SOCIAL INNOVATION:  
Mobilizing private capital for impact
The elea Center for Social Innovation was launched at IMD Business School in 2018. We develop and share research, pedagogical content, and educational programs that help leaders in business, government, and civil society navigate the challenges of initiating and implementing social innovation. Through these core activities, we convene entrepreneurs, executives, investors, philanthropists, researchers, and other change agents to accelerate the speed, scale, and effectiveness of social innovations across the spectrum of capital that address the key social and environmental challenges of our time.
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>4</td>
</tr>
<tr>
<td>A Sense of Urgency</td>
<td>5</td>
</tr>
<tr>
<td>Social Innovation: Purposeful, Material, Intentional and Additional</td>
<td>6</td>
</tr>
<tr>
<td>Notable Examples of Social Innovation</td>
<td>7</td>
</tr>
<tr>
<td>Circular economy</td>
<td>7</td>
</tr>
<tr>
<td>Innovative digital technologies</td>
<td>8</td>
</tr>
<tr>
<td>Last-mile distribution</td>
<td>9</td>
</tr>
<tr>
<td>Employment and skill-building at the base-of-the pyramid</td>
<td>9</td>
</tr>
<tr>
<td>Blended finance</td>
<td>10</td>
</tr>
<tr>
<td>Opportunities for Private Capital</td>
<td>11</td>
</tr>
<tr>
<td>Landscape of Social Finance</td>
<td>11</td>
</tr>
<tr>
<td>Unlocking Social Innovation: A Framework</td>
<td>14</td>
</tr>
<tr>
<td>Starting with the &quot;Why&quot;</td>
<td>14</td>
</tr>
<tr>
<td>Defining Purpose</td>
<td>14</td>
</tr>
<tr>
<td>Desired Impact</td>
<td>15</td>
</tr>
<tr>
<td>Articulating the &quot;What&quot;</td>
<td>16</td>
</tr>
<tr>
<td>Materiality</td>
<td>16</td>
</tr>
<tr>
<td>Long-term Value</td>
<td>17</td>
</tr>
<tr>
<td>Taking Action through the &quot;How&quot;</td>
<td>18</td>
</tr>
<tr>
<td>Resource Commitment</td>
<td>18</td>
</tr>
<tr>
<td>Engagement</td>
<td>18</td>
</tr>
<tr>
<td>Grand Challenges</td>
<td>19</td>
</tr>
<tr>
<td>Conclusion</td>
<td>20</td>
</tr>
<tr>
<td>References</td>
<td>21</td>
</tr>
</tbody>
</table>
Introduction

We are at an important inflection point in the evolution of the private sector’s role in stimulating social innovation. While the field of social innovation has shown tremendous growth over the past decade, many actors within the spectrum of capital are still sitting on the sidelines – interested in impact, but not yet allocating enough resources or investments.

Much of the discussion over the past decade has focused on understanding and measuring impact, and rightfully so. But a key challenge that has not received its fair due in the conversation, in our view, is the concept of impact management.

We believe now is the time for impact management to take center stage. Asset owners such as investors, banks, entrepreneurs, corporates, or family offices articulate and realize their impact objectives through impact management. They identify what problems they want to solve, who they want to reach, where they want to invest, and what risks they want to take. Impact management requires asset owners to consider how they want to prototype, onboard, and create a pipeline of social innovation.

At IMD’s elea Center for Social Innovation, in line with IMD’s overall vision, we challenge what is and inspire what could be through social innovation.

Our activities are based on identifying and exploring the opportunities available to social innovators throughout the spectrum of capital, from profit-seeking impact enterprises to new uses of philanthropic capital. Ultimately, we aim to help align different actors around purpose and impact.

In this white paper, we share our view on why there is a need for social innovations to urgently mobilize private capital for impact, offer our perspective on how social innovation is distinctive, outline the range of opportunities available to private actors, and introduce a framework that we believe can help corporations, social innovators, and financial capital providers diagnose their capabilities to contribute to and navigate this new landscape.
A Sense of Urgency

While substantial progress has been made in recent decades to broadly improve livelihoods and reduce poverty, the world continues to be besieged by grand challenges. Discourse in public media indicates growing political polarization, economic volatility, and societal unrest with the status quo. Whether it is ongoing conflict in the Middle East, migrant crises in Asia and Europe, climate-induced natural disasters, longstanding social ills such as poverty, water scarcity, gender inequality or famine, or the more recent novel coronavirus, which so quickly illustrated the risks of global pandemics, grand challenges remain stubbornly persistent despite technological, economic, and social progress (George et al., 2016). Even where potential solutions are viable, these grand challenges will require corporations, governments, and civil society organizations to tackle them globally with responsibility, creativity, and urgency. In a context characterized by globalization, uncertainty, and complexity, social innovation is a key lever to foster the growth, development, and sustainability of contemporary societies.

Global compacts such as the Sustainable Development Goals (SDGs) and the 2030 Agenda, the Paris Agreement on Climate Change, and the Addis Ababa Action Agenda on Financing for Development offer guideposts as to the timelines and investments that will be required. Current estimates indicate that $3.3–4.5 trillion per year needs to be mobilized if we hope to achieve the 2030 Agenda (UN, 2017). At current levels of public and private investment in SDG-related sectors, there is an average annual funding gap of $2.5 trillion.

And this does not yet account for the potential implications of the severe setback in poverty reduction as a result of the COVID-19 crisis. We concur with the many practitioners and scholars who suggest that the private sector can play a substantial role in closing this gap (PRI, 2017; Betti et al., 2018). Rather than marginally increasing the rate of progress on social and environmental goals, social innovations aim to leapfrog existing solutions to global challenges (Martin, 2016).

Although financial resources are required to advance the social agenda, without social innovation they serve only to continue the subsidization of inefficient markets. Think back to the publicly subsidized, rural microcredit programs of the 1960s and 1970s, which failed because they were often plagued by “political interference, haphazard governance, poor and often corrupt management, untrained and unmotivated staff, unwanted products, low repayments, high costs, and high losses” (Robinson, 2001, p.147). In response to these “market distorting” initiatives, one of the earliest microfinance pioneers, Muhammad Yunus, realized an innovative approach through the non-profit Grameen Bank, which he created in the mid 1970s. He demonstrated that market-based institutions could provide credit to poor households at scale, serving more than two million borrowers in its first 25 years of existence, while also maintaining repayment rates of 98% (Morduch, 1999).

The case of microfinance demonstrates that what is needed at this stage even more than financial resources are new modes of thinking. Only together can financial commitments and social innovations shift us toward a more sustainable future. Social innovations, which we describe in more detail in the following section, show tremendous promise toward this objective.
Social innovation creates new solutions – in the form of products, services, markets, models, and processes – that benefit society by addressing social and environmental needs more efficiently and effectively than current public policies and business activities. Social innovation is the process for improving, developing, and applying such methods and tools, and it relies on collaboration between people, organizations, and technology to optimize its impact on society globally. The practical application of our definition of social innovation is guided by a sense of purpose and supported through three pillars:

1. **Materiality**

   Purpose underscores why an organization or individual people embark on solving a particular grand challenge and enable them to be inspired by a sense of meaning. Purpose drives the types of actions taken, with whom they are taken, and how they are implemented.

Social innovations in our sense are driven at the core of an organization’s activities, not at their periphery. Borrowing from corporate sustainability, the concept of materiality frames what kind of social or environmental challenges to address. Materiality originates from financial accounting procedures and has been borrowed, adapted, and applied to non-financial 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. Materiality frames what social innovators should focus on.

2. **Intentionality**

   Intentionality and additionality, derived from impact investing, make up the remaining two pillars. Intentionality provides the theory of change and delineates the specific social or environmental objectives to close the gaps versus the status quo. The additionality principle, the concept of “producing beneficial social outcomes that would not occur but for our investment,” encourages organizations and investors with scarce capital to concentrate their resource allocations where they make the most impact (Brest and Born, 2013). Examples of how the additionality principle is being applied include attracting philanthropic impact capital in dysfunctional markets or early-stage venture financing where commercial, net financial return-seeking investment is prevented.

3. **Additionality**

   In recent years, social innovations have been driven by diverse actors across the private sector. To give a sense of the range of possibilities available, we describe a few notable examples below in terms of purpose, materiality, intentionality, and additionality.
Circular economy

Unlike a traditional linear economy (make, use, dispose), in a circular economy resources are used for as long as possible, maximum value is extracted while in use, and as much of the materials as possible are recovered to create new products and materials at the end of each service life.

### Notable Examples of Social Innovation

#### Purpose
Increase longevity/reduce the environmental impact of raw materials used in the production and consumption of products.

#### Materiality
Early examples from the corporate sector include Adidas’ FUTURECRAFT.LOOP shoe made from 100% recycled materials, or VIGGA’s monthly subscription model for clothes for toddlers and young children.

#### Intentionality
Exact social and environmental objectives defined on a case-by-case basis. However, since the circular economy is based on the principle of a closed-loop system, most actors have little trouble measuring their direct impact.

#### Additionality
Creates new end-of-life opportunities for materials that would otherwise end up in landfill or polluting shared resources such as the ocean.
Innovative digital technologies

Digital technologies are rapidly expanding access to economic markets and payment systems across the world. Pay-as-you-go solar is a prime example of this kind of innovation. The concept of PAYG is relatively simple: the energy-poor already purchase inferior energy sources such as kerosene in small, user-defined increments when cash is available. Innovative companies, typically for-profit social enterprises, are creating similar payment plans for a wide range of solar photovoltaic (PV) products based on flexible mobile payments and/or scratch vouchers.

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Reduce energy poverty (more than 1.3 billion people lack access to electricity) and contribute to climate quality (offsetting carbon emissions).</th>
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</thead>
<tbody>
<tr>
<td>Materiality</td>
<td>PAYG providers are often social enterprises that address a core obstacle that hinders people exiting from poverty: the inability to accumulate savings in order to purchase impactful goods such as solar energy products (e.g. Angaza, Simpa Networks, M-Kopa).</td>
</tr>
<tr>
<td>Intentionality</td>
<td>PAYG offers measurable ecological, lighting quality, and health improvements over kerosene. Additional social indicators track households adopting PAYG solutions.</td>
</tr>
<tr>
<td>Additionality</td>
<td>PAYG is still early-stage, requiring social impact and philanthropic capital to be patient and allow for high risk.</td>
</tr>
</tbody>
</table>
Last-mile distribution

Development NGOs and humanitarian efforts have long been concerned about their ability to reach low-income populations who lack access to basic services, particularly those in isolated rural areas. In recent years, low-income rural populations have also been recognized as discerning consumers by private enterprises who want access to impactful and affordable goods, services, and information (Prahalad, 2004). New solutions to solve last-mile distribution issues have drastically improved the quality of life for billions of low-income people in rural areas.

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Create and develop inclusive and accessible markets.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materiality</td>
<td>Actors in this space are centrally concerned with increasing access to products and services: reaching more customers simultaneously [and proportionally] increases profits.</td>
</tr>
<tr>
<td>Intentionality</td>
<td>Measured through increases in consumption, improved delivery times, or other quality of life improvements.</td>
</tr>
<tr>
<td>Additionality</td>
<td>Where businesses do not currently extend to rural markets without additional incentives, philanthropic impact investors often step in to increase the affordability and scale of business models reaching these target populations.</td>
</tr>
</tbody>
</table>

Employment and skills building at the base of the pyramid

Four billion low-income consumers, the majority of the world’s population, form the base of the economic pyramid. Market-based approaches have significant opportunities to better meet their needs, increase their productivity and incomes, and empower their entry into the formal economy and labor market.

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Empower low-income populations to improve labor skills and enter the formal economy.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materiality</td>
<td>Skills building and employment opportunities are the core activities of organizations in this space. Examples include social enterprises such as Amazi Beauty, Digital Data Divide, and Bagosphere, which serve disadvantaged and underserved populations with employable skills building programs.</td>
</tr>
<tr>
<td>Intentionality</td>
<td>Impact is often directly measured through increases in wages before and after skills training.</td>
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<tr>
<td>Additionality</td>
<td>Enterprises in this space create opportunities that would otherwise be unavailable to disadvantaged populations.</td>
</tr>
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### Blended finance

New financing solutions such as blended finance, a promising mechanism, help facilitate social innovations. Both the public and private sectors use blended finance to combine existing tools to optimize investment impact results. By leveraging the strengths of a wide variety of stakeholders, blended finance empowers solutions to social and environmental challenges, and eases the process of finding funds to launch and accelerate projects. It principally uses two types of financial tools: funds and finance facilities. This combination helps raise capital, and is key to better suit both the project specificities and investor expectations.

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Create mutually beneficial arrangements that derisk large-scale projects and/or achieve more sustainable value chain transformations.</th>
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<tbody>
<tr>
<td>Materiality</td>
<td>Blended finance projects focus on core social and environmental issues in international value chains. Some early examples include the Tropical Landscape Finance Facility (TLFF) and its $95m bond to Michelin to support socially inclusive, climate-friendly production of natural rubber. Transforming Education in Cocoa Communities (TRECC) – a consortium of cocoa industry firms, non-profit foundations, government, and education non-profits – have jointly committed $85m to ensure access to quality education in Ivorian cocoa communities, as a means of combating child labor.</td>
</tr>
<tr>
<td>Intentionality</td>
<td>Exact social and environmental objectives are defined on case-by-case basis, and typically audited on a quarterly or annual basis by a non-profit with expertise on the desired impact.</td>
</tr>
<tr>
<td>Additionality</td>
<td>By definition, blended finance creates financial transactions that would otherwise be infeasible by any individual actor.</td>
</tr>
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A cornerstone of our viewpoint is that private capital is absolutely critical to scale the types of social innovation that will be required to lift billions out of poverty and create a socially and environmentally sustainable future. However, we also believe that actors in the private sector and beyond should play to their strengths. The spectrum of capital serves as a useful way for organizations to start thinking about how they can drive social innovation.
One of the most interesting aspects of social innovation is the range of options available to actors in the private sector. Innovative financial tools are emerging across the entire capital spectrum. Between traditional investing and traditional philanthropy lie a myriad of alternative options to mobilize private capital for impact, from the reinvention of public contracting arrangements to increase efficiency and crowd-in private investors to the creation of financial products available to retail banking customers.

### Landscape of social finance

<table>
<thead>
<tr>
<th>Traditional Investing</th>
<th>Responsible Investing</th>
<th>Sustainable Investing</th>
<th>Thematic Impact Investment (Finance First)</th>
<th>Impact First Impact Investment</th>
<th>Philanthropic Impact Investment</th>
<th>Traditional Philanthropy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusions</td>
<td>Best-in-class</td>
<td>ESG voting</td>
<td>ESG integration</td>
<td>ESG engagement</td>
<td>ESG integration</td>
<td></td>
</tr>
<tr>
<td>Norms-based screening</td>
<td>ESG</td>
<td></td>
<td></td>
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</table>

Limited or no regard for ESG practices | Mitigate risk. Exclusions based on ESG | ESG practices that enhance returns | Targeted impact that enhances returns | Societal challenges with lower return higher risk accepted | Grants driven by impact

Adapted from Balandina Jacquier (2016) and Swiss Sustainable Finance (2020).

Social innovators are creating entirely new markets that can attract private capital at scale. Many philanthropists have moved beyond providing one-off grants to non-profit organizations and begun to focus on identifying and funding nascent social innovators. The socially beneficial goods and services created through social innovation – be they improved value chains, solar panels, seeds, or medicines – are, after all, the “purpose” of businesses. Philanthropic impact investors also understand that profit is a condition – and result – of achieving purpose.
Understanding this is critical to impact investors’ ability to leverage their scarce capital with that of traditional market-rate investors. Philanthropic impact investing therefore fills an important role in the lifecycle of social enterprises by helping them overcome the pioneer gap and navigate the “death valley curve” – the perilous phase in enterprise development when negative cash flows from operations need to be funded (Wuffli and Farber, 2020).

Although philanthropic impact investing operates through an impact-first mentality, the creation of new markets also leads to attractive investment opportunities for investors with a finance-first mentality as they mature and scale.

At the other end of the spectrum, financial products that bring environmental, social, and governance (ESG) considerations into investment decisions are also being created. Responsible investing (RI) and sustainable investing (SI) are two examples in the public equity and debt markets that use exclusionary screening to weed out companies in controversial sectors or by overweighting portfolios toward firms that perform well on ESG.

ESG investing continues to grow year on year and initial academic evidence suggests that corporations that focus on material ESG issues tend to outperform benchmarks (Khan et al., 2015). At the fund level, whether outperformance is due to a focus on material ESG issues or whether it is simply a byproduct of the inclusion of high-growth industries, such as technology stocks that tend to perform well on ESG measures, is up for debate.
Nevertheless, we believe societal demands will continue to put pressure on firms to develop sustainability strategies and, accordingly, encourage a process of business model transformation that can satisfy both owners and other stakeholders. This might be met in part through the scaling and mainstreaming of social enterprises. However, we also believe that corporate transformation will be a key piece of the puzzle. Firms that are able to successfully place purpose at the center of their strategy, along with committed leadership and the dedication of resources, have a leg up on competition (Malnight, Buche and Dhanaraj, 2014).

Despite the potential gains of corporate transformation, many firms have been sinking money into ineffective sustainability solutions for the better part of two decades. Solutions based on mobilizing public relations and recognition awards appear unlikely to move the needle if they are not backed by fundamental changes within the business model. In our view, recent social innovations like blended finance can speed up and derisk this process, and mobilize private capital at scale.

Blended finance creates positive, win-win ecosystems among private firms, civil society actors, and government institutions, as the total costs and risks of investments are syndicated across different institutions. They play to the strengths of each type of actor: private companies realize entrepreneurial opportunities for impact value creation, civil society organizations monitor the social/environment impact while public actors step in to offer financial guarantees. Such ecosystems can lead to effective impact creation while enjoying high levels of trust by societies.

Blended finance is still in the initial stages of experimentation and it remains to be seen whether it can truly scale investments that will transform business models. However, the early signs are promising, particularly where organizations can identify and measure the externalities created in their value chains.

In sum, the ability to find the balance of risk-return-impact that meets organizational preferences is one of the most important catalysts for increasing the scale of social innovation. It requires organizations to identify an intentional, predetermined social/environmental impact, combined with an analytical approach for measuring impact. Moreover, the best organizations are able to identify where they bring additionality, that is, where they are able to have an outsized role in the generation of impact. In the next section, we formalize these concepts into a framework that we hope can help private actors engage in a social innovation mindset.
Unlocking Social Innovation: A Framework

Social innovators – corporations, entrepreneurs, family offices, and investors – are a driving force that contribute to society and environment while simultaneously generating financial returns. Our diagnostic framework encourages actors to engage with three key concepts: the Why (purpose, impact); the What (materiality, long-term value); and the How (resource commitment, engagement), which are discussed in the following subsections.

Starting with the Why

Defining purpose

Most executives, entrepreneurs, and investors are familiar with what (vision) and how (mission) statements. However, an organization’s purpose aims to answer why it exists – a bigger and more complex question. Purpose is aspirational and defines how the people involved with an organization make a difference and gain a sense of meaning. Purpose should express how a corporation can be “of service” to society. Purpose is not about economic exchanges, nor is it about altruism.

Finding an inspiring, meaningful purpose can be a difficult task. Many organizations fail to deliver for a number of reasons. Sometimes, the stated purpose is too generic and too vague and therefore not seen to be immediately relevant. Other hurdles include discrepancies between the stated top leadership agenda and the day-to-day actions of middle management. More generally, what an organization states as its purpose and how its people act and behave in reality must both have integrity and authenticity. Consistently outsourcing purpose-driven activities to philanthropic initiatives and thus greenwashing core business activities typically does not work.
Is your company’s purpose supported by financial commitments to M&A, technology, or R&D? Is it simply derived from regulatory or competitive pressures, or does it reflect a more aspirational, ethically grounded agenda of what a “license to operate” involves in the eyes of today’s and tomorrow’s societies?

**Desired impact**

An increasing number of visionary leaders of companies have put purpose and positive societal impact at the center of their strategies because they identify opportunities to both meet societal expectations and implement profitable business models along the way. In addition, they face a world of radical digital transparency where corporate behavior is instantaneously tracked and scrutinized globally, across the entire value chain. Social media also empowers consumers to directly engage companies, which younger generations, such as Millennials and Gen Z, are embracing as a tool to enact social and corporate change. Companies face increasing pressure from their internal stakeholders as well. Shareholders, such as the world’s largest asset manager Blackrock, are asking portfolio companies to become more purpose-driven. Research indicates that employees identify working with purpose and making an impact as a top priority when evaluating which company to work for. An impact-driven approach can help companies to differentiate their brands in a powerful way from their competitors.

How can companies and investors 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? Companies and investors are increasingly asking themselves this question, as both internal and external forces exert pressure on them to demonstrate a wider impact on, and value to, society. Social entrepreneurship, where these tensions are omnipresent, is likely to hold a number of lessons for multinationals that are attempting to identify more sustainable solutions.
Materiality – a methodology to determine the most pressing sustainability issues faced by a company given its sector/industry – aligns importance for the organization with stakeholder expectations and can help management answer questions such as:

1. Which social, environmental, and governance issues matter the most given our core business?
2. Which issues matter the most to our stakeholders?
3. How do we align our purpose with material ESG issues to build our strategy?
4. How can we communicate our strategy to stakeholders?

Initial evidence suggests that companies focusing on material issues outperform their peers by 6% per year in annualized stock returns (Khan et al., 2015). However, materiality also enters investors decision-making calculus. Investment decisions that integrate ESG criteria are positioned to ramp up over the next decade; projections suggest a $1 trillion market where one in every three equity funds will be ESG focused. Some of this demand may be satisfied by social enterprises that scale and make it onto public markets. Indeed, experimentation and innovation around stock markets could even lead to the creation of a specialized stock market for social firms.

In public markets, we expect the measurement and aggregation of non-financial data to emerge as a cottage industry to support the financial sector. ESG audits and non-financial reporting have already made their way into the quarterly and annual reports of many public corporations. Between the green bond market, poised to reach $1 trillion in 2021, and bonds that tie interest rates to social outcomes such as Novartis’ $1.85 billion sustainability-linked bond, which aims to expand patient access to low-income populations, investors are increasingly able to demonstrate the intentionality of their investments, potentially adding another competitive dimension to their product offerings.
Long-term value

The era of extracting value with a purely short-term lens, without a convincing long-term value creation agenda, is coming to an end as societies are increasingly withdrawing their “license to operate” in one way or the other. Hurting vulnerable stakeholders and surrounding communities will inevitably become transparent, consequently damaging reputations and eroding the trust of investors, employees, and consumers. Instead, when a company has a clear purpose embedded in its core strategy, creating and effectively signaling commitment to social and environmental value can result in financial returns.

Research also shows that companies deliver superior results when executives manage for long-term value creation and resist pressure from analysts and investors to focus excessively on meeting Wall Street’s quarterly earnings expectations (Barton, 2011). In part, the financial industry’s practices and regulations often send conflicting signals to managers of public companies. For example, existing standards often fail to account for managing conflicts of interests between different beneficiary groups or corporate stakeholders. This is particularly the case in the pension fund and insurance industry, where fiduciary duties impose strict guidelines on fund allocations and mechanical solvency rules encourage short-termism in investment policy that works against the long-term interests of their beneficiaries. To address this complexity, many actors have suggested transparency as a first step in transitioning toward a long-term focus. While measuring the increase in short-term pressures and identifying perverse incentives is fairly straightforward, assessing the ultimate impact of corporate short-termism on company performance and macroeconomic growth is highly complex. This is because not only are the rewards from managing for the long term enormous; real change is possible, despite strong countervailing pressures. Companies that manage for the long term tend to produce higher average revenues and financial returns (Khan et al., 2015).

Long-term focus is also a hallmark of the social innovation of impact investing, where investors often provide more patient capital (i.e. investments with a longer time horizon). In return, impact-first investors’ seed investments promise ex ante greater impact, potentially on a much larger scale, or sustained over longer time horizons. By focusing on long-term impact, these investors are able to bridge the gap between grant-making philanthropists and traditional market-rate investors.
Taking Action Through the How

Resource commitment

No significant innovation will happen without dedicated resources, and these cannot and should not be limited to corporate philanthropy. Changes in investments, M&A, new technology, R&D, and people are necessary to reinforce the commitment of top leadership around a purpose-centric strategy.

In line with the concept of intentionality, organizations need to have a clear theory of change to successfully deploy resources. This includes setting transparent financial and impact goals, and articulating a resource allocation thesis that is explicit about those goals and the strategies to realize the dual objectives. Organizations also need to ensure that they dedicate sufficient resources to understand the impact they are generating. This may include value chain tracing to assess labor practices and conditions in product sourcing, or the environmental impact of raw material production. Measuring impact often requires substantial resources since organizations may need to leverage the expertise of other stakeholders to demonstrate credibility on their stated social and environmental objectives.

Engagement

Both internal and external engagement matter when building a successful, purposeful organization. There is also an important intangible side of purpose to consider. An organization’s purpose goes far beyond a formal statement on its website: it should inspire and energize employees and guide their actions. It will also contribute to strengthening their sense of the meaningfulness and collective impact of their work (Gartenberg, Prat and Serafeim, 2019). It is particularly important for top management to develop highly visible leadership initiatives that can support alignment and high camaraderie among middle ranks.

Also of critical importance is external engagement. Often, organizations simply can’t achieve both profit and impact alone. In many cases, they might still want to engage other stakeholders in the process to increase credibility to society. For example, who is going to believe a study from a tobacco company that smoking isn’t harmful?

Engagement will often depend on the specific circumstances and field of social innovation. However, reflective of SDG 17 - Partnership for the Goals, engagement encourages organizations to understand and work with additional stakeholders. In a corporate environment, this might mean working with diverse stakeholders to derive a materiality matrix, or seeking feedback externally on a firm’s statement of purpose. For investors at the fund level, impact objectives need to be clearly articulated prior to fund creation, enabling limited partners to “shop” across impact classes and identify those most in line with their values and environmental and social concerns. Innovations like blended finance require deep engagement because each player has “skin in the game.” We believe that onboarding academic partners, such as the elea Center for Social Innovation, can help facilitate the process of engagement and increase the effectiveness of cross-sector dialogue and collaboration.
Grand Challenges

Grand challenges provide enormous commercial opportunities for entrepreneurs, investors, and corporations. In a sense, narratives around grand challenges provide the collective expectations of society on the types of social innovations that should be incorporated into business decisions. In this context, they motivate the how, what, and why dimensions of the framework.

For entrepreneurs, grand challenges provide explicit social challenges for which innovative solutions are required. On the investment side, impact investors might search to find, seed, and advise the most promising entrepreneurial ideas aiming to tackle them. By evaluating and identifying material issues, corporations can also reorient around impact and develop innovative solutions to achieve a wide range of environmental and social objectives.

Finally, in many cases, individual business actions may not be enough to tackle the current global social and environmental challenges at scale. Many ecosystem challenges, such as the climate crisis, decarbonization, single-use plastics, absolute poverty, gender inequality, and exclusion, require systemic solutions beyond the capabilities of individual companies or even of an industry. In these cases, the best approach for business can be to partner with governments, investors, local communities, non-governmental organizations (NGOs), and other companies.
Conclusion

By applying novel market solutions to global social and environmental problems, social innovators can play a key role in mobilizing capital for impact. By sharing the value created with society as a whole, or with specific disadvantaged target groups, we may finally realize systemic transformation that leads to a more sustainable and equitable future.

Our framework aims to provide building blocks that can be combined in different ways according to specific business needs. Companies and investors 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 private actors step up and take social and environmental concerns seriously by embedding them into their business models.

At the elea Center for Social Innovation, we want to catalyze the speed and scale of social innovations. In the spirit of convening, we have launched a webinar series that explores the emerging landscape of social finance, from ESG investing and impact investing to blended finance and the role of cross-sector collaborations that can derisk the transition to more sustainable business models.

Our research and pedagogical development is based on four thematic pillars:

1. Impact investing and sustainable finance
2. Blended finance
3. Corporate social innovation
4. Social entrepreneurship

On the research front, we continue to explore both sides of the social innovation market and inform both policy and practice. We are currently investigating how impact funds make investment decisions and how their investment processes deviate from traditional venture capital funds. We are also using experimental data to identify how social innovators engage with key entrepreneurial concepts such as opportunity recognition, value creation, and risk tolerance. From the corporate side, we are actively pursuing research on the role of blended finance to derisk business model transformation.

Finally, we are designing new case studies that dive deep into how corporates can engage stakeholders and investors to transform their business models. The case studies are forcing students and executives to confront the not-so-straightforward world of social innovation in complex business environments. Additional cases in development focus on how to scale social enterprise from startup to exit.

Ultimately, we believe the private sector has a large role to play in the field of social innovation. Now is the time for entrepreneurs, investors, and corporations to reimagine what we want the post-crisis world to look like. Here at the elea Center for Social Innovation, we look forward to accelerating and scaling this process.
References


