corporate venture capital can act as a pipeline for later-stage investment by corporate venture capital funds.<sup>31</sup>

Other methods of investment may include impact investing, limited partnerships in funds, and other financing of social enterprises, among an expanding set of investment options. In recent years some long-standing financial institutions have been increasingly eager to use their expertise and resources to address social challenges. Driven by demand from traditional investors eager to utilize their capital for development aims alongside investment returns as well as demand from philanthropists and institutions for sustainable capital, JPMorgan Chase has committed \$68 million to impact investments.<sup>32</sup>

Together, we refer to these different forms of investments and co-investments as the “invest in external solutions” strategy (1). This model subscribes to most of the conventions a company typically follows to source IP, only in this case with social and environmental criteria applied to determine which deals go through. This gives a company breadth across a variety of areas of innovation they could not touch through internal resources, allowing the firm to take more modest risks while staying focused on its primary business.

This approach also allows the company to support solutions that have matured to the point of demonstrating measurable impact, a stage that could be years in the making if the company were to develop a solution from scratch. For this reason, some companies may determine that the highest impact can be achieved by scaling proven solutions. Where evidence is limited, the company may choose to invest in promising, not-yet-proven solutions with the requirement that results be captured to prove the efficacy of the solution, a critical stage-gate in its expanded adoption.

Investments may help a company identify where its existing offerings could combine with external capabilities. In rare instances, an acquisition may occur to bring promising capabilities in-house. DSM, a global life science and materials science company, uses its corporate venture group as an “outside-in” innovation arm, investing in 50+ startups since 2001 in exchange for a minority equity stake. DSM often partners with the startup to incorporate breakthrough ideas into its own offerings. For any new businesses DSM innovates in, each target must satisfy the company’s “people-planet-profit” criteria, with funds invested through the DSM’s corporate venturing coming directly from the company’s balance sheet.<sup>33</sup>

As a high-quality manufacturer in highly regulated domains (nutrition, medical, advance materials), DSM is a compelling counterpart for startups looking to scale their product and DSM likewise benefits from widening the diversity of offerings it can deliver at scale, including new business models and access to adjacent markets.<sup>34</sup> The company embraces the infusion of fresh thinking from outside innovators because the very qualities that make them successful in manufacturing—precise processes, conservative decision making, and clearly defined organizational structures—make it sometimes challenging for intrapreneurs to develop new offerings that deviate from how the business traditionally operates.

“Cultivating intrapreneurship and multidisciplinary work is a challenge in any large company and can be even harder in older companies that bring a strong historic culture. At the same time, if the company is too eager and abrupt in upturning that historic culture there are losses and alienation that can happen as well” reflects Pieter Wolters, DSM’s managing director of venturing.<sup>35</sup> For this reason, DSM has an internal Innovation Center (which is the home of its corporate venturing activities) and has taken steps to explore using external accelerators and incubators (strategy (3)) that could strengthen intrapreneurship within DSM, without compromising the elements of the company culture that have made it successful.<sup>36</sup>



## Invest in external solutions

What distinguishes this strategy from the other four	Examples
<p>A company typically wants a low-risk means of accessing and supporting new solutions that are already demonstrating strong signs of growth and impact. Leadership does not want to take staff away from their current business priorities, whereas the other four strategies tend to involve greater internal time investment.</p>	<ul style="list-style-type: none"> <li>• Corporate venturing</li> <li>• Impact investing</li> <li>• Co-investment in commercial funds</li> </ul>

## Common trade-offs of this strategy

 Advantages	 Disadvantages
<ul style="list-style-type: none"> <li>• Taking <b>numerous small bets can</b> allow a company to engage with a wider spread of innovations, potentially serving as a defensive mechanism against disruption</li> <li>• Cultivates a rich <b>ecosystem of small innovators</b> that can be trade partners and potentially acquisitions of the company</li> <li>• <b>Lowers investment risk</b> by delivering a more fully baked solution with data supporting the solution's efficacy</li> <li>• Allows for <b>staged investment</b> opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Does <b>not support a culture of intrapreneurship</b> and innovation in the same way more internally focused strategies could</li> <li>• The company must negotiate and <b>compete with other funders</b> for top innovators and IP, potentially paying a premium or missing out on promising IP that competitors may acquire instead</li> </ul>

## Key considerations

- **Consider investments that appear on track to deliver the desired impact and returns within the company's funding cycle, but recognize that longer time horizons are the norm in (impact) investing.** DSM chooses to invest through venturing as a way of committing to startups for at least one multi-year round of funding and regularly invests in consequent rounds if the startup's business and IP perform well in the initial round. The predictability of the timeline helps with allocating capital and reassessing the portfolio strategy on a regular basis.<sup>37</sup>
- **Due diligence may yield fewer comparable deals, thinner data, and variance in how impact is measured, requiring greater communication with investees and a more bespoke diligence process than typical transactions.** Companies accustomed to early stage venturing will likely be less surprised by the challenges of investing in unique, socially impactful business models that are not easily comparable to other transactions, but even those companies may struggle in optimizing for improvements in social and environmental outcomes, as many companies are relatively new to making investment decisions based on this criteria.

## Watch out for

- **Making a number of investments that are not connected to the core business or that do not yield meaningful results.** While making a number of investments at a time is feasible under this strategy, companies must be intentional and calculated in how they do it.

## 2

# Engage a network

*Engage in networked problem solving with other organizations to identify and test possible solutions to scale*



For this strategy, a company determines that acting alone will not achieve the intended impact and market development that could occur through collaboration between others within an industry or even across industries and sectors. This may involve developing strategic partnerships around shared objectives, or undergoing an open innovation process to advance progress on a social issue. Firmenich, the world's largest privately-owned company in the fragrance and flavor business, strongly believes in partnerships as a means of pursuing business offerings that yield social impact.<sup>38</sup> It most recently co-founded the "Toilet Board Coalition," together with Kimberly-Clark, Unilever, and Lixil Corporation as well as 15 sanitation expert organizations, to foster the co-innovation needed to accelerate sanitation solutions in developing countries.<sup>39</sup> Their goal is simple but daunting: to catalyze a robust business sector to deliver sustainable and resilient sanitation to the 2.4 billion people who lack it, of which almost 1 billion defecate in the open, and in turn improve health, productivity, and living standards.<sup>40</sup>

Networks are also a mechanism for those in the same industry to tackle precompetitive barriers or establish standards where it is advantageous to work together. For instance, while sustainability has long been a priority area for Santander that has informed and influenced its own decisions, the bank recognized that in some situations greater progress could be achieved by working with other international banks. An example of this is the Banking Environment Initiative.<sup>41</sup> As part of that collaboration, the banks committed to the Soft Commodities Compact, an

effort to achieve zero net deforestation by 2020 through improvements in how the soft commodities palm oil, timber, soy, and beef are procured. While the participants in the compact value the positive environmental impact of this commitment, there is also likely positive financial benefit to such a move. Palm oil that is certified sustainable commands a premium and research from WWF found that even greater financial gains often come from the improvements made in operations, documentation systems, and labor relations among other internal factors. Ultimately, these improvements enable participants to be more sustainable over time.<sup>42</sup>



## Engage a network

### What distinguishes this strategy from the other four

A company has not yet committed to a single solution and wants to explore various ways a societal problem might be addressed, drawing on the collective expertise of other contributors.

### Examples

- Coalition of trading partners or industry peers focused on a common objective (e.g., tech companies focused on expanding internet access)
- Issue-focused ecosystem (e.g., the RE-AMP network focused on Climate Change)
- Social Lab
- Open innovation crowdsourcing platform (e.g., OpenIDEO, Launch.org, Kaggle)

## Common trade-offs of this strategy



### Advantages

- Builds on combined assets and **capabilities of many diverse players**
- May **solve the problem** faster, as many are experimenting with solutions
- Makes it easier to **recognize a company's own blind spots**
- Could **shift societal or industry-wide standards** and garner public support



### Disadvantages

- Many **competing objectives** and ideas can slow progress
- Difficult to reward and attribute credit to the most productive contributors; **incentives are collective** rather than individual



### Key considerations

- **Find ways to achieve equitable distribution of responsibilities so there is a fair give-and-take among contributors.** Governance can be complex when individuals from multiple organizations are working together. A clear value exchange of capabilities offered by each partner can be critical to ensuring long-term buy-in. In the case of The Toilet Board Coalition (TBC), multinational businesses are experts at delivering complex systems with speed and scale. Promising sanitation business models need access to capital and skills building to grow and development experts understand the most urgent priorities for sanitation delivery in underserved markets. The TBC is a business-led public/private partnership that brings all of these pieces together. Companies invest business expertise and capital to accelerate innovation and promising business models and the public sector leverages private sector engagement on this important issue while providing the check and balance to ensure joint focus on the investment priorities as set by the Sustainable Development Goals.<sup>43</sup>
- **Lightweight, flexible solutions work best when the goal is wide participation among participants with diverse needs.** CEMEX, a global supplier of building materials, leverages this approach through Construyo Contigo, an initiative that enhances low-income families' self-building capacities by offering the training, financial solutions, and technical assistance needed to construct their own homes, enabling them to transform their living conditions. "Each community is different so our models [e.g., partnerships with government, NGOs] have to be very flexible," recounts CEMEX's Director of Corporate Social Responsibility Martha Herrera.<sup>44</sup>



### Watch out for

- **Failing to incentivize and reward high performing contributors who may harbor resentment that their efforts are treated the same as less active contributors.** Establishing multi-stakeholder partnerships where the level of capability varies significantly across participating organizations. If there are substantial differences in what each party can offer and standards of performance, participants will struggle to see eye-to-eye and it can become an ongoing source of friction.

# 3

## Accelerate externally



*Secure external services to accelerate the solution development*

If conceiving a new business concept that brings financial and social impact presents a challenge, executing against that vision presents a different scale of challenge altogether. For this reason, accelerators have emerged to help early-stage ventures avoid common pitfalls and subscribe to best practices, based on expertise that the accelerator has in bringing businesses from one stage of maturity to the next.

Accelerators assist with a broad spectrum of needs that are required for a solution to scale, through the accelerator itself and its often-robust network that spans various relevant areas of expertise. Those that specialize in business models that yield social impact are sometimes referred to as “impact accelerators” and are a close cousin of the startup accelerator that has proliferated in recent years.

A 2013 landscaping exercise conducted by The Rockefeller Foundation and Monitor Deloitte found that over 160 accelerators focused on impact enterprises exist in the United States, Sub-Saharan Africa (SSA), and Southeast Asia alone. However, accelerators focused on social innovation are quite new. The “impact accelerators” surveyed through Rockefeller’s work were, on average, less than five years old at the time.<sup>45</sup> Accelerators that target large companies but remain external are even newer. Of those interviewed, a few companies are currently exploring the prospect, although all are in the early stages.

DSM has interest in engaging with an external impact accelerator as a means of bringing together the social innovation leading practices from the external landscape with the technical expertise of the company.<sup>46</sup> Part of the goal in developing a solution through an accelerator is that once it is developed beyond proof of concept, it could be reintroduced within the company and, if supported, invested in further and taken to market. For companies that excel at originating new offerings but struggle to bring them to scale, an external accelerator could help productize the concept and implement a scaling strategy.

The intrapreneurial individuals we spoke to who are currently exploring this model were intrigued by the notion of separating an idea from the internal conditions that may kill it before its merits can be demonstrated, while keeping it close enough to the company that if developed and successful it would be viewed as a “win.” “Being able to point to a few success cases is critical to changing the culture and helps those inside a company see the value of taking longer term, riskier bets,” shared Claus Stig Pedersen of Novozymes.<sup>47</sup>

Some who pursue this strategy are looking to advance their own socially impactful product concepts, while others might be looking to collaborate with other companies and pool investment dollars on a shared project.



## Accelerate externally

What distinguishes this strategy from the other four	Examples
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A company has a business offering in mind that it wants to bring to market (unlike the first two strategies), but lacks certain in-house resources and/or support to experiment with and develop the solution.	<ul style="list-style-type: none"> <li>• Accelerator</li> <li>• Design firm</li> <li>• Advisory services (e.g., consulting practice)</li> </ul>
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### Common trade-offs of this strategy

+ Advantages	- Disadvantages
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- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Easy to get started with <b>limited risk of downside</b> due to limited cost in the early stages</li> <li>• Likely follows an effective, <b>demonstrated innovation process</b></li> <li>• Allows for <b>less bounded experimentation</b> given distance from company</li> <li>• Typically involves <b>lower investment</b> than in-house development</li> <li>• Benefits from <b>external expertise</b></li> <li>• Allows for <b>staged investment</b> opportunities</li> </ul> | <ul style="list-style-type: none"> <li>• Can <b>lack transparency</b> and/or company control of the process</li> <li>• Potentially poses <b>difficulty in reintroducing innovation into the company</b>, if over time priorities shifted or leadership withdraws adequate support</li> <li>• Is <b>not conducive to building a more innovative culture</b> inside the company itself</li> </ul> |
|---|---|

### ✓ Key considerations

- **Select a service provider whose strengths best complement the company's internal capabilities.** In this sense picking an accelerator or consulting practice likely resembles other business partner relationships a company pursues. When taking a loan for an infrastructure project, for instance, a company may choose to go with a development bank for the longer time horizon loan, environmental and social criteria, and measurement capabilities.<sup>48</sup> If a company is seeking assistance in taking a human-centered, creative design approach for a new physical product, an innovation firm may be a good choice.<sup>49</sup>

### 🔍 Watch out for

Outsourcing a solution concept because it is convenient, when perhaps it shouldn't be pursued at all. If key stakeholders in the company can't understand the value of the potential solution, and appear resistant to the idea, investing the additional resources in developing a proof of concept, even if the costs are relatively low, would likely be a waste of resources.

## 4

# Sandbox solutions

*Advance internally developed solutions into a viable proof of concept through a shared proving ground*



In the quest to develop solutions that address societal issues, pilots abound that never seem to achieve scale. Nonprofits in the social sector have struggled for decades with this, which in recent years has sparked interest in adapting business principles for achieving scale through “market-based solutions.” Yet when a company seeks to single-handedly tackle an entrenched issue, it may be struck by the realization that the complexity and systemic nature of the issue require the coordinated efforts of many stakeholders, including entities it may have never interacted with, from multilateral development organizations to philanthropies to regional non-governmental organizations. In some cases this may require engaging a combination of these actors from the outset of developing a new solution, leading a company to pursue the “engage a network” strategy.

However, if the company has what it believes is a breakthrough solution already developed, it may be ready to “sandbox” or pressure test the solution with outside input to make sure it is ready for use by customers and will achieve the desired social impact. After all, the stakes are higher in a social impact venture, particularly if the desired impacts relate to the health or safety of the customer. In the health domain there is a long history of conducting rigorous randomized control trials to validate the health outcomes a medical intervention achieves and that evidence-based mindset has extended to other domains of social impact in recent years. Evaluation of a solution’s effectiveness is part of “sandboxing,” but is only one aspect. The company may want external input to make sure that the product or service is customized to fit the needs of a certain audience and adheres to standards and regulations. There is also the matter of making the

solution available to and adopted by the desired audience, which other stakeholders could offer valuable insight into. As such, engaging external services or partners once a solution is ready to “sandbox” can take a variety of forms but is done with the singular intent to prepare the solution to address a real need in the market in a way that positions it to scale quickly.

In Toronto, Canada, a former hospital surrounded by government offices houses the MaRS Discovery District, where systemic problems are met with system-wide solutions. Socially minded startups are co-located with pharmaceutical and tech companies, with active involvement from government, creating a cross-sector support system for emergent solutions. In the healthcare system, this can be particularly valuable, as developing the right evidence to obtain government approval, secure funding, and drive adoption typically operate as separate, cumbersome processes. The MaRS Excellence in Clinical Innovation Technology Evaluation (EXCITE) program integrates these processes, enabling program participants to earn the “EXCITE core evidentiary bundle” for both regulatory and licensing approval and reimbursement and purchasing reviews, which is critical for securing adoption in the health system.<sup>50</sup>

This strategy is the newest one to the social impact arena, even though government has worked with companies pioneering new aerospace, defense, and health technologies for decades to help them overcome industrywide hurdles that would otherwise slow the pace of innovation. For this reason, companies looking to explore this strategy further would benefit from exploring other sectors where this approach has been pursued.

## Sandbox solutions

### What distinguishes this strategy from the other four

A company has developed a solution to the best of its abilities but faces external obstacles that are best addressed by pooling resources and capabilities with others to develop the new market.

### Examples

- Joint ventures and strategic partnerships to bring a solution to market
- Evaluation services
- Market entry advisory services
- Government agreements (to navigate regulatory challenges)

### Common trade-offs of this strategy



#### Advantages

- Allows company to **pool expertise** with other organization(s)
- Increases pool of **capital available** through co-funding models
- Allows for fairly **complex, free-form exploration** and experimentation
- Enables company to **test fit and impact** of offering in the external landscape
- Brings solutions to market that may not otherwise be able to overcome systemic barriers



#### Disadvantages

- Can be **challenging to introduce and trust new partners** late in the innovation process
- Key stakeholders may be **resistant to or take too long to engage** in collaboration
- Creates vulnerability that others will see solutions before they go to market, generating **potential for imitation**
- Even with additional support, certain **systemic barriers** may prove too challenging to overcome



#### Key considerations

- **Align on the systemic barriers that must be overcome to be successful.** If one company is focused on the challenges of reaching a target population while another is preoccupied with government regulation, each will be chasing separate goals and it may prevent the joint effort from being worthwhile for either party.



#### Watch out for

The misunderstandings and disagreements that may occur when contributors bring together their solutions late in the process, without explaining the earlier thinking that went into them.

# Innovate in-house

*Advance a pipeline of solutions fully in-house*



Companies that are capable of spanning the full process and innovating in-house often choose to do so. For PepsiCo this has meant significant increases in R&D spending on health-focused research to reduce the added sugar, salt, and saturated fat content without compromising flavor of many snacks and beverages in its 3,000 product lineup. The shift started at the top leadership levels with Chairman and CEO Indra Nooyi, who took a bold stance from the outset, stating when she took the position in 2006: “The creation of [a] Global Nutrition Group is part of our long-term strategy to grow our nutrition businesses from about \$10 billion in revenues today to \$30 billion by 2020.”<sup>51</sup>

At times the move towards healthier offerings has startled shareholders and loyal customers alike who have expressed concern about their favorite (and therefore highly profitable) foods changing. Initially stock prices tumbled and financial analysts questioned the choice, but Nooyi’s twenty-one years with the company and perspective on the future gave her conviction that the focus was both the right choice for the health benefits to consumers and the financially savvy one in the long run. As the company’s former chief financial officer, others inside the organization trusted her instinct and understanding of delivering value to shareholders.<sup>52</sup> Nine years in, the company appears to have turned a corner and healthier foods now account for 20% of revenues and are a growing share of the company’s portfolio.<sup>53</sup>

Some companies favor more gradual experimentation before betting the proverbial farm. Rather than redesigning the company’s R&D infrastructure the company may instead opt for an internal incubator to test new ideas. For Dr. Maarten van Herpen, Philips’ head of the Philips Africa Innovation Hub, the idea to pursue an incubator that brings BOP-focused innovations to market was almost a coincidence. With more than 100 granted patents to his name, and after founding two corporate ventures, Maarten is accustomed to being the inventor and intrapreneur,

yet now finds himself in charge of roughly 40 inventors and social intrapreneurs at Philips’ Kenya-based incubator developing inclusive businesses that range from community health clinics to the tools that are used inside them. One such product is a low-cost Doppler-ultrasound fetal heart monitor that can withstand the harsh conditions in a region where other low-cost options break frequently. Philips’ device uses small amounts of water instead of gel and a windup mechanism for backup power in the absence of outlets, both features that suit the environment in Kenya.<sup>54</sup>

“The most important thing about being frugal is being locally relevant,” Maarten recounts.<sup>55</sup> He is well situated to be in touch with local needs, living in Kenya full-time for almost a year with his wife and adopted Kenyan daughter. His daughter was the original impetus to move to Kenya, but early on Maarten and his colleagues at Philips Africa and Philips Research realized the unparalleled opportunity for true inclusive innovation that existed in the region. In this part of Africa there is a huge shortage of doctors and that is not going to change anytime soon, since doctors can’t be trained fast enough. So others must be empowered to reduce the burden on them and carry some added responsibilities. “In Kenya we have the opportunity to create completely new solutions and new ways of working; this makes it much easier to create breakthrough innovations.”<sup>56</sup> Maarten is optimistic that products pioneered in Kenya can translate into breakthroughs that serve other parts of the world facing similar cost constraints and shortages of doctors.

While different in their execution strategies, PepsiCo and Philips answered the question of whether to “make or buy” social innovation with a firm commitment to “make” their own offerings in house. By doing so, both illustrate what we refer to as the “in house” strategy **5**. This was the model that the supermajority of interviewees aspired to, but only a few felt their organization was ready for.

Innovate in-house	
What distinguishes this strategy from the other four	Examples
A company wants control of the end-to-end innovation process and has the right conditions and capacity to develop solutions independently, whereas in the other four strategies external contributors are critical to developing the new solution.	<ul style="list-style-type: none"> <li>• Part of a centralized R&amp;D department</li> <li>• Separate incubator dedicated to generating social and environmental results</li> </ul>

### Common trade-offs of this strategy

 Advantages	 Disadvantages
<ul style="list-style-type: none"> <li>• <b>Closely aligns</b> with other company and leadership priorities</li> <li>• Given proximity to the rest of the business, is often <b>easier to integrate</b></li> <li>• Effectively <b>utilizes company’s full range of capabilities</b> and business functions</li> <li>• Can yield new business <b>models applicable to the broader company</b></li> </ul>	<ul style="list-style-type: none"> <li>• Is subject to much of the <b>bureaucracy and stalling</b> that often accompanies a large corporate culture</li> <li>• May be so <b>influenced by a risk averse</b> culture or company conventions that offering is not truly transformative</li> <li>• Can create <b>incentive challenges</b> internally (e.g., How to punish for inactivity and not for failure?)</li> </ul>

### Key considerations

- **Secure buy-in from the highest levels of leadership throughout the organization.** Running the innovation process entirely in-house tends to present more opportunities for a new idea to be discredited or for key stakeholders to lose interest before it can be proven effective. Consider once again the impact of Indra Nooyi’s commitment to wellness at PepsiCo and the force with which acquisitions were made, new scientists hired, and changes to product offerings were made.
- **Anticipate that the social innovation team will likely need to operate differently than other parts of the company and establish lines of reporting to enable this.** A company can structure the lines of reporting to either provide direct leadership support or exert cautious control on innovation activity, which reflects how integrated innovation processes are in the company. When exploring new territory such as designing social impact offerings, certain established processes and metrics may need to bend or disappear completely to allow for experimentation, which often involves escalating to leadership. Escalations are typically more frequent and effectual when the manager of the social innovation activity reports to someone in leadership who has the authority to change requirements and processes. In the case of Maarten’s role running the Philips incubator in Kenya, reporting to the Africa CEO and the company’s executive committee has given him the support needed to pioneer fundamentally different business models that incorporate services, a new direction that could influence other business units in the company.<sup>57</sup>

### Watch out for

“Blind spots” that can arise when innovating internally; not only should companies understand the new, unique consumers they are serving, but it’s crucial for companies to avoid dismissing important external partners. The Tata Group, an India-based global enterprise of over 100 operating companies, lives by the words of its founder: “The community is not just another stakeholder but the reason for our existence.” So many Tata companies have been around for several decades and as a result, they have close relations with communities around their plants.<sup>58</sup>

Each of these strategies offer their distinct opportunities and challenges, with some strategies offering a greater track record and lessons to learn from than others. While innovating in-house and investing in external solutions offer an abundance of examples, sandboxing solutions and utilizing a social impact accelerator represent significantly newer approaches. The next section will offer a lens for considering which strategies may be the best fit for a company.

# Recognizing a company's readiness for social innovation

Certain strategies among the five identified are best suited to certain environments. The characteristics of a company, its industry, and the broader landscape all play a role in a company's ability to integrate growth and impact in a strategy. In companies where certain preconditions to pursuing social innovation are lacking, it is likely worth building the foundational conditions first before embarking on an ambitious social innovation strategy, to avoid pitfalls that interviewees cited as all too common.

The most consistently recognized characteristics that companies identified as critical were leadership priorities and culture. If a company's executives and those within the organization do not align around an opportunity, obtaining support from other stakeholders, including shareholders and consumers, can prove difficult and seem inauthentic. Once a common vision is agreed to, there is also the question of a company's ability to adapt towards that target. Companies must build in the necessary governance structure and incentives to support their goals. Those with a history of reinventing themselves and their offerings to change with the times are at an advantage.

Leadership often sets the tone for a company's willingness to take risks and attitudes about failure, with specific attributes of the leaders themselves influencing how innovative a company is. For instance, research shows that companies whose leaders exhibit at least three types of inherent (ones you are born with) and acquired (gained from experience, such as educational background and geographic areas where an individual has worked) diversity traits tend to out-innovate and out-perform others.<sup>59</sup>

The state of the global economy also has an important role to play. Periods of high volatility may compel companies to try and de-risk investments or favor more conservative positions. Others opt for less uncertainty even without particularly fragile economic conditions. For this reason, a company's appetite for risk will have a bearing on their willingness to pursue social impact. Novozymes' Pedersen believes in the power of an incubator like DIVA to "take away some risk" if the organization isn't ready to independently undertake a promising but complex new offering.<sup>60</sup> A model like DIVA's allows the firm to make staged go or no-go investment decisions at junctures in the innovation process, allowing the company to systematically reevaluate whether to expend additional resources on the project. Alternately, leveraging existing personnel has been key to Citi's efforts in the past five to seven years given the

resource-constrained position of many financial institutions in the wake of the 2008 financial crisis. To realize greater financial inclusion and environmental impact, the company encouraged existing employee teams to consider client needs from a different angle, resulting in initiatives like their commitment to lend, invest, and facilitate \$100 billion in sustainable financing.<sup>61</sup>

Then there are the characteristics typically conducive to social innovation, with a firm's prioritization of both financial and social return on investment long term ranking top among them. Even within a single company the way social and financial returns are weighted varies depending on which part of the company's portfolio is concerned. As Michael Fuerst, senior manager, corporate responsibility strategy and innovation at Novartis describes, offerings and expected returns vary depending where a target population falls in the global income distribution pyramid. "We follow a portfolio approach when trying to meet the needs of patients in different social-economic segments in a commercially viable way. Beyond the established offerings for high-income populations, in the middle income segment and below we operate with a variety of access models such as tiered pricing, shared-contribution models with governments, or co-pay models with individual patients. Specifically, in low-income markets we run social business models that aim to generate a small profit or zero-profit models while meeting the needs of underserved patients and strengthening fragile healthcare settings. In the poorest markets, we have the same objectives but try to achieve this with philanthropic interventions."<sup>62</sup> Some companies may choose to span the full spectrum of social impact offerings like Novartis, while others may opt to concentrate on a specific segment, such as one that yields competitive market returns alongside social impact, although it may preclude them from pursuing certain high-impact opportunities with less profitable customer segments.

Certain industries may lend themselves more to social innovation. In analyzing *Fortune* 500 companies, Deloitte's Social Impact practice found that financial services companies are most likely to focus on maximizing shareholder value, while consumer products and health care companies surveyed tend to view offerings with social impact as critical to their brand and growth strategy. The specific types of solutions pursued also vary by industry.



Companies consistently prioritize environmental sustainability the most across industries, while an objective like serving communities was favored by financial and health care respondents that have a geographically dispersed footprint.

Who a company serves also influences a company's choices. Business-to-consumer companies are typically under greater pressures than business-to-business companies to be socially responsible, as more consumers factor social and environmental considerations into their buying decisions. However, some companies such as Firmenich recounted that collaborating to achieve social and environmental outcomes has strengthened their relationships with buyers and those in the value chain, driving new business.<sup>63</sup>

**When considering if a company is well positioned to embark on a strategy for growth and impact, consider the following conditions:**

### **Does the initiative connect with the culture and values of the organization and its stakeholders?**

Before launching a new initiative, it is important to engage those in the company and trusted colleagues outside the company in discussion to help refine the concept, flag potential concerns, and offer recommendations. In recent years companies that have launched initiatives too quickly, from a new internal program to a public, issue-focused campaign, have faced backlash from employees and the public alike when the initiative does not seem consistent with the company's values, or appears at odds with the company's current practices.

### **Does the team running the social innovation process have a realistic, honest sense of the company's strengths, potential blind spots, and areas where external support is needed?**

As a company pursues new strategies certain limitations may surface that the company will either need to adapt to or end a project. Growing from those learnings, and accepting occasional failures involves humility. When MASISA committed to develop inclusive business models, more than ten pilot projects were implemented along Latin America operations, most of them including carpenters. Some of these ten models had to be stopped, because of their small business scale or because they were not linked to MASISA's business. That selection process took time and effort and left a sense of failure amongst those who supported the eliminated models. On the other hand, the experience led MASISA to create a network of at least 100,000 carpenters by 2025. Although MASISA is deeply familiar with this segment of clients after years of serving them, positively impacting these entrepreneurs and measuring the result has nevertheless been challenging.<sup>64</sup>

### **Is the company ready to move from focusing solely on the functionality of its offerings to evaluating the impact they achieve?**

Customer input becomes even more important when they hold the key to using a product or service in a way that produces a certain social outcome, such as healthier consumption habits or improved literacy. As serial tech entrepreneur Desh Deshpande has observed, "For technology ventures, innovation plus relevance is equal to impact, but for social innovation it's the opposite: relevance plus innovation equals impact."<sup>65</sup>

### **Is the company prepared to invest the additional time and resources required to drive new customer adoption and achieve impact?**

Often opportunities for significant social and environmental impact, as well as market development, involve educating consumers and strengthening ties to communities that may be hard to reach. For instance, when Schneider Electric makes minority equity investments in social enterprises and startups, it invests for five to seven years, longer than traditional private equity, recognizing that it can take longer to both bring impactful offerings to market and measure their associated improvements in social outcomes.<sup>66</sup>

# Choosing the “best fit” strategy

The companies that embody each of the five strategies did not happen upon these paths as the inevitable next act of their current business. Some have made a larger departure from precedent than others, but every case required the classic balancing of advantages and disadvantages to move in a new direction. Each netted those tradeoffs with enough anticipated advantages that they were able to proceed with a new approach.

Although a company’s capabilities across the five phases of the innovation process make certain strategies more feasible than others, other important considerations shape its choices. Simply pursuing what is possible, particularly for the most versatile and well-resourced companies, would likely lack focus and risk extending the company in disparate directions of questionable value.

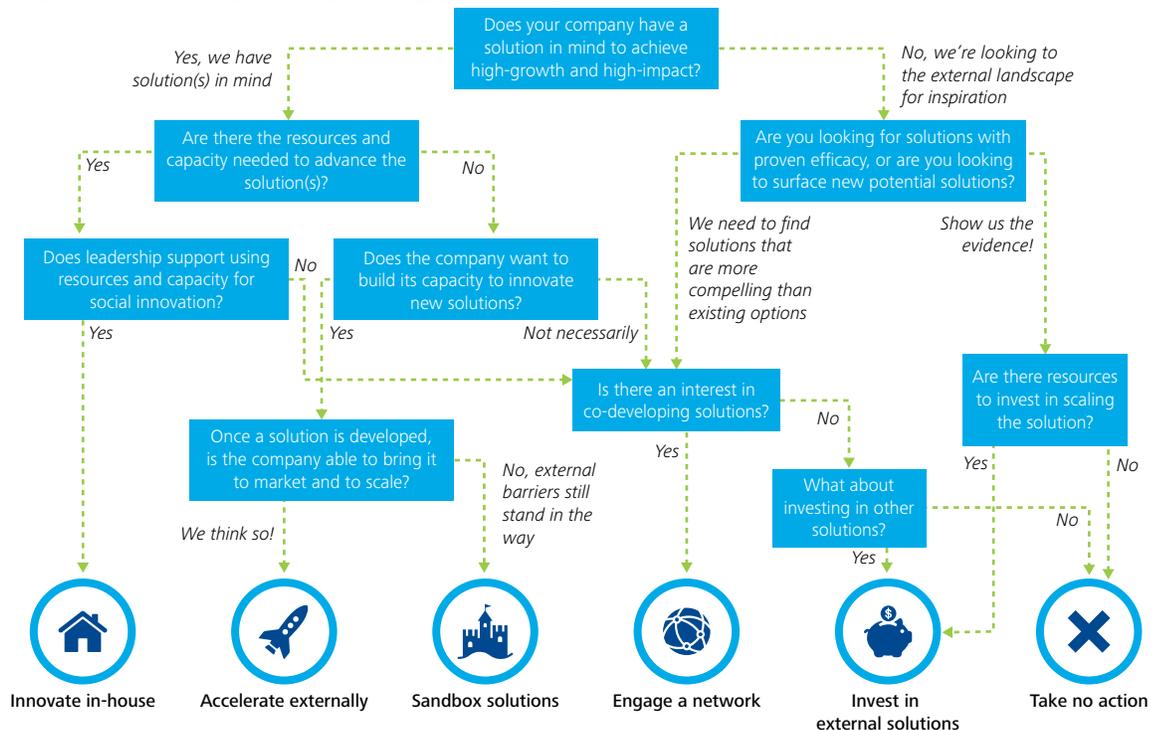
Plenty of highly innovative companies that garner top talent and would seem perfectly suited to craft solutions in-house opt to engage in networked problem solving, surfacing novel solutions that would not originate in their own business, or decide to enlist a consulting firm or accelerator to pressure test and refine a product before it is taken to market. A company’s motivations and desired roles in the innovation process, as previously introduced, are integral to its choice of strategy. The internal conditions, not to

mention the performance of competitors and others in the external landscape, also weigh in, and may influence the extent to which the company experiences the “demand” and “supply” side pressures described at the outset of this report.

To demonstrate how a company may navigate the many questions that may help determine its “best fit” strategy, figure 4 represents an illustrative decision tree of common decisions a company typically makes when selecting a strategy. Implicit within the decision tree is the judgement of which conditions and requirements represent the “make or break” criteria when choosing a particular strategy, based on the conversation and input received through our primary research.

Of course, more must be considered than the questions in this decision tree. A company should do its own calculus in deciding the strategies that stand to define its future and companies vary widely in how a destination is decided and pursued. Between the considerations introduced in this report and those a company prioritizes based on its own goals, a company can select the strategy or combination of strategies to enable it to deliver unprecedented social impact on top of financial returns.

**Figure 4: Determining the best fit strategy for your organization**



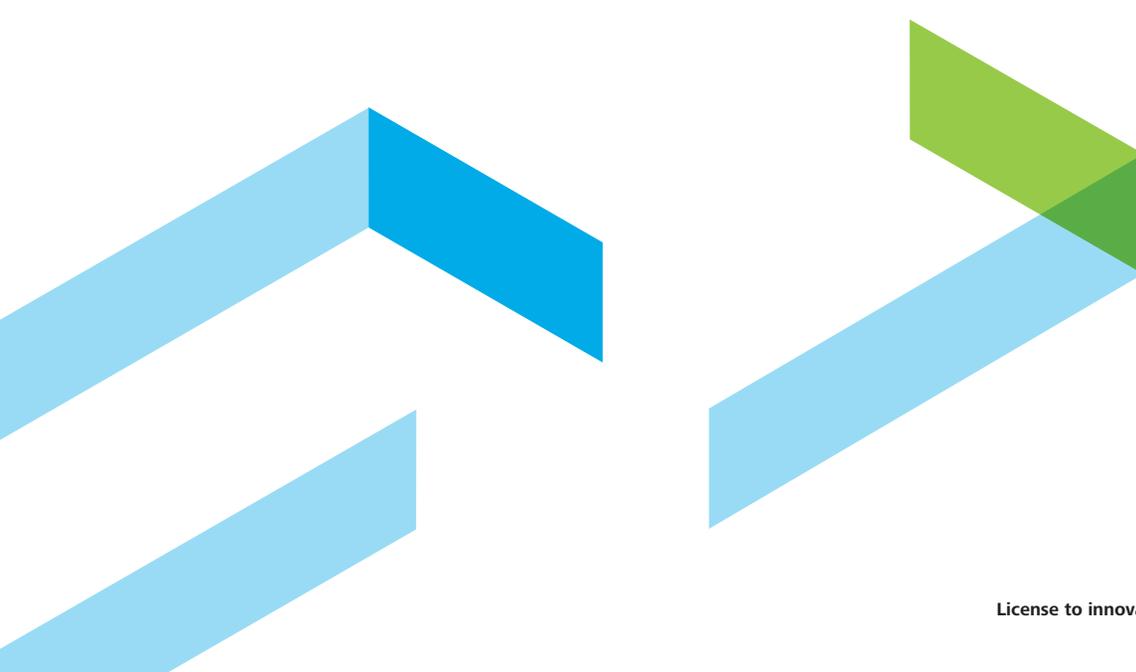
# Conclusion

Today a compounding set of reasons, many of which have been touched upon in this research, are driving companies of all sizes to integrate social impact into their core business offerings. Business as usual is no longer enough to satisfy the demands of consumers, nor the shifting preferences of a widening set of stakeholders. And yet new technology, funding options, and legal structures equip businesses with an unprecedented opportunity to solve society's biggest challenges. While the journey is not an easy one, the high potential rewards, low existing competition and high cost of inaction make engaging in social innovation a promising opportunity for many companies. Those that pick an approach well suited to their organization stand to grow the business while making a meaningful contribution to society, attracting top talent in the process.

This report has introduced five ways that a company can bring innovative, profitable offerings to market that can yield social impact. It has identified how a company might approach the decision of which strategy (or strategies) to pursue and some key conditions that are important to doing so effectively. The many companies featured in this report are a testament to the immense creativity and progress that is underway at the intersections of business, sustainability, and social impact and how this intersection represents a significant opportunity for business.

Imagine the downstream effects of the financially sustainable solutions that are being pioneered today and how any number of these innovations has the capacity to change the world. Renewable energy use becomes the norm in more regions of the world, including the areas that today are most dependent on oil. Water scarcity is put in check through more efficient consumption and advancements in how water is purified and reused. The world's poor are able to access essential health and sanitation services, saving millions of lives. Financial services are extended to, and good jobs earned by, an emerging middle class that in turn pioneers the next wave of breakthrough solutions.

As underscored in the foreword to this report, we believe that the business community, in partnership with governments, the social sector and citizens, has a significant role to play in devising and scaling solutions to drive greater long term sustainability, successful financial growth, and social impact. Through this paper, we illustrated ways to move beyond business as usual through breakthrough strategies that can strengthen companies' license to innovate, thereby enabling business to play a transformative role in society, for the benefit of all involved. In these exciting times, and with so many dynamics at play, we look forward to further engaging leading companies to pave the way towards achieving the Vision 2050 of a world in which 9 billion people live well within the limits of our planet by mid-century.



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