

# Corporate Social Innovation: Challenges *Vis-À-Vis* Opportunities



ISBN: 978-81-924713-8-9

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*In today's turbulent times Companies must innovate to stay ahead in business. The new driver of innovation is found in pursuit to do good, which enthralles the Companies, to enter into the era of Corporate Social Innovation. For social good, the epic acts of philanthropy or charity need to be overshadowed by companies' innovative corporate strategies with sustainable activities. This paper is an attempt to showcase, the perspective of companies towards the emerging discipline of Corporate Social Innovation with new models and new tools for addressing the global challenges while they simultaneously remain profitable.*

## 1. Background

Today's globalized and interconnected world is full of social, political, economic and environmental challenges. From fiscal crises in key economies, structurally high unemployment/underemployment, water crises, severe income disparity, failure of climate change mitigation and adaptation, greater incidence of extreme weather events (e.g. floods, storms, fires), global governance failure, food crises, failure of major financial institutions, repeated corporate governance failures, to profound political and social instability, there has been challenge after challenge, and what makes this time different from any time is that we all are very aware of these challenges.

So now the moot question arises that why are we having so much trouble dealing with these challenges, and really is there any role for the business sector, and if so, what is that role? In order to address these questions, we have to step back and think about how we've understood and approached these challenges.

How have we tended to see the solutions to these challenges, these many issues that we face in society? Well, we've tended to see the solutions in terms of NGOs, in terms of government and in terms of philanthropy. Indeed, the kind of unique organizational entity of this age is this tremendous rise of NGOs and social organizations. This is a unique, new organizational form that we've seen growing pace.

Enormous innovation, energy and talent now have been mobilized through this structure to try to deal with all of these challenges. But let's think at this moment, we've been at this phase for quite a while. We've been aware of these challenges for decades now, having witnessed our NGO's and government entities, which are facing an awkward reality. The awkward reality is we're not making fast enough progress. These challenges still seem very daunting and very intractable, and any solutions we're achieving are small and merely resulting in incremental progress.

What's the fundamental challenge we have in dealing with these challenges? If we cut all the complexity away, we can make progress. The moot concern or rather obstacle is that we can't scale the impact of these problems. Why is that? The answer to this issue is the paucity of resources. There's simply not enough money to deal with any of these problems at scale using the current model. There's not enough tax revenue, there's not enough philanthropic donations to deal with these problems. We've got to confront that reality as the scarcity of resources for dealing with these problems is only growing, certainly in the advanced world today due to the fiscal problems we face.

So if it's fundamentally a resource problem, where are the resources in society? How are those resources really created, the resources we're going to need to deal with all these challenges? Well there, we all know the answer is very clear: the solution lies with the business sector. Business creates wealth when it meets needs at a profit. That's how all wealth is created. Its meeting needs at a profit that will lead to more taxes which in turn will lead to incomes in the end resulting in more charitable donations. Other institutions can utilize them to do important work, but only business can create these resources. That's where all the resources come from.

The question now is, how do we tap into these resources? Business generates those resources when it makes a profit. That profit is that small difference between the price and the cost it takes to produce whatever solution business has created to whatever problem they're trying to solve. But that profit is the magic. Why? Because that profit allows whatever solution we've created to be infinitely scalable.

Now what does this all have to do with global challenges? Well, one line of thinking is, let's take this profit and redeploy it into these challenges. Business should give more and it should be more responsible to build a path for a solution to meet the scarcity of resources. But again, this path that we've been on is not getting us where we need to go.

The conventional wisdom in economics and the view in business has historically been that actually, there's a tradeoff between social performance and economic performance. The conventional wisdom has been that business actually makes a profit by causing a social problem. The classic example is pollution. If business pollutes, it makes more money than if it tried to reduce that pollution. Reducing pollution is expensive; therefore businesses don't want to do it. It's profitable to have an

unsafe working environment. It's too expensive to have a safe working environment; therefore business makes more money if they don't have a safe working environment. That's been the conventional wisdom. A lot of companies have fallen into that conventional wisdom. They resisted environmental improvement. They resisted workplace improvement. That thinking has led to, I think, much of the behavior that we have come to criticize in business.

But the more deeply we got into all these challenges; we will find that the reality is the opposite. Business does not profit from causing social problems, actually not in any fundamental sense. That's a very simplistic view. The deeper we get into these issues, the more we start to understand that actually business profits from solving from social problems. That's where the real profit comes. Let's take pollution. We've learned today that actually reducing pollution and emissions is generating profit. It saves money. It makes the business more productive and efficient. It doesn't waste resources. Having a safer working environment actually, and avoiding accidents, it makes the business more profitable, because it's a sign of good processes. Accidents are expensive and costly. issue by issue, we start to learn that actually there's no trade-off between social progress and economic efficiency in any fundamental sense.

Nowadays corporations are also realizing that there is an economic perspective in participating and assisting in solving social and environmental challenges. The companies see these problems as opportunities for creating new business concepts. Doing something good is being included into companies' business models, enabling the companies to participate in solving global challenges as part of their business strategies. Companies are therefore rethinking their business models in order to create new business opportunities that also consider participating in solving the global challenges while simultaneously creating profits. Doing good does no longer only have to be in the form of philanthropy or charity, doing good can also be done as a part of companies' everyday corporate strategy. Companies are taking on the responsibilities of participating in solving the global challenges the planet faces by delivering goods and services, which are created through responsible innovation. The era of corporate social innovation has begun. The era in which Business is evolving from reactive to proactive, from sympathetic to strategic and from isolated to collaborative to create a better world for everyone.

**Flow Chart 1: The Evolving Role of Business in society**



## 2. Corporate Social Innovation: A New Paradigm of Business

Over the past two decades, the expectation that businesses will be good corporate citizens has increased to a point where most companies have a corporate social responsibility (CSR) program. CSR has an important role in supporting communities as well as enhancing social responsibility program. Encouragingly, a growing number of companies are becoming more strategic with their CSR programs, lending their expertise to issues and organizations closely aligned to their core business to achieve maximum effect for the communities served. Today, many progressive businesses are looking at the next stage of evolution in CSR by investing in social innovation, a model of innovation squarely focused on addressing the most pressing social and environmental challenges in a way that contributes to the success of the business. CSR tends to be an adjunct to core business, often focused on activities that are largely decoupled from business success. Corporate social innovation aligns core business value with positive societal outcomes, a win-win approach that can avoid the trade-offs of typical measures to minimize or mitigate social and environmental impacts. Simply put, corporate social innovation is about creating innovative and inclusive and financially viable business models, to make a better world for all of us including the 4.5 billion people living at the Base of Economic Pyramid (BoP).

### 3. Corporate Social Innovation In Practice: Creating Opportunities Where It Is Needed Most

Below are the live examples of businesses embracing innovations while generating social, environmental as well as financial value, thus marking the path for corporate social innovation.

#### **Grameen Danone Foods Ltd.: Improving Nutrition for Children and Creating Employment for Local Community**

The multinational food producer, Danone, working in partnership with Bangladesh's successful microfinance social business Grameen Bank, created Grameen Danone Foods Ltd. IN 2006 in order to fight malnutrition. The joint venture produces a yoghurt enriched with crucial nutrients at a price of 6 BDT (= 0.06 EUR) which even the poorest can afford. However, Grameen Danone Foods affects people's lives not only by improving their health. Benefits exist along the whole value chain. The milk for the yoghurt is purchased from micro-farmers. The production is designed in such a way as to give as many people as possible a job. Sales ladies distribute the yoghurt door-to-door and receive a 10% provision. Unsold yoghurts are taken back. In total, Grameen Danone Foods is responsible for the creation of about 1,600 jobs within a 30km radius around the plant. There is also an environmental aspect: Solar energy is used for heating up the water, which is used for cleaning the installation and preheating water for the main boilers. In addition the packaging of the yoghurt is fully biodegradable. Therefore Grameen Danone Foods contributes to the achievement of the Millennium Development Goals by the United Nations to end poverty.

#### **Drivers**

- Improving nutrition for children and creating employment in the local community.
- Reaching a new market in a meaningful and financially sustainable way.
- Redefining the brand

#### **Vinte: Providing Affordable and Sustainable Housing to Low and Middle Income**

Vinte, a Mexican housing developer is a niche player in the low-and middle-income housing market, with a customer offering that is differentiated by the use of innovative technology and modern infrastructure services. Its research and development in cutting-edge technologies is helping the company to introduce innovations that save homebuyers on ongoing home maintenance costs. Vinte's homes are designed to reduce gas bills by 75 percent, and have the option of rooftop solar cells to generate energy, which significantly reduces electricity bills. Homeowners can monitor their electricity, gas, and water consumption with individual meters and adjust habits to save money.

#### **Drivers:**

- 40% of housing demand is concentrated in central Mexico, a significant market opportunity for a niche player
- Stable supply of government-backed mortgages for low-and middle-income housing customers

As of June 2012, VINTE had sold more than 11,000 homes. Due to its after-sales services and sustainable designs, each of VINTE's home models has increased in value over time, reaching up to 10% annually—becoming valuable assets for low-to middle-income families, as well as for the mortgage providers that supported VINTE's customers. VINTE's G7 Habitat or "Housing of the Seventh Generation," which encourages efficient use of water, gas, and lighting, has enabled homeowners to save money on their utility bill.

#### **Aadhar Housing Finance Ltd.: Financing due-diligence facilitation**

Providing housing finance to low- and lower middle-income customers in India poses several challenges for lenders. The real issue is that these customers may not have identity cards or income statements. They often construct their own homes, requiring special technical appraisal. Their loan repayments can be affected by irregular cash flows. And unclear land titles can cause legal issues. This financial corporate has found ways to address these challenges to provide housing finance to this target segment.

It offers home loans for three purposes: purchase of a house or apartment for residential use, purchase of a plot of land and construction of a home on it, and improvement or expansion of an existing home. As a benefit, it offers borrowers free insurance to cover property, risk of accidental death, permanent injury that impairs earning capacity for a limited period. Loans are between Rs.0.1 to 0.6 million (\$2,000 to \$12,000), but may not exceed 80% of the property cost or 75% of the land cost. The average home loan size is Rs.0.49 million (\$9,800). Approximately 55% of its customers seek loans to purchase ready-made homes, while 25% seek loans for self-construction.

#### **Drivers**

- Growing demand for and supply of affordable housing, including through self-construction
- Increasing demand but limited availability of housing finance for low-income customers
- Government incentives—including interest rate subsidies and refinancing—for affordable housing lenders
- Home ownership tax incentives for individuals

The growth in affordable housing—whether ready-made or self-constructed—is, in turn, fueling demand for housing finance. But housing finance for low-income customers and in low-income states remains underpenetrated for several reasons. First, HFCs and banks favor middle- and high-income customers in states with dense urban populations. Second,

private banks focus on higher interest personal loans than on home loans. Third, public sector banks in low-income states prefer customers who need larger housing loans than the target segment, and are also slow and selective. As a result the company has expanded both in size and in numbers.

#### **Water Health International Inc.: Providing A long Term Solution for Potable Water**

This water purification corporate offers low-income customers, typically those earning \$2 - 5 per day, an affordable, high quality, and long-term solution for potable water. The company serves predominantly rural and per-urban communities that have limited or no access to a guaranteed source of safe drinking water at an affordable cost. It has built modular water health centers that are on average 25 square meters in size where it uses off-the-shelf technologies such as reverse osmosis and ultraviolet light to disinfect water, as well as multi-stage filtration to remove silt, contaminants, bad taste, and odors. Its superior water purification equipment can purify water from most available water sources to meet the standards for drinking water quality of the World Health Organization

#### **Drivers**

- Global need and company mission to reduce the incidence of morbidity and mortality due to the lack of access to clean drinking water
- Business opportunity to develop a low-cost, high-quality, and sustainable potable water solution for underserved populations
- Availability of water treatment technology that could be harnessed and further developed

At the same time, the company recognized that underserved populations require a solution that is low cost, high quality and sustainable. This technology uses ultraviolet light to purify and eliminate harmful pathogens and microbes from contaminated water. It was able to use this lost cost technology successfully. The Company has brought various benefits to the local communities they serve. The community has seen productivity and economic gains through job creation, timesaving for procuring water on a daily basis, and entrepreneurship opportunities, among others. It was worthy to note that the company employed over 500 low-income people for construction as well as operation and maintenance of its centers as of early 2012. It has also created opportunities for entrepreneurs to enter into the water distribution business.

#### **Business Models Targeting Public Education**

In 1991, Bell Atlantic began creating one of the first-ever models for using computer networks in public schools. Bell Atlantic's Project Explore, in Union City, New Jersey, enabled communication and learning to move beyond the classroom. In addition to installing computers in the schools, Bell Atlantic gave computers to 135 inner-city students and their teachers to use at home. Project Explore became a catalyst for increasing the use of technology to transform middle- and high-school classrooms, to improve students' skills, and to involve parents in their children's education. Union City's schools, once threatened with state takeover, have become national role models. For its part, Bell Atlantic has found new ways of handling data transmission. It refined its goals for video on demand and identified a new market in distance learning.

IBM began its Reinventing Education program in 1994 under the personal leadership of CEO Louis V. Gerstner, Jr. Today the program, designed to develop new tools and solutions for systemic change, operates in 21 U.S. sites and in four other countries. Many product innovations, which benefit both the schools and IBM, have resulted from this initiative. As part of the Wired for Learning program in four new schools in Charlotte-Mecklenburg, North Carolina, for example, IBM created tools to connect parents to teachers digitally so that parents can view their children's schoolwork from home or a community center and compare it with the district's academic standard. New tracking software is facilitating the introduction of flexible scheduling in Cincinnati, Ohio, including in a new year-round high school. In Broward County, Florida—the fifth largest school district in the United States—IBM's data-warehousing technology gives teachers and administrators access to extensive information on students. In Philadelphia, Pennsylvania, IBM created a voice recognition tool to teach reading, which is based on children's high-pitched voices and speech patterns.

#### **Marriott International: Creating Jobs in Poor communities**

The hotel group Marriott International has been refining its pioneering training program, Pathways to Independence. The program, which currently runs in 13 U.S. cities, hones the job skills, life skills, and work habits of welfare recipients, and Marriott guarantees participants a job offer when they complete the program. The challenges of working with the unemployed has led the company to new insights about training, job placement, and supervision, which have helped Marriott reap the benefits of a more stable workforce and maintain unusually high standards of service. This pathway was a radical improvement on traditional programs which were very hard to employ both bureaucratically cumbersome and often ineffective. The employee assistance innovations that Marriott has developed through the program have also created new jobs in poor communities

#### **Thermal Waste into Electricity**

Researchers at Stanford-MIT have found a new way to harness the low-grade heat that is emitted from almost all power plants and manufacturing processes. Using a new battery technology, the system is based on a cooling down and heating up process that works with temperature differences of less than 100 degrees Celsius. Tests conducted so far have shown that this method

of harnessing thermal energy has almost double the efficiency of conventional thermoelectric devices. In addition, the materials used are both readily available and low-cost.

### Harbor-Dwelling Water Wheel swallows Garbage

This innovative giant Water Wheel collects garbage from the ocean. This water-cleaning invention has become a bit of a tourist attraction as well. Described as half alien spaceship and half covered wagon, the Water Wheel collects garbage by turning with the current. It scoops the waste up, places it on a conveyor belt, and sends it to a dumpster barge for disposal. It is imperative to acknowledge that sometimes business attempts to find innovation in the social sector, which from time to time has been discounted by critics as public relations ploys. But as the depth and breadth of each company's commitment should make clear, that would be an extremely costly and risky way to get favorable media appreciation.

## 4. Key Elements of Corporate Social Innovation

While reviewing the above examples of businesses that have successfully leveraged CSI-based approaches, we can say that there are six key elements of corporate social innovation:

- Purpose: defining the corporate purposes around meeting societal needs, opens new opportunities for growth and profitability, while ensuring prosperity for all. For instance rather than making food companies are focusing on nutrition, health and wellness.
- A defined need: companies are not merely targeting a theme, such as, "poverty". Companies are investing to create value chain opportunities to increase earnings and to improve the quality of life of people living at the bottom of pyramid.
- Measurement: Innovative companies are smart about measuring the impact of these investments on society and making the link to their bottom line. For example, health care companies might realize that giving people without health care the information to change their behavior and seek that care will generate new revenues. These companies could unlock business value by tracking changes in health outcomes and understanding the nuances of how their activities affect those outcomes.
- Co-creation: Companies look beyond their own walls to find partners in social innovation in order to achieve scalable results. Unconventional partners from civil society, academia and philanthropy can add value in all stages of innovation: scoping, design, rollout or scaling. Social innovators establish and nurture expert and institutional networks in the areas they target for social innovation.
- An innovation-enhancing structure: Finally, because policies and processes inside companies can often hinder innovation, successful companies set up a structure to situate, shield, measure and incentivize social innovation efforts. There is no "right" way to structure social innovation: You can set up a separate fund, a separate department, a cross-functional task force or a number of other options. What matters is intentionally choosing a structure that's most likely to boost innovation given the company's specific culture and objective
- Creation of new resources through technological innovation: now day's companies are focusing on exploration of new and efficient energy resources to mitigate and minimize the environmental risk for all etc.

## 5. Collaborative Corporate Social Innovation: The Way Forward

Looking to the future, the business sector will definitely play an important role in improving people's lives. We have already seen the business sector converting challenges into opportunities and incorporating the BOP into their value chains. The core challenge is how to accelerate the spread of these innovative and inclusive business models. This challenge and the opportunities are bigger than any one organization, government, NGO or business organization. Delivering solutions to the increasingly complex challenges of today, require a combination of multiple skills found in multiple organisations. The main idea behind collaborative corporate social innovation is that companies can take advantage of the knowledge that already exist, and create partnerships where necessary, in order to create maximum impact.

**Table 1: Roles of Different Partners**

Business	NGOs	Government	International organisations
Creating resources through inclusive and innovative business model.	Supporting Innovation, demonstration and pilot projects.	Enabling infrastructure	Providing global platform for collaboration and collective measures, for instance UN Global Compact, climate summits etc.
Creating scalable impact	Facilitating communication and distribution	Progressive and outcome oriented legislation	Providing aid and assistance.
Creating value chains generating employment along with positive social and environmental impact	Technical assistance and training	Incentives and co-investment	Specifying the global challenges in the form of MDGs and setting targets
Leveraging technology and ensuring affordability along with quality	Development and operation of infrastructure	Bridge financing	Research, monitoring and evaluation
Reaching the BOP as suppliers as well as customers	Research, monitoring and evaluation	Creating favourable market conditions	Recognising the replicable innovative and inclusive business models across the world

Now let's try to explore how the application of collaborative corporate social innovation can turn India into global agriculture powerhouse, while creating prosperity for all.

Although a majority of Indians live in rural areas, agriculture accounts for only 16 per cent of GDP. Agriculture in India has grown at an average of three per cent over the past 20 years. Despite being self-sufficient in food grain since the mid-1990's and being the world's third largest agricultural producer (behind China and the US), Indian agriculture is far from realizing its true potential. In the years to come, India is set to increase its overall food consumption by four per cent annually with food expenditure more than doubling from \$245 billion in 2010 to potentially \$510 billion in 2030. The growth in demand creates opportunities to double farmer incomes and impetus for India to produce and export high-value produce (fruits, vegetables). It can make the country a top exporter of agricultural produce. However, it requires modern farming technologies, high quality of seeds and small scale mechanisation. At the same time, the government could consider different structural measures to build an infrastructural backbone (through an authority similar to the National Highways Authority of India), processing centres, world class agriculture research universities, and an open participative extension service network.

## 6. Collaborative Corporate Social Innovation Model for Agriculture Sector of India

Table 2 Innovative Model

BUSINESS	NGOS AS A FACILITATOR	GOVERNMENT AS AN ENABLER	INTERNATIONAL ORGANISATIONS
Working with farmers in group rather than, individually to reduce cost, simplifying logistics and creating a value chain.	Conducting workshops in collaboration with companies to make farmer aware about the benefit of innovative and inclusive business models	Encouraging private participation in ensuring world class farming practices. Opening world class agriculture research institutes.	International organisations like world bank, ADB etc. can provide adequate funding.
Providing training and learning opportunities to improve quality and quantity of production	Acting as a facilitator between businesses, govt, and farmers to find out the best suitable agricultural practices and creating a win-win situation for all	Providing adequate budgetary support to pilot projects to ensure maximum benefit	Global platforms like WTO provides a platform for Indian agriculture to create a positive impact across the world and at the same time helps to analyze the factors required for the growth of Indian agriculture
Making relevant technology available at scaled down manner.	Conducting alternative needs-based training sessions and dissemination sessions for varying needs of farmers	Encouraging scalable farmer-industry partnership through various models like NABARD	Conducting research on world-wide impacts of innovative agricultural practices helps to choose a sustainable solution.
Providing modern water irrigation systems and adequate mechanisation at affordable prices	Making farmers aware about the progressive legislations and govt. schemes	Encouraging corporate farming in select high value agriculture areas	Monitoring and evaluating agricultural innovations like GM crops, drip irrigation system etc.
Creating cheap and feasible cold chains and storage facilities	Can help companies to measure the impact of their innovation by assisting them with adequate research, monitoring, and evaluation process	Progressive legislations like revising the APMC Act across the states,	Helping MNCs to reach out to the poorest of poor people of India
Creating modern retail format and viable procurement mechanism	Can help in facilitating finance and payment facilities to farmers	Creating a conducive policy environment to promote investment and innovations	
Facilitating finance and payment facilities to farmers	Can help in making farmers aware about benefits of efficient water irrigation systems	Encouraging cropping practices that ensure sustainability	Promoting organic and sustainable farming practices of Indian agriculture all over the world thus creating a brand

## 7. Conclusion

From the above, we can conclude that collaborative corporate social innovation will give rise to far broader opportunities for strategy and economic value creation in any sector, thus transforming poverty into people empowerment and creating a win-win situation for all.

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