License to innovate

Breakthrough strategies for social impact

The world is changing

Emergence of “born social” companies
More and more consumers are making buying decisions based on social value drivers—helping “born social” companies disrupt industries.

Acute scrutiny from widening set of stakeholders
Customers, employees, shareholders, and even followers on social media are calling for greater corporate transparency, as less than half of the general public trusts business to do what is right.

Higher impact through technology
Businesses can achieve impact for a larger population at a lower cost than ever before. For example, 700 million people gained access to financial services between 2011 and 2014, in part propelled by increased access to mobile media, reducing the unbanked population by 20%.

Support for high impact businesses
New legal structures have emerged to promote integration of business and social impact and new financing structures are fueling the change.

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The cost of inaction may be high...

- Irrelevance to a core customer in the face of changing preferences
- Loss of purpose-driven talent, particularly millennials
- Loss of market share in the face of competition or disruption by “born socials”

... and the potential is big.

Example: The global increase in middle income consumers

<table>
<thead>
<tr>
<th>Today</th>
<th>2 billion</th>
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<tbody>
<tr>
<td>2030</td>
<td>4.9 billion</td>
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For companies looking to innovate new offerings that deliver measurable social impact, there are five primary strategies a company can pursue. Many considerations factor into which strategy—or combination of strategies—a company chooses. Among other differences, strategies vary by the extent to which the company drives the innovation process versus relying on external partners to support a new solution’s development, as visualized below.

**Innovation process**

1. **Externally dependent**
   - **Invest in external solutions**
     - Invest to advance external solutions demonstrating profitability and impact
   - **Engage a network**
     - Engage in networked problem solving with other organizations to identify and test possible solutions to scale
   - **Accelerate externally**
     - Secure external services to accelerate the solution development
   - **Sandbox solutions**
     - Advance internally developed solutions into a viable proof of concept through a shared proving ground
   - **Innovate in-house**
     - Invest to advance external solutions demonstrating profitability and impact

2. **Internally dependent**

Ready to embark on a social impact strategy? Consider the following questions:

1. Does the initiative connect with the culture and values of the organization and its stakeholders?
2. 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?
3. Is the company ready to move from focusing solely on the functionality of its offerings to evaluating the impact they achieve?
4. Is the company prepared to invest the additional time and resources required to drive new customer adoption and achieve impact?
Finding your “best fit” strategy for social impact

How can your company pursue social innovation?

A company’s capabilities make certain strategies more feasible than others but there are also other important considerations that shape its choices, such as a company’s objectives and desired roles in the innovation process. The internal conditions, not to mention the performance of competitors and others in the external landscape, also play a role. Explore the choices below that might lead a company to pursue one of the five strategies over another.

Here’s how you can implement the “best fit” strategy—or combination of strategies—for your company.

**Strategies in action**

- PepsiCo has increased R&D spending on health-focused basic research, while Philips developed an incubator in its Africa innovation Hub.
- External incubators co-develop and co-invest in for-profit ventures with multinational corporations.
- Toronto’s MaRS Discovery District creates a cross-sector support system for emergent solutions.
- Firmenich co-founded the “Toilet Board Coalition,” together with >15 large multinational and sanitation expert organizations to accelerate sanitation solutions in developing countries.
- DSM’s (global science-based company) venture group acts as an “outside-in” innovation arm, investing in 50+ startups.

**Key considerations**

- Secure buy-in from the highest levels of leadership throughout the organization.
- Anticipate that a social innovation team will operate differently than other departments; establish required lines of reporting.
- Select a service provider whose strengths complement the company’s internal capabilities.
- Align on the systemic barriers that must be overcome to be successful.
- Find ways to achieve equitable distribution of responsibilities for a fair give-and-take.
- Lightweight, flexible solutions may work better when the goal is wide participation.
- Be mindful of the timing of investments as they relate to a company’s funding cycle.
- Exploring new socially impactful business models may yield fewer comparable deals and data, requiring more investee communication & a more bespoke diligence process.

**Watch out for…**

- “Blind spots” that can arise when innovating internally: companies should understand new, unique consumers and avoid dismissing external partners.
- Outsourcing a solution concept because it’s convenient when perhaps it shouldn’t be pursued at all.
- The misunderstandings and disagreements that may occur when contributors bring together their solutions late in the process.
- Failing to incentivize and reward high-performing contributors, who may harbor resentment that their efforts are treated the same as less-active contributors.
- Deliberating over data limitations to the extent that the company misses out on co-investment opportunities with fast-moving venture capitalists and other investors.

**Sources**

4: [http://www.reuters.com/middle-class-infographic](http://www.reuters.com/middle-class-infographic)
5: Company websites and interviews

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