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At a Discovery Event on finding purpose through social innovation, Professor Vanina Farber engaged participants to explore the challenges and opportunities that their organizations face as global trends increasingly require companies to examine their impact, both socially and environmentally.

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Finding purpose through social innovation



How can companies create a positive social and environmental impact, as well as conserve and replenish the Earth's natural resources ... and still make money while doing so? This is a question that companies are increasingly asking themselves, as both internal and external forces exert pressure on them to demonstrate a wider impact on, and value to, society.

Why should companies care about their impact on society? Today, organizations face a world of radical digital transparency where corporate behavior is instantaneously tracked and scrutinized globally, across the entire value chain. Additionally, social media empowers consumers to directly engage companies, which younger generations, like Millennials and Gen Z, are embracing as a tool to [enact social and corporate change](#). Companies are also facing increasing pressure from their internal stakeholders. Shareholders, such as the world's largest asset manager Blackrock, are demanding that portfolio companies [become more purpose driven](#). Research indicates that employees identify [working with a purpose](#) as one of their top three priorities when evaluating which company to work for. There is also a compelling business case for purpose-driven companies. Facing a commodification of brands, a purpose-driven approach can help companies differentiate themselves from their competitors.

Finding purpose

Most executives are familiar with what (vision) and how (mission) statements. However, why a business exists is a bigger and more complex question. An organization's purpose is why it exists. Purpose is not only about economic exchanges – it reflects something more aspirational, such as how the people involved with an organization make a difference and take away a sense of meaning. Another common misconception is that purpose must be altruistic. A more balanced view of organizational purpose suggests that purpose should be about how the corporation can be “of service.”

Finding a strategic, differentiating purpose is not an easy task. Although nearly all businesses claim to have purpose, many organizations fail to deliver for a number of reasons. Sometimes, the purpose is too generic – vague purpose is too [borderless to defend](#). Other hurdles include the buy-in and agenda of the C-suite and the implementation of organizational purpose through middle management. Finally, the perception of authenticity (and how it is translated into action) is a critical component. Is your company's purpose reflected by financial commitments to M&A, technology or R&D? Is your company's purpose derived from regulatory pressures or simply being driven by “license to operate” motives, such as providing a safe working environment? Other traps to avoid include outsourcing all purpose-driven activities to philanthropic initiatives or, even worse, [greenwashing core business activities](#).

Of course, many organizations already have purpose. Understanding the degree to which purpose permeates throughout a company, in addition to identifying bottlenecks, can offer valuable insights. Some key questions that can help to identify and clarify purpose in your organization are highlighted in **Figure 1**.

Figure 1: Identifying and clarifying purpose

My organization's purpose is integrated in our business model	My organization's purpose generates engagement and camaraderie with middle management	My organization's purpose is perceived to be authentic	My organization needs a change in culture to really deliver its purpose
My organization has clear targets and KPIs connected to purpose	C-Suite executives are committed and have a clear message around our purpose	My organization's purpose is a powerful marketing tool	My organization's purpose is too general
My brand has purpose-related partnerships	Purpose is a buzz word at my organization, but nobody understands how it relates to their jobs	My organization's purpose is a powerful tool to engage clients	My organization's purpose is too narrow
My organization's purpose is linked to specific social development goals	I feel proud of my organization's purpose and I can give examples from my own work	I am currently working on a project that involves social or environmental issues	The purpose of my organization is mainly to create good jobs

Social innovation is the process of applying novel market solutions to global social and environmental issues to more effectively and efficiently respond to unmet societal needs.

Lessons from social entrepreneurs

Social entrepreneurs use market-based solutions to address social and environmental problems by creating businesses that negotiate resources for social impact. At a systems level, social entrepreneurs provide goods and services that are neither supplied by the for-profit (for example, the market) or public sectors (such as the government). Since these organizations explicitly embed purpose into their business model from the outset, they offer a number of insights for corporations on how to deliver social innovation.

Social innovation is the process of applying novel market solutions to global social and environmental issues by making or improving products, services, processes, business models and markets to more effectively and efficiently respond to unmet societal needs. The value created accrues primarily to society as a whole rather

than private individuals and focuses on actions that have the potential for systemic transformation.

Social innovation embodies a mindset driven by purpose, openness, partnership, innovation and accountability to develop solutions that allow excluded people to participate in the economy while conserving and replenishing natural capital.

Takeaways for corporate social innovation

Social entrepreneurs start up their business activities around purpose from inception. By contrast, corporations with long histories face different market expectations and may not have defined a clear purpose from the outset. Rather than trying to solve every social and environmental problem, corporations are better served trying to identify how the core, material issues of their business can be aligned with social and environmental concerns.

Executive takes on integrating purpose into corporate activities

- **Materiality:** "We are examining our entire business process to find opportunities, not only for ESG ranking purposes but because we believe it adds value for our customers."
- **Aligning incentives:** "Aligning incentives is a key issue for us. We need to educate our customers on solutions that may cost more upfront but that will create savings over time."
- **Proactive:** "Historically, we have primarily taken a reactive approach to our business lines. Today, we see purpose as a thoughtful tool to engage clients."
- **Shared purpose:** "I contributed to the development of a green energy project that will not only help a resource-poor area but also contribute to the country's energy independence."
- **Measurement:** "It's a difficult problem to tackle because first you need to figure out what to measure and then you need to figure out how to measure it. Do we only measure our direct business impact or the broader impact we have on society?"

What corporations can learn from social entrepreneurs

- Social entrepreneurs often turn a negative (social or environmental problem) into a positive (social innovation)
- Lifepreneurs are social entrepreneurs who:
 - Turn a difficulty in their personal life into an opportunity
 - Solve a problem in their own life and turn the solution into a business
 - Use personal experiences to inform the business model and create the impact they want to have in the world
- It is not about great ideas; it is about mobilizing human capital + social capital = business development
- Mobilizing resources for social impact
- Social entrepreneurs recognize their own privilege. Privilege can be the source of social innovation
- Purpose can vary but comes from self-identity
- Social entrepreneurs tie core business to impact.

Materiality is a concept founded in long-established financial accounting procedures and has been borrowed, adapted and applied to nonfinancial information. The Sustainability Accounting Standards Board (SASB) identifies [financial material issues](#) as “the issues that are reasonably likely to impact the financial condition or operating performance of a company and therefore are most important to investors.” Relevant topics include those that can reasonably be considered important in reflecting an organization’s economic, environmental and social impacts, or influencing the decisions of stakeholders.

Corporate social innovation should be embedded in corporate strategy and focuses on material sustainability issues from the perspectives of R&D, employee development, and partnerships. Rather than one-off projects, the focus is on sustainable social change, and developing long-term strategies to address social problems. It is a strategic direction rather than an isolated initiative. Corporate social innovation relies on a participatory, collaborative model that

integrates engagement with customers, employees and communities instead of a using a top-down approach.

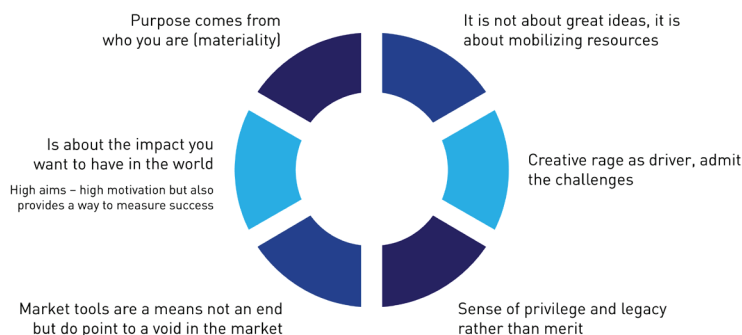
Rather than treating social and environmental issues as risk and compliance issues, organizations that successfully orient their purpose around material sustainability issues can leapfrog their peers to create business value and a competitive advantage in the marketplace.

Purpose and financial performance

Firms that reorient around purpose also stand to reap substantial financial benefits. Recent research indicates that high purpose firms characterized by high comradery between workers and high clarity from top level management have systematically [higher future accounting and stock market performance](#), even after controlling for current performance. This relationship is driven by the perceptions of middle management and professional staff rather than senior executives, hourly or commissioned workers.

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Figure 2: Learnings from lifepreneurs



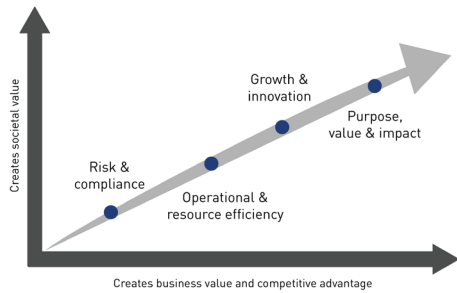


Figure 3: Value creation and competitive advantage

Source: [The UN Global Compact Accenture Strategy CEO Study 2016](#)

Companies whose executives manage for long-term value creation deliver superior results.

Related research indicates that materiality and long-term thinking is paying off financially. Materiality is a methodology to determine the most pressing sustainability issues faced by a company given its sector/industry. It aligns importance for the organization with stakeholder expectations and can help management answer questions such as:

- Which sustainability issues matter the most given our core business?
- Which issues matter the most to our stakeholders?
- How do we align our purpose with sustainability material issues to build our strategy?
- How can we communicate my strategy to stakeholders?

Research by George Serafeim, Mozaffar Khan and Aaron Yoon suggests that companies focusing on material issues outperform their peers by [6% per year in annualized stock returns](#).

Since 2001, companies whose executives manage for long-term value creation and resist pressure from analysts and investors to focus too much on meeting Wall Street's quarterly earnings expectations have [delivered superior results](#).

Conclusion

There is no single recipe for integrating purpose into your organization but thinking about the impact you want to have in the world is a good start. Why does your company exist? Companies will take different paths to examine their impact on the environment and society. However, the writing on the wall is clear: stakeholders are increasingly demanding that firms take social and environmental concerns seriously and embed them into their business models. Firms that are able to successfully reorient around purpose stand to attract higher skilled workers, keep them engaged, attract investment (ESG and impact investment) and deliver a better customer experience to consumers – all while delivering a superior financial performance. These changes may seem risky for well-established firms resistant to change, but, as a participant said: “A ship in the harbor is safe, but that’s not what ships are built for.”

Stock returns (in annualized alpha) by type of sustainability performance

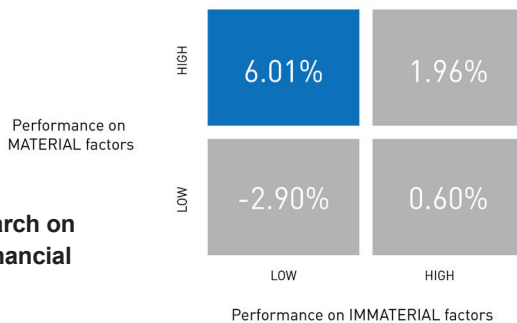


Figure 4: Research on purpose and financial performance

Corporate social innovation: What to look for

- Clear inspiring message aligned with core business activities.
- Co-creation, partnerships for innovation.
- Embedded sustainability (systematic core business – material).
- Operational excellence minimizing footprint, packaging reduction and waste management.
- Engage top management, employees, customers and civil society
- Commitments inform capital allocation and organizational architecture.