
Chapter 4

The main challenges

4

The main challenges



"Try again. Fail again. Fail better."
Samuel Beckett, Irish writer, playwright and poet

One of the reasons for the onset of social innovation is the existence of unfulfilled social and environmental needs, "a gap between what there is and what there ought to be, between what people need and what they are offered by governments, private firms and NGOs, a gap which is constantly widened by the emergence of new technologies and new scientific knowledge."⁹ The so-called "fourth sector" leading social innovation is a new group of organizations at the crossroads between the public, private and social sectors. It is distinguished by implementing practices that cross traditional sectorial borders to develop new social relationships between agents. Its goal is to develop innovative activities that will cover unfulfilled needs, be they social or environmental. The agents are responsible for extending social innovation beyond what was initially a marginal area. The following aspects have been identified by the Future Trends Forum experts as "accelerators" of success in social innovation, having moved out of the background and into the spotlight of current events:

- Innovation applicable to models for business and products; not haphazard findings, but rather deliberate pursuits.
- Private companies' ability to solve social and environmental problems more effectively than governments.
- Collaborative innovation as a future ecosystem for sharing ideas among a greater variety of agents in an environment that is open to participation.
- The role of technology (communications, the Internet) to facilitate collaborative innovation.

We mentioned earlier that the reason for the existence of social innovation was the gap between the problems we are facing and the solutions that are currently available. These problems can be viewed from three different perspectives¹⁰: problems that intensify (from diversity and conflict to climate change and mental illness), models that are failing or stagnant (from traditional electoral democracy to criminal justice) and fields where new possibilities are not being adequately exploited (such as mobile technologies and open-source methods).

There is still much work ahead, but in addition, many of the challenges facing social action organizations must be overcome so they can improve their operations and increase the impact of their efforts.

First of all, there is an outstanding issue involving cooperation between social agents. Despite the advent of new open collaboration structures, much remains to

⁹ *Social Innovation. What It Is, Why It Matters, How It Can Be Accelerated*, Saïd Business School, Oxford, 2007.

¹⁰ *Social Innovation. What It Is, Why It Matters, How It Can Be Accelerated*, Saïd Business School, Oxford, 2007.

be done in terms of the potential synergies between them. The relationship between businesses and NGOs or nonprofits has not fully developed. Institutional support and financing continue to be scarce, hindering social innovation, while social problems intensify.

Secondly, corporate social responsibility is becoming a requirement, something more than a mere enhancement to marketing campaigns in private companies. We are starting to see the emergence of standard guidelines to determine how companies carry out and convey their efforts aimed at social and environmental sustainability. The crisis and the resulting strategy of focusing on short-term measures to overcome the recession are no longer acceptable excuses for companies to put off developing sustainable and socially responsible businesses.

Thirdly, one of the challenges that has elicited the most discussion is that of achieving "scalable" high-impact projects that are primarily reliant on innovation and technology. Even if efforts multiply to address an increasing number of social and environmental goals, the fact is that the opportunity cost of not replicating existing innovations elsewhere is of critical importance to the impact of social action. If we are capable of taking the successful cases and replicating their results in other communities where similar needs exist, we will be developing the necessary skills for creating an environment of sustainable, lasting social action.

In addition, we are witnessing a transition in which nonprofit organizations no longer depend on donations for their survival; now they are established as companies with entrepreneurial goals and organizational structures, striving for sustainability and economic independence. How the stage for social innovation is set depends to a large extent on the advent of hybrids that blur the boundaries between the private, public and social sectors, as we discussed previously. Significantly, in his speech about food security during the G-8 Summit in L'Aquila (Italy) in the summer of 2009, Barack Obama stressed the importance of programs being implemented "sustainably" and of stimulating the private sector in countries receiving aid.

Finally, measuring results has become one of the requirements for proving that these efforts are economically sustainable. Companies striving to achieve sustainability can hardly assess their progress unless they analyze a series of measurements and key performance indicators to find out whether their business is effective, measure their company's impact on its environment, and compare it with that of other efforts. Obviously, applying these measurements to social and environmental areas is difficult because of the complexity involved in determining the most appropriate ones in each case; besides, the reporting system for results has yet to be adequately standardized.

Social innovation is not a stroke of luck, or something that happens by chance. True though it may be that the great ideas referred to as *big bangs* by the Future Trends Forum experts do exist, social innovation is actually far more dependent

on the necessary foundations being set in place for promoting open collaboration between social agents, institutional support through favorable incentives and policies, and the advent of new business models that make an efficient and sustainable use of technology in their projects. This community is responsible for adapting to a new environment and avoiding the risk of innovation remaining exclusively on paper, so as to allow some social and environmental issues to make the headlines and allow political agendas to be resolved once and for all.

a. Social open innovation: reinventing cooperation between agents

Social innovation cannot be solely associated with the nonprofit sector. In recent years, there has been a growing consensus about the importance of the role of other agents in social action, particularly that of social entrepreneurs. One of the most widespread conclusions among the Future Trends Forum experts regarding social innovation is the need for closer collaboration between social agents; for the most part, many view social entrepreneurs as the link between different sectors, communities and institutions. A metaphor is often used to illustrate this fact: On one side, we have the "trees," which are the major government agencies, companies, and nongovernmental organizations with roots, power and money. On the other side are the "bees"—social entrepreneurs, professional or community groups that develop ideas with a certain degree of creativity and passion for what they're doing. Generally speaking, the bees have the necessary energy and ideas, but are not as good at implementing them, whereas the trees have financial power and influence, but lack innovative drive. Successful change occurs when the two join forces, when the bees pollinate the trees and simple ideas turn into programs and policies.¹¹

Synergies between companies and NGOs

Clearly the challenges of sustainability are too complex to be addressed independently from one another. All the agents and stakeholders involved need to be committed to applying innovative, entrepreneurial, result-oriented, and potentially scalable solutions to social and environmental problems. To do so, we need stronger collaboration between social agents: cooperation to implement the measures, coordination between the different processes involved, compatible tools and shared development of new financing methods. "Overall, harmonization and interoperability will reduce redundancy, enhance competition for the best tool and solutions, increase market demand for infrastructure services, and align individual incremental efforts [...]."¹²

The main objective of this cooperation between agents is to develop synergies, particularly between companies and NGOs. On one hand, private companies have internalized a sense of obligation to implement corporate social responsibility within the organization. Now there is actually an increase of business startups with purely social objectives that apply an entrepreneurial approach to their resource management and organization in order to maximize their impact. Meanwhile, nonprofit organizations are adopting increasingly similar structures to

¹¹ *Social Innovation. What It Is, Why It Matters, How It Can Be Accelerated*, Saïd Business School, Oxford, 2007.

¹² *The Emerging Fourth Sector*, ©1998-2008 Fourth Sector Network.

those of private companies, seeking the potential of a greater scale, of measuring results or of financial power. Furthermore, it is becoming apparent that the boundary between private companies and nonprofit organizations has begun to fade, as many of the innovations that emerged within the private sector have been applied to address social challenges that had traditionally been dealt with by nonprofits. As we will examine later on, many experts refer to a "fourth sector" with a proliferation of business models at the intersection of the private, public and social sectors.

According to Jacqueline Novogratz, founder and CEO of [Acumen Fund](#), the contact that develops between businesses and social entrepreneurs is determined by a variety of factors: "First, we will see more corporations reaching out to social enterprises and traditional NGOs to facilitate the strengthening, expansion, and deepening of their own supply chains. Corporations are designing and developing affordable, useful products for the poor but they lack the real understanding of how poor communities work and, in some cases, lack the flexible distribution systems (and trust) to reach those communities effectively. NGOs and many social entrepreneurs, on the other hand, can have a deep knowledge around markets serving the poor but may lack the infrastructure, resources, or management depth to bring needed products to them. [...] Second, we already are seeing a changing zeitgeist among many employees of big corporations, so we will likely see more activity from employees at all levels of a MNC that are focused on serving social enterprises and the poor directly."¹³ Therefore, the connection between businesses and social enterprises can provide considerable synergies with benefits for both parties involved. According to a Harvard University publication,¹⁴ the benefits of new social alliances between agents cover a wide range of aspects:

- **Improved operational efficiency:** achieving reduced costs, increased process efficiency and better service delivery.
- **Product and service innovation:** partnerships can create openings for the more effective and responsive design and delivery of goods and services.
- **Organizational innovation:** helping the organization to develop new, creative ways of operating to meet complex challenges and opportunities.
- **Development of human capital:** creating new opportunities for training, mentoring, exchanges, incentive programs, awareness raising, volunteering and leadership development.
- **Better access to information:** sharing valuable information to improve risk management.
- **Enhanced reputation and credibility:** building better relationships with key stakeholder groups.

¹³ *Growing Opportunities: Entrepreneurial Solutions to Insoluble Problems*, Allianz, Du Pont, Skoll Foundation and SustainAbility Collaboration, 2007.

¹⁴ *Harnessing the Potential of Partnership Between Corporations and Social Entrepreneurs*, Harvard University, March 2006 (source: Nelson, J. and Zadek, S., *Partnership Alchemy*, The Copenhagen Center, 2001).

- **Creation of a stable society:** this is the critical long-term interest of business and a direct objective of government and many NGOs.

The social entrepreneur and the government: one cannot exist without the other

At the beginning of this chapter, we pointed out that there are social agents who lead and shape social innovation. Without these “bees,” these social entrepreneurs, it would be difficult to come across the combination of creativity, talent, confidence, personality, drive, intuition and energy¹⁵ required for innovation in the social arena. When it comes to assessing the relative importance of certain social agents with regard to others, most of the Future Trends Forum experts agree that the agent with the greatest potential for innovation in terms of social action is, without a doubt, the social entrepreneur (see Figure 2), followed at a certain distance by nonprofit organizations, which have traditionally been viewed as the pioneers of social innovation.

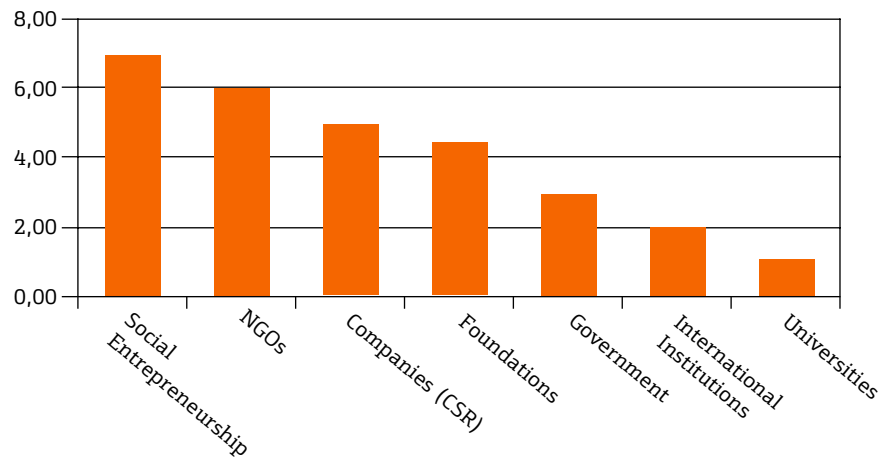


Figure 2: Ranking of social agents according to their potential for innovation in the social action arena.
Source: Prepared by the authors.

There are many definitions of a “social entrepreneur,” but after extensive research, perhaps the one that captures the most important nuances is the one offered in a publication by Andrew Wolk, a member of the Future Trends Forum and the founder and CEO of [Root Cause](#), a nonprofit organization that advances enduring solutions to social and economic problems by supporting social innovators and educating social impact investors. Social entrepreneurs are agents that respond to market failures with transformative, financially sustainable innovations, and are uniquely positioned to help government officials address our toughest social problems. They combine business principles with a passion for social impact and

¹⁵ “Are Entrepreneurs Born or Made?” <http://www.scribd.com/doc/33700/SG-KE-Are-Entrepreneurs-Born-or-Made>.

demonstrate three core characteristics: social innovation, accountability and sustainability.¹⁶

The Future Trends Forum experts have also identified the social entrepreneur as a person who develops and implements innovative solutions to create a positive social impact, combining entrepreneurial discipline with an innovative perspective, all in pursuit of a social goal. The social entrepreneur leads change by following the triple-bottom-line principle (economic, social, and ecological performance) and has the ability not only to make efficient use of the available resources, but also to make the most of limited funding. Some experts from the Future Trends Forum have actually suggested that the term "social" is redundant, given that "the very definition of the entrepreneur of the future must consider that social responsibility is an integral part of his or her concepts and business models. Therefore, any aspiring social entrepreneur must exhibit exactly the same qualities and skills as any other entrepreneur: a fabulous idea, the ability to implement it, practical business skills—in other words, the ability to operate a business effectively and make money from that idea—the passion and determination to do everything it takes to succeed, and the conviction that nothing is impossible."

Some of the qualities most broadly identified by the Future Trends Forum experts as typical of a social entrepreneur are: "active," "well-organized," "sustainability-oriented," "resourceful," "determined," "helpful," "disciplined," "persistent," "empathic," "capable of identifying opportunities" and "honest with stakeholders and with him or herself." Certain organizations such as [Ashoka](#) or [Skoll](#), whose mission is to support these entrepreneurs, have each developed their own criteria for identifying those whose efforts they believe will be successful.

The eternal question is whether the social entrepreneur is made or born. Those who believe that social entrepreneurs are endowed with an innate talent claim that qualities such as determination or low risk aversion, which are common traits among these individuals, are built into their DNA. Advocates of acquired social entrepreneurship claim that people can be trained to transform inspiration into a business concept by persisting and refusing to take "no" for an answer until they achieve an impact on society. The latter school of thought has led to an increase of university and business school programs specifically aimed at helping potential social entrepreneurs focus their careers on social innovation. A Harvard Business School bulletin published an illustration with the following caption: "We can't teach people how to come up with ideas, but we can teach them how to analyze ideas already available to them."¹⁷ Innovation is not just about coming up with new ideas; it's also about the advent of new perspectives or ways of seeing things, and that approach can indeed be taught.

Most experts agree that the educational system must be capable of conveying the difference between a good idea and a good opportunity. In order to do so, the curriculum must include everything from how to secure financing for your idea, to how to assess market demand and replicate business models, and to finding ways

¹⁶ Andrew Wolk, *Advancing Social Entrepreneurship*, Root Cause/MIT, April 2008.

¹⁷ <http://www.alumni.hbs.edu/bulletin/1997/february/made.html>.

of mitigating risk. Educators can be among the main forces spreading optimism and perseverance for carrying out social projects.

Throughout this study, we will come back time and time again to the critical importance of the government's role in fostering a favorable environment for the efforts of social entrepreneurs. Andrew Wolk has a vision of the government's new role in the 21st century: "One day, government will proactively encourage social innovation and have the necessary tools and knowledge to identify and support the most efficient, effective, and sustainable solutions to pressing social problems". It is also important to note that the governments of many developing countries must offer even more than that, given their lack of basic infrastructures. Wolk, author of many specialized publications on the subject, offers a series of recommendations for the US Government (although his conclusions are applicable to other governments as well) to achieve advancements in creating an enabling environment for social entrepreneurs by promoting innovation, creating the appropriate environment, rewarding performance, replicating success at a greater scale and producing knowledge (see Figure 3).

This new model, characterized by the existence of a coordinated government that is willing to help, promote and reward social entrepreneurs, could unleash the enormous potential of social entrepreneurs, who are capable of finding more innovative, creative ways of solving social problems. Overall, there are three lines of action:

- 1. Set the groundwork for a new era for social entrepreneurs** by establishing the institutions and standards to support and promote this group, gathering and educating the three sectors (public, private and social) to solve critical social problems, developing award programs to acknowledge and reward innovative, effective, sustainable solutions, and publishing results on the performance of social organizations.
- 2. Take political measures to facilitate and foster a conducive environment for social entrepreneurship** by tearing down the obstacles encumbering projects and the potential replication of successful models, exploring tax systems that favor new business models, and allocating a percentage of the government budget to innovation and funding competitive processes.
- 3. Develop and allocate financial and non-financial resources** by creating public and private social innovation funds and coordinating resources to produce replicable solutions.

	Encouraging Innovation	Enabling environment	Rewarding Performance	Scaling Success	Producing Knowledge
Lay the Foundation for a New Era of Social Entrepreneurship					
1. Establish institutions that support and promote social entrepreneurship	✓	✓	✓	✓	✓
2. Allow greater autonomy. Set standards. Publish results.		✓			✓
3. Convene the public, private, and nonprofit sectors on critical social issues to advance solutions	✓	✓			✓
4. Develop awards programs to recognize and reward innovative, effective, and sustainable solutions.	✓	✓	✓	✓	✓
5. Educate all three sectors in social entrepreneurship's new approach to social problem solving.	✓	✓			✓
Set Policy to Enable and Encourage Social Entrepreneurship					
6. Strive to set policy and remove barriers to encourage social entrepreneurship and scale success.	✓	✓		✓	✓
7. Explore new tax structures to enable new organizational forms.	✓	✓	✓	✓	
8. Allocate a percentage of agency budgets toward innovation.	✓	✓			
9. Open earmarked funds to competitive processes.	✓	✓	✓	✓	✓
Develop and Leverage Financial and Non-Financial Resources to Encourage Social Entrepreneurship					
10. Seek partnerships with foundations and corporations to support social-entrepreneurial endeavors.	✓	✓		✓	
11. Create a public/private social innovation fund.	✓	✓	✓	✓	✓
12. Coordinate volunteer resources to scale solutions.	✓		✓	✓	
13. Establish a National Social innovation Foundation.	✓	✓	✓	✓	✓

Figure 3: Recommendations for Government to Advance Social Entrepreneurship.
 Source: Andrew Wolk, *Advancing Social Entrepreneurship*, Root Cause/MIT, April 2008.

The new social entrepreneur: the “intrapreneur”

Clearly the figure of the social entrepreneur is currently viewed as the engine behind many efforts in the area of social innovation. Similarly, new social agents have begun to appear and gain strength within large corporations. They are referred to as social intrapreneurs, who work inside major corporations to develop and promote practical solutions to the social or environmental challenges where progress is currently stalled by market failures. Environmental activists often wonder whether true social or environmental innovation is compatible with large corporate structures, given that these organizations are more intent on “doing the right things” than on “doing things right.”¹⁸ These entrepreneurs are creating a niche in multinational corporations, where they incubate and implement business solutions aimed at providing added value according to the triple-bottom-line approach. So, then, what is the difference between a social intrapreneur and a social entrepreneur? Generally speaking, the former not only exhibits the qualities and carries out the activities that are typical of an entrepreneur, but also performs tasks with a corporate approach that is part of a company culture, strategy and process, provides a convincing portrayal of social projects in business terms, and

	Entrepreneur	Intrapreneur
1. Shrug off constraints of ideology or discipline	✓	✓
2. Identify and apply practical solutions to social or environmental problems	✓	✓
3. Innovate by finding a new product, service or approach to a social challenge	✓	✓
4. Focus – first and foremost – on social value creation	✓	✓
5. Successfully navigate corporate culture, strategy and process		✓
6. Communicate social entrepreneurship in compelling business terms		✓
7. Build and inspire teams across a multiplicity of corporate divisions		✓
8. Jump in before they are fully resourced	✓	✓
9. Have a dogged determination that pushes them to take risks	✓	✓
10. Combine their passion for change with measurement and monitoring of impact	✓	✓
11. Have a healthy impatience – they don’t like bureaucracy	✓	✓
12. Run their organizations	✓	

Figure 4. Spot the social intrapreneur.

¹⁸ “Is it only about ‘doing the right things’ (leadership) or also about ‘doing things right’ (management)?” *The Social Intrapreneur: A Field Guide for Corporate Changemakers*, jointly published by Allianz, IDEO, Skoll Foundation and SustainAbility.

organizes workgroups with members from different departments and functional areas to promote greater creativity in innovation.

The individual as a new social agent

Up to this point, we have discussed the most common social agents in the area of social innovation. However, we have not yet mentioned the role of other participants who are now more relevant than ever: all of you. Using the Internet, individuals can now contribute their ideas and participate in discussions from anywhere, at any time. The best example of a proactive, comprehensive sharing environment is collaborative social innovation, also known as crowdsourcing. This trend involves the use of technology to foster the exchange of information and ideas among participating agents. In recent years, countless blogs and websites have sprung up offering multidisciplinary platforms where experts and amateurs converge to share and solve problems that call for an innovative outlook. A wide variety of contributions emerges from the community's degree of openness and the diversity of its participants' profiles. Welcome to the age of Web 2.0, the times of social networks and active participation in common-interest platforms applied to social action and the search for alternatives to concerns such as healthcare, safety, climate change and poverty.

Businesses and governments are no longer limited to developing websites with information on their social programs; they now offer environments where individuals can interact with the organizations to pursue social goals. Individuals no longer use websites as mere sources of information; they get involved, voicing their opinions and experiences or even rating the existing programs. In Spain, many government websites act as platforms for citizen participation aimed at compiling relevant information, opening forums for debate and fulfilling citizens' needs. In addition, users can access public profiles of social agents and people involved in the cause through sites such as kiva.org or globalgiving.com. These pages, considered to be the Facebook of social innovation, put social entrepreneurs in touch with people who are willing to fund innovative social programs. People with great ideas now have a way of communicating them; they also have a new potential source of funding that will enable them to carry out their projects. In some cases, websites allow users to visit a number of different project profiles, request a loan, and recover their investment when the project begins to prosper. This makes it easy to reinvest the money in another cause and develop a constant circulation of funding.

As the number of agents out there increases, it becomes necessary for them to interact, and, more importantly, to cooperate in order to develop synergies and boost all social innovation projects with a potentially major positive impact on society. Although we are fast approaching optimal collaboration, a lot still remains to be done and technologies such as the Internet pave the way toward enabling and reinforcing those connections.

b. Corporate social responsibility in the 21st century

In a sense, the current crisis has rekindled the concern for long-standing, unresolved problems such as climate change and social inequality. During a recession, people ask themselves the inevitable questions: what we have done wrong in different areas and how it can be resolved. The answers are many and varied, but a common basis is the need to renew the foundations on which recent growth was based and focus on economic and social sustainability. "Creative capitalism," a term publicized by Bill Gates, advocates a new form of capitalism in which companies harness market forces to generate profits while addressing social and environmental problems. Nobel Prize winner Muhammad Yunus, the founder of [Grameen Bank](#) in Bangladesh, advocates a proliferation of "social businesses" that harness corporate capacities in a new business form that seeks sustainable financial returns without substantial profit.¹⁹ This follows the course of "impact investing," which includes only those activities focused on the deployment of capital with the intention of having a positive social or environmental impact. Both of these trends—social business and impact investing—can be attributed to the need brought about by the crisis for a more ethical, less profit-driven business environment.

Of the world's 100 largest economic entities, 63 are corporations, not countries. Great power creates great expectations: society increasingly holds global businesses accountable as the only institutions strong enough to meet the huge, long-term challenges facing our planet.²⁰ Traditionally, governments were the main source of funding for NGOs; this situation has changed drastically, and the business sector, which had been playing a minor role until recently, could now further reduce the government's presence in this area.²¹ In other words, the perception of businesses as the engines that are truly capable of addressing social and environmental problems continues to grow. Besides, public opinion is more critical of the impact of businesses and their activity on the environment in which they operate. In a world where news headlines show up on our computer screens in a matter of seconds, companies' reputations are constantly at stake.

The concept of corporate social responsibility (CSR) stems from the notion that both private and public companies must be accountable to all their stakeholders. At this point, CSR is no longer optional. It has become a management principle that is gradually spreading across all companies, regardless of their sector or size. Without a doubt, companies are increasingly aware that their obligations to their stakeholders are more important than maximizing profits. Be it externally with customers and suppliers or in-house with employees and shareholders, the organization takes on a series of commitments that are increasingly aligned with a sustainability strategy. In business terms, sustainability includes everything from sound government to treatment of employees, environmental impact, influence on local communities, and relations with customers and suppliers.

Two changes have occurred in the approach to stakeholders in the area of corporate social responsibility. First of all, expectations of CSR compliance have

¹⁹ *Investing for Social & Environmental Impact*, Monitor Institute, January 2009.

²⁰ "When Sustainability means more than 'green'," *The McKinsey Quarterly*, July 2009.

²¹ "Responsabilidad social empresarial y socialismo del siglo XXI," <http://www.desarrollosustentable.com.ve/Temporales/default/Data/RSE%20y%20socialismo%20del%20Siglo%20XXI.pdf>

risen significantly. Many companies have started including corporate responsibility reports with their traditional financial reports. The information is usually featured in appealing formats, including corporate websites that act as virtual centers covering all their relevant socially responsible projects and efforts. Furthermore, this information has been gaining credibility on account of the international standard for contents provided by the [Global Reporting Initiative \(GRI\)](#), the organization that reviewed the 2008 Corporate Responsibility Report both for [Bankinter](#) and for [Accenture Spain](#), rating the documents with an A+. This enables businesses to prove their sound commitment to their customers, staff, suppliers, society and the environment.

Meanwhile, the groups considered as stakeholders also appear to be diversifying. As we mentioned earlier, there are more people involved in a business than just the entrepreneur and the shareholders. For quite some time now, consumers have been showing a preference for brands with sustainable credentials. As far as suppliers are concerned, they are striving to align their objectives with those that are not solely profit-driven, but also focused on social and environmental issues. Potential employees also value a corporate culture in terms of its CSR when faced with the decision of whether to join the organization. Even investors take CSR as a performance benchmark for certain investments.

The Future Trends Forum experts claim that the quest for corporate responsibility stems from a company's efforts to improve its public image and its brand (see Figure 5). Secondly, they pointed out that the motivation for a corporate responsibility program is to hire and retain personnel, proving that the number and variety of stakeholders involved in a company are on the rise. Other reasons, such as cost cuts, tax breaks, investor relations, environmental concerns and pressure from the government do not appear to have as much relative importance.

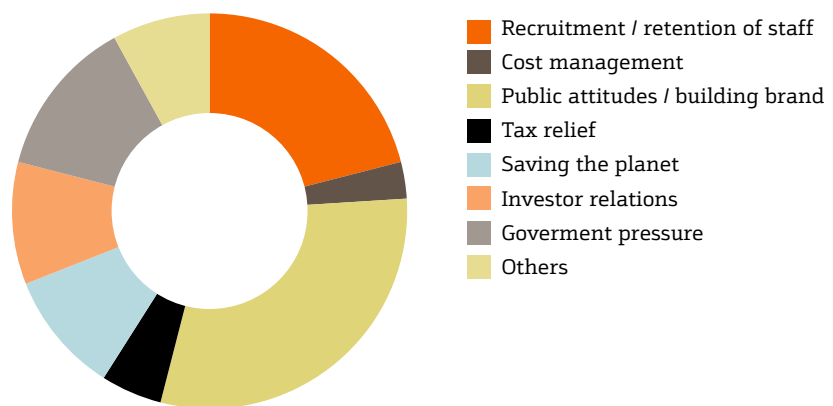


Figure 5: Main factors stimulating corporate responsibility in companies.
Source: Prepared by the authors.

While the present political situation has helped and there are now more laws forcing companies to be socially responsible, many experts argue that CSR is not considered an additional burden to the corporate workload, but rather an opportunity for organizations to gain a competitive edge. If there were any doubts as to the effectiveness of CSR, the crisis is going to help turn it into a distinguishing factor: the companies that work it into their business strategies will have a higher chance of being sustainable and overcoming the recession. Those that prioritize short-term actions at the expense of more sustainable measures are unlikely to survive, and even less so to compete effectively in the future. As a matter of fact, 56% of the Future Trends Forum experts believe that the financial crisis will only accentuate the need for organizations to truly integrate responsibility into their operations. Studies show that a correlation exists between financial performance and CSR, which implies that socially responsible companies have a greater appeal for investors.²² This high correlation between investment potential and responsibility has led to the appearance of certain projects that include sustainability as an investment benchmark, such as the [Dow Jones Sustainability Index](#) (DJSI) or the Carbon Disclosure Project. The latter was launched in 2000 to collect and distribute high quality information that motivates investors, corporations and governments to take action to prevent dangerous climate change. [...] 2,500 organizations in some 60 countries around the world now measure and disclose their greenhouse gas emissions and climate change strategies through CDP, so that they can set reduction targets and make performance improvements. To quote the Financial Times, "Disclosure [of this information] can spur innovation. The CPD [[Carbon Disclosure Project](#)] has shown that internationally consistent disclosure not only helps to pinpoint risk but also to generate opportunities."²³ Among other advantages, participation in this project can offer companies an opportunity for more efficient energy use, cost savings, high visibility and an image of accountability for their stakeholders, as well as a method for comparing themselves with other companies.

In addition to impact investing and standards for presenting social and environmental information, another common practice among companies is what is referred to as "cause-related marketing." This consists of an association between a private company and a nonprofit organization with the common goal of promoting the company's product or service while raising funds for the nonprofit activity. It differs from corporate philanthropy in that it does not qualify for tax breaks. The term was first used by [American Express](#) in 1983 to describe its fundraising campaign to restore the Statue of Liberty. American Express donated one cent each time its credit card was used. Was that disinterested help or commercial interest? Probably a bit of both. Regardless, the result was that 1.7 million dollars were raised for restoring the statue; the number of cardholders rose by 45% and card use was up 28%.

Triple sustainability in companies

Sustainability is not limited to a "green" product line, good intentions or a major marketing campaign. Sustainable development has to be evaluated from different

²² *A New Mindset for Corporate Sustainability*, White Paper sponsored by [BT](#) and [Cisco](#), 2008.

²³ <http://www.cdproject.net/about-cdp.asp>.

perspectives to ensure that it is fulfilling the existing needs without compromising future generations' chances of fulfilling their own needs.²⁴ The term "triple bottom line"²⁵ implies company performance is measured according to three criteria: economic, social and environmental. It considers the impact of the company's activities on all three: maximizing long-term profits (economic), minimizing the impact of the company's operations and products on the environment (environmental), and fostering well-being among the people working within the company as well as those outside who are ultimately affected by the company's area of influence (social).

While applying innovation to social action is one of the main focuses of this study, we would like to point out a new turn of the screw in the triple-bottom-line concept with the appearance of S²AVE (Shareholder and Social Added Value with Environmental Restoration), an acronym that stresses the way in which organizations can—and must—address the three dimensions successfully and profitably, while becoming more streamlined and innovative (see Figure 6).

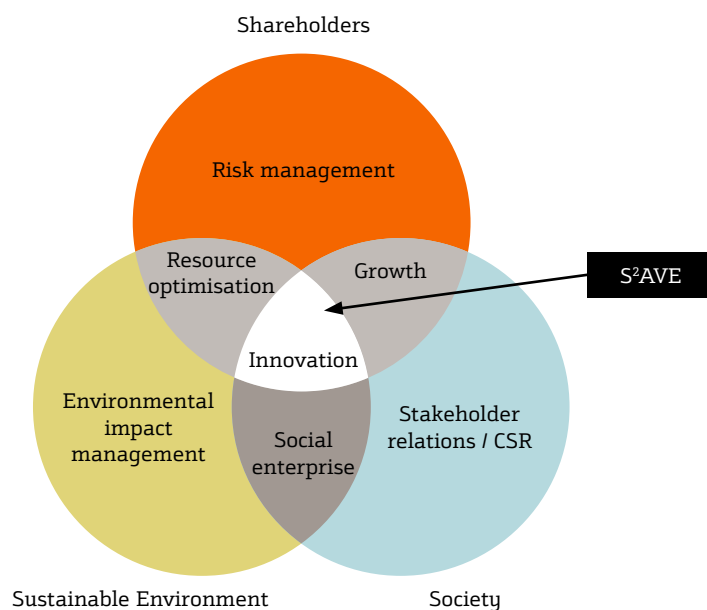


Figure 6: Management of economic, environmental and social expectations.
Source: *A New Mindset for Corporate Sustainability*, White Paper sponsored by BT and Cisco (2008).

²⁴ Definition according to Gro Harlem Brundtland in a United Nations report in 1987.

²⁵ *Cannibals with Forks: The Triple Bottom Line of the 21st Century Business*, John Elkington (co-founder of the SustainAbility consulting group).

Innovation can help open the doors to radical new business models, engage profitability with previously untapped markets, and enable the business to become a truly agile, strategic entity.²⁶ Despite major progress in CSR, there is still a long road ahead in terms of linking socially responsible projects to the organization's strategy and using innovation to develop those efforts. They are still considered as

somewhat independent elements, although CSR should actually be an integral part of the business strategy, and innovation must become one of the key components of the company mission. Clearly, weaving innovation into the corporate DNA can substantially improve the added value that a company is able to offer its stakeholders, while also countering the negative effects of its operations. Bearing in mind that innovation is sure to be the key for leading companies to overcome the challenges of sustainability in the future, those that develop innovation skills will probably prove to be the long-term survivors and competitors.

Economists Michael Porter and Mark Kramer make a distinction between "responsive" and "strategic" CSR (see Figure 7). The first is based on "good citizenship" and trying to mitigate harm from value-chain activities. These actions described above are almost sine qua non conditions of CSR, and thus another step is needed. Hence the second type of CSR, "strategic," entails gradually transforming value-chain activities to benefit society while reinforcing strategy. If the company invests in social aspects that strengthen company competitiveness, it will create shared value. A symbiotic relationship develops: the success of the company and the success of the community become mutually reinforced. The more closely tied a social issue is to the company's business, the greater the opportunity to leverage the firm's resources and capabilities, and benefit society.²⁷

Generic Social Impacts	Value Chain Social Impacts	Social Dimensions of Competitive Context
Good citizenship	Mitigate harm from value chain activities	Strategic philanthropy that leverages capabilities to improve salient areas of competitive context
Responsive CSR	Transform value chain activities to benefit society while reinforcing strategy	Strategic CSR

Figure 7: Participation in society: a strategic approach.

Source: Michael E. Porter and Mark R. Kramer, "Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility," *Harvard Business Review*, December 2006.

²⁶ *A New Mindset for Corporate Sustainability*, White Paper sponsored by [BT](#) and [Cisco](#) (2008).

²⁷ Michael E. Porter y Mark R. Kramer, "Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility," *Harvard Business Review*, December 2006.

²⁸ Mahabub Hossain, Executive Director of [BRAC](#); Presentation at the Future Trends Forum, June 3-5, 2009.

Which socially responsible business model is most appropriate?

Mahabub Hossain, Executive Director of [BRAC](#) and one of the Future Trends Forum experts, defined the social enterprise as a sustainable business model based on Corporate Social Responsibility. As part of his presentation at the Future Trends Forum meeting, he posed the question of how to strike the right balance between profit as a business goal and achieving the idealism of social work through philanthropy.²⁸ His answer was the [BRAC](#) business model (see Figure 8), halfway

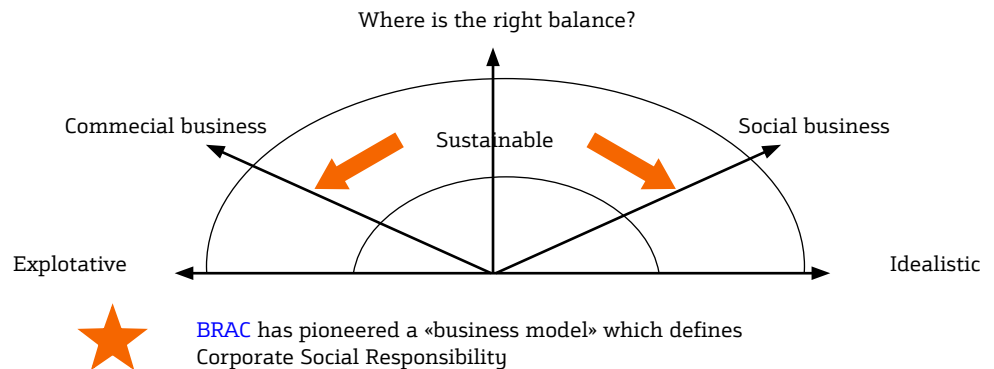


Figure 8: BRAC: An Overview of Programs and Engagement in Social Enterprises.
 Source: Mahabub Hossain, Executive Director of BRAC; Presentation at the Future Trends Forum, June 3-5, 2009.

between a for-profit company and a nonprofit social organization striving to help society in a profitable way. For this model, the point is not to maximize profits for the organization's shareholders, but rather to benefit its stakeholders, the millions of people out there who are living in the depths of poverty.

We explained earlier that markets do not always manage to fulfill poor consumers' needs, either because of the difficulty in reaching these people through traditional distribution channels or because sometimes it is not profitable enough to do so. We also pointed out that innovation is the way to overcome those obstacles and address environmental and social causes. Thus, the future of socially responsible business models lies in those capable of offering products and services at a significantly lower cost and creating them in a different way so as to reduce the social or environmental impact of their production. This must be done bearing in mind that the process involves many different players: social entrepreneurs, companies, service users, regulators, donors and politicians.

CSR in companies in emerging countries: development vs. sustainability

We are witnessing unprecedented growth in countries such as China, India, South Africa, South Korea and Turkey. Their markets do not have the ample experience in CSR that we find in developed countries. Nonetheless, to some degree, their fast-growing economies and populations force them to address the challenge of scarce resources and the quest for sustainable development. Yet we must ask ourselves whether it is fair to demand the same degree of commitment to good government standards from emerging countries when they do not yet have adequate legal systems in place or meet basic human rights requirements. Can we really expect these countries to comply with stricter environmental and legal regulations than the ones developed countries had to follow during a similar stage in their development?

Though it may seem that companies in emerging countries still have a long way to go in terms of CSR, the fact is that they are already showing their adherence to social and environmental principles—partly due to their urge to go global—and are moving into the limelight of their developed counterparts. “Despite China’s reputation as a part of the world where the pressures for development are likely to outweigh any shift towards sustainability, there are a number of promising trends.”²⁹ For example, China has started to publish annual sustainable development reports, harnessing toolkits such as the Global Citizenship 360 audit, which is in the process of compiling data based on five stakeholder categories: shareholders, workplace, community, market and environment. The survey includes 200 questions that are then used to write up reports based on the main corporate social responsibility and socially responsible investment benchmarks, the GRI or the Dow Jones Sustainability Index, both of which were mentioned earlier. There are also developments at the local level, such as in villages where the mayors have decided that solar or wind energy is the way forward or challenged every neighborhood to be more energy-efficient.³⁰ It is the first step toward an innovation-based promotion of sustainability that will make it possible to identify and tap new markets.

Seeking some constructive criticism as we drew to a close, we asked the Future Trends Forum experts what they perceived as the main obstacles for corporate social responsibility to spread to all companies and sectors. Overall, most agreed on validating the five challenges or problems facing the current situation of CSR (see Figure 9). They agreed that the concept and its application must still be defined, standardized and adapted.

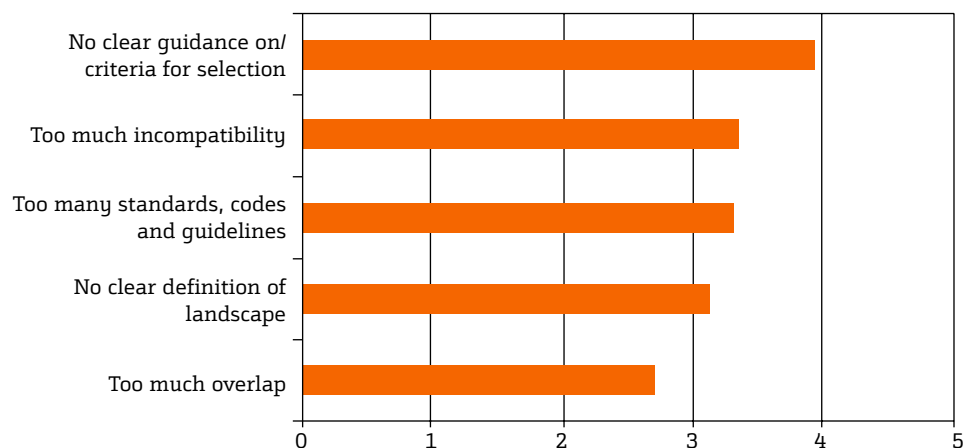


Figure 9: Main obstacles for CSR, according to the Future Trends Forum experts. Source: Prepared by the authors.

²⁹ *A New Mindset for Corporate Sustainability*, White Paper sponsored by BT and Cisco, 2008.

³⁰ *A New Mindset for Corporate Sustainability*, White Paper sponsored by BT and Cisco, 2008.

c. Scaling Social Innovation in a Globalized World

"Nearly every problem has been solved by someone, somewhere. The frustration is that we can't seem to replicate those solutions anywhere else."

Bill Clinton, former president of the United States³¹

In an earlier chapter we looked at the trend of nonprofit organizations establishing clearly enterprising structures and goals. It is not surprising, then, that in the same vein, they tend to create potentially scalable business models. The fact of the matter is that the market is dominated by companies operating on a global scale, thanks to sophisticated technological advances and innovative business models. Consequently, it is much harder for small businesses to survive in that competitive environment. Scaling, in the context of social action, offers greater social impact so that needs and issues can be more effectively addressed. The problem is that within the social action sector one often finds countless local programs in a given neighborhood or city, yet they lack an organizational structure that can bind them together to maximize the time, funds and the invested creativity so as to repeat the experience elsewhere. Thus, one of the basic challenges facing social innovation is to replicate and scale successful business models. Recently, progress has been made toward meeting this goal with the emergence of social entrepreneurs. "There has been a dramatic growth in awareness of, and support for the crucial leadership role played by social entrepreneurs - individuals who apply innovative, entrepreneurial, performance-driven and scalable approaches to solving societal problems, and who often act as bridge-builders between different sectors, communities, institutions and/or cultures."³²

Figure 10 shows that, in contrast to the startup or development stage of a new business, the aim of the Scale step is to refine and exploit market penetration and diversification strategies and focus on market and product development. In addition, it involves putting specific business structures and processes in place, and building the organization's core competencies.

Scaling is only possible when the two previous steps have been completed: the startup phase, where needs are analyzed and potential solutions identified; and the stage of developing and testing a model solution. The involvement of social agents is, once again, critical in completing the project. Returning to our "bees and trees" example in the chapter focused on cooperation among agents, the former depend upon the latter for the resources needed to achieve larger-scale success. This means fostering an ecosystem of social innovation that allows for maximum impact of successful social and environmental business models and practices. In a certain regard, it shows that innovation has little to do with "eureka moments,"³³ in fact, quite the contrary: innovation, and particularly social innovation, is a process that requires a clear strategy, adequate resources and the necessary cooperation and support.

³¹ "Going to Scale. The Challenge of Replicating Social Programs," *Stanford Social Innovation Review* (2003).

³² *Investing in Social Innovation, Harnessing the Potential of Partnership Between Corporations and Social Entrepreneurs*, Harvard University (March 2006).

³³ *Social Innovation. What It Is, Why It Matters, How It Can Be Accelerated*, Oxford Saïd Business School (2007).

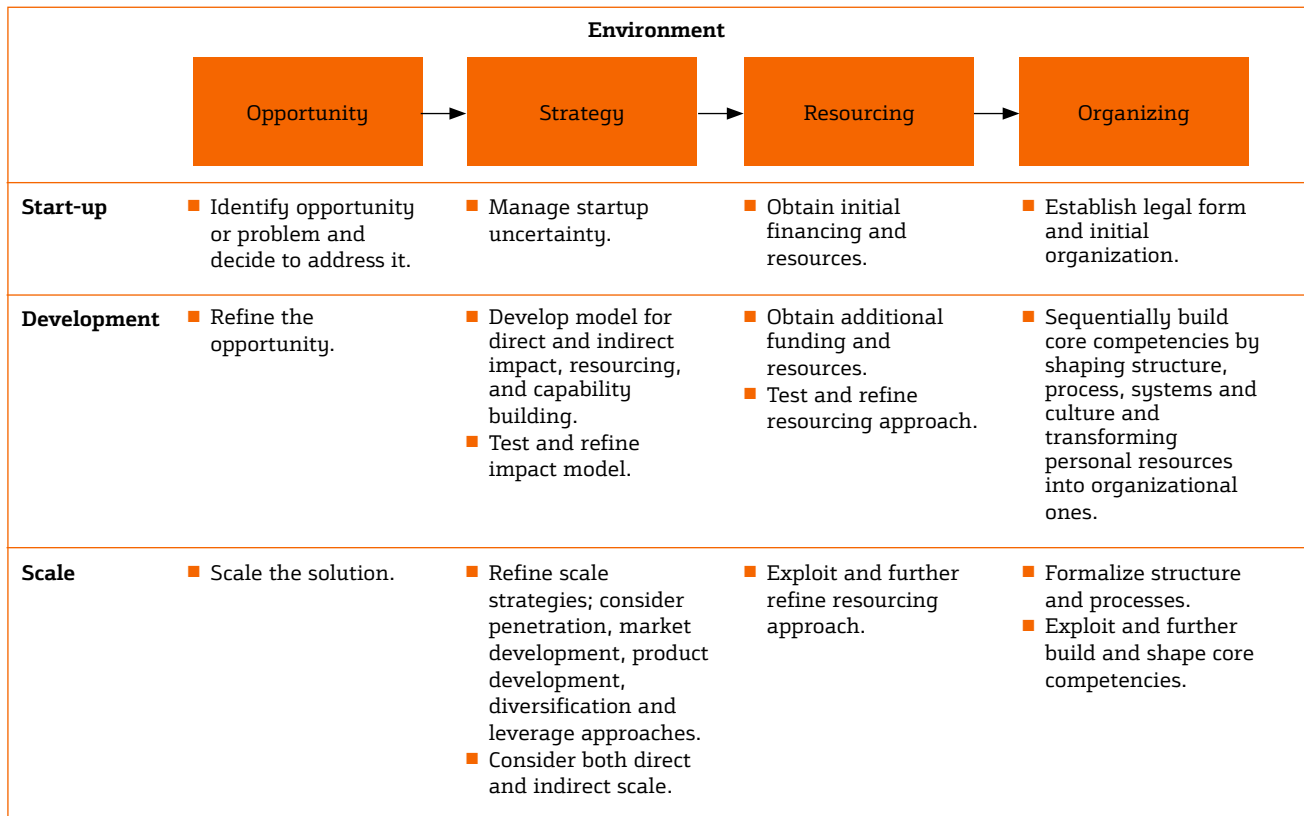


Figure 10: Social Entrepreneurship: Pattern-Changing Entrepreneurs and the Scaling of Social Impact.
Source: David A. Sherman (Weatherhead School of Management).

Scaling up can be achieved in different ways, from serving a larger number of people, to improving quality and increasing the number of services provided. Some options include opening new subsidiaries and forming alliances among agents in order to strengthen the activity's impact.

Opening new subsidiaries, also referred to by numerous US journals as "replication strategy," is the most common scaling practice in social businesses. The [ITNAmerica](#) network describes itself as, "the first and only national non-profit transportation system for America's aging population. [...] Our goal is to create an efficient and financially sustainable solution to the transportation needs of seniors and their families throughout the world." The organization was founded in Portland, Maine, but thanks to invaluable help from the government, it quickly spread to other parts of the United States.³⁴ Another example of this kind of support comes from the European Commission, that created a market opportunity for social entrepreneurs and large corporations by calling for solar energy systems to be installed on half a million roofs by 2010. This entails the launch of a \$10 billion market and the creation of 100,000 new jobs.³⁵ These examples show that

³⁴ Social Entrepreneurship & Government: A New Breed of Entrepreneurs Developing Solutions to Social Problems, a Root Cause Report (2007).

³⁵ Scalable Solutions: The Role of Social Entrepreneurship in Solving Sustainability Challenges, Skoll Foundation (November 2006).

in many cases governments provide scaling opportunities through laws or subsidies, to encourage certain activities.

All indications are that the social action sector will consolidate, "with some efficient organizations gaining scale, some merging and then growing, and some failing to achieve either scale or efficiency and eventually shutting down."³⁶ In this context, what are the main obstacles met by those agents looking to scale? First and foremost, there is little government support. Some experts contend that the government should leverage its role in enabling the scaling of social innovation.³⁷ According to a report by Root Cause, whose president, Andrew Wolk, is a member of the Future Trends Forum,³⁸ the methods used by government agencies to give impulse to business scaling include: "encouraging social entrepreneurs to innovate; creating enabling environments for their efforts; rewarding their performance; helping scale their successes; and producing knowledge to help them solve social problems." In short, if the government does not at least create a playing field on which to explore solutions and, ideally, provide incentives for the development and implementation of new solutions, then it will seriously hinder the survival of social and environmental programs with the potential to scale up. In many developing countries, the government needs to provide basic infrastructures and address the rampant corruption and obstacles that undermine social entrepreneurs. Furthermore, it has an important role to play in establishing minimum standards for scaling business models, in terms of rules and quality of services.

Coupled with the lack of institutional support is the problem of financing the scaling of those businesses. Generally, we find certain nonprofit organizations to be somewhat dependent on contributions from "unsustainable" and undependable sources. While it is true that NGOs are very good at attracting no-strings-attached aid, some are unaware of how to access more profitable market financing sources that could bolster the aid they receive. Furthermore, in developing countries the banking system does not cover the needs of small and medium-sized businesses, which happen to be the main source of innovative ideas in the social sphere.

What often happens is that, over time, individuals involved in social action allow inertia to take over and do not rethink their finance strategy and thus don't explore new potential sources of funding. "Serving the poor is typically relatively expensive, and there is often a need to invent new and disruptive business models, which existing players lack an incentive to do."³⁹ In order to scale a business model, you have to build a reputation, find financing and suppliers from other sources, and develop distribution capabilities and ways of attracting clients. Given the specialized and high qualifications of most social entrepreneurs, one would consider them the best-prepared agents to confront those obstacles and be forerunners in developing business models capable of replication and scaling.

According to experts attending the Future Trends Forum, who provided a list of revenue sources for social enterprises, government funding came in with the highest percentage, closely followed by foundation money (see Figure 11).

³⁶ The Future of Social Enterprise Harvard Business School Working Paper, V. Kasturi Rangan, Herman B. Leonard, and Susan McDonald (2008).

³⁷ *Investing for Social & Environmental Impact*, Monitor Institute (January 2009).

³⁸ *Social Entrepreneurship & Government: A New Breed of Entrepreneurs Developing Solutions to Social Problems*, a Root Cause Report (2007).

³⁹ *Investing for Social & Environmental Impact*, Monitor Institute, January 2009.

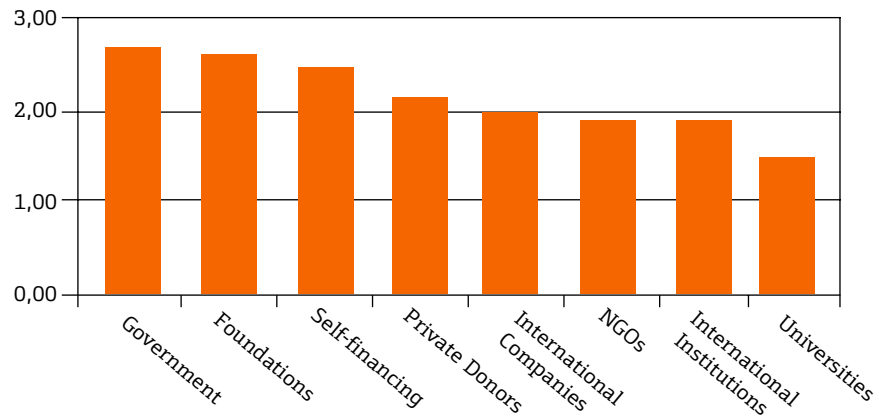


Figure 11: Relative importance of the different funding sources for social agents.
Source: prepared by the author.

Nonetheless, we are beginning to recognize the importance of self-financing, thanks to “fourth sector” business models that seek sustainability through nontraditional funding sources.

Organizational conditions for scalability

As previously noted, the big challenge in social innovation is to create high-impact projects that are also scalable. To achieve that, we must reconsider the existing models and explore ways to maximize the available resources and encourage possible synergies to foster scaling. In the conclusions of the study “Scaling Capacities: Supports for Growing Impact,”⁴⁰ which analyzes 28 social entrepreneurs,⁴¹ seven organizational capacities are identified as having a clear influence on the success of a scaling strategy (see Figure 12).

1. Mission

Clearly defining and adhering to the mission provides focus for decision-making and resource deployment during the scaling process.

2. Structure

There must be a balance between control and flexibility because scaling, particularly when it entails organizational expansion, places great challenges on organizational and management structures. The challenge is to balance control with flexibility for innovation and impact.

⁴⁰ *Scaling Capacities: Supports for Growing Impact*, LaFrance Associates LLC (July 2006).

⁴¹ The organizations were chosen based on their level of scaling and their issue area of focus (e.g., economic and social equality, environmental sustainability, health, institutional social responsibility, and tolerance and human rights).

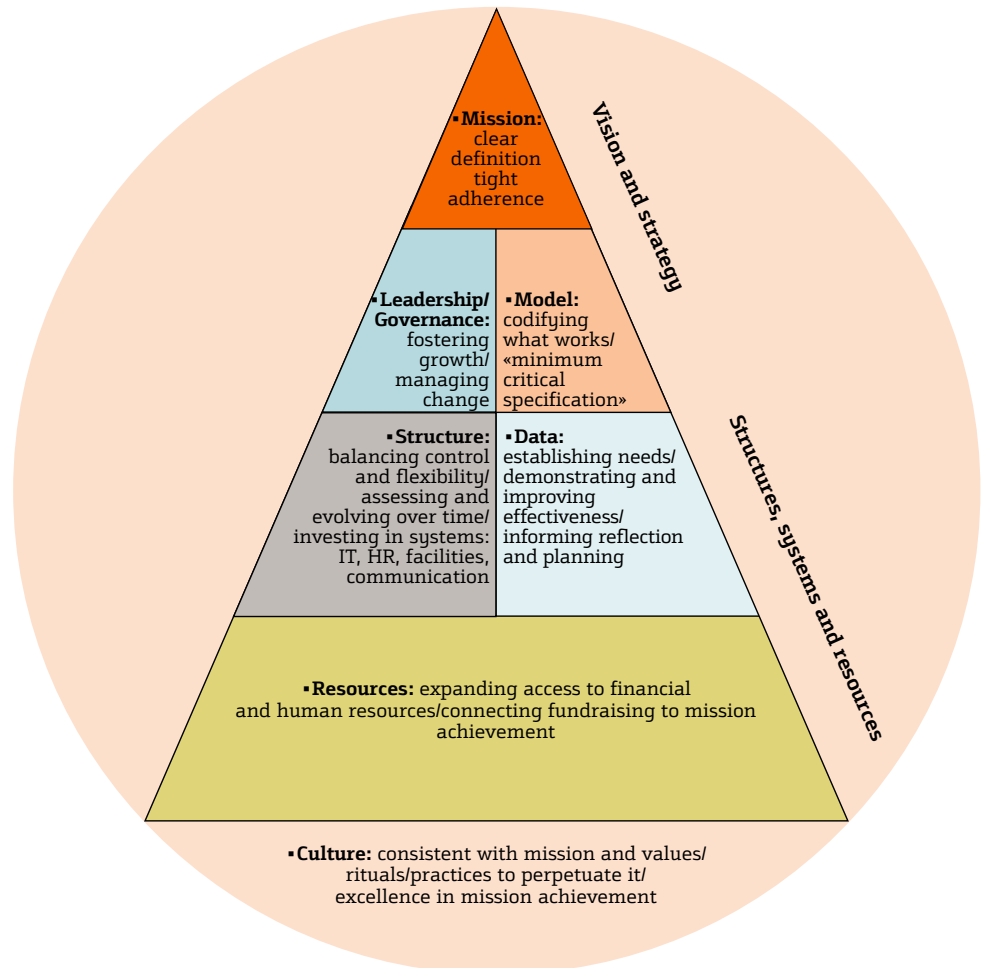


Figure 12: The seven scaling capacities.

Source: *Scaling Capacities: Supports for Growing Impact*, LaFrance Associates LLC (July 2006).

3. Model

Codifying what works. Impact can be scaled more effectively by clearly articulating essential components of the model so that it can be more easily and faithfully replicated.

4. Culture

Organizations must cultivate and perpetuate during the scaling process those aspects of the culture—shared values, behaviors and norms—that are critical for mission achievement.

5. Data

The ability to gather and use data can be critical for informing important scaling-related decisions such as establishing needs in new issue or geographic areas, demonstrating the effectiveness of a model, setting priorities, and choosing strategies.

6. Resources

Successfully scaled social entrepreneurs are able to expand their resource base by viewing fundraising as a way to achieve mission and by finding ways to connect supporters to programmatic work.

7. Leadership and governance

Leaders and boards are the agents that initiate and manage the scaling process. Strong leadership and governance means making sure the right decisions are made to foster greater mission achievement during what is often a period of rapid organizational change.

Technology as a path to scaling

In the vein of constructive criticism, we are going to include here an eighth capacity—technology—that organizations should incorporate into their structures when carrying out this strategy. "A robust technological infrastructure – including measurement systems, contact databases, and proprietary technology that aids in carrying out your operating model – is the single most important factor in expanding the reach of an organization. [...] Organizations that focus on devoting resources to technology can gain a significant increase in their efficiency, effectiveness, and sustainability, as well as a competitive advantage."⁴² That statement is unquestionably true, to the point that technology plays a key role not only in achieving scaling, but also in the area of social innovation. Let us not forget that technology contributes to innovations in products, services, processes and business models that serve to drastically reduce costs. At the end of the day, these costs are often the deciding factor in determining whether or not to embark on a social enterprise, or even scale it. So, how are these costs defrayed? Once again, cooperation among agents serves as the catalyst for fostering technological development in the field of social innovation. There are powerful institutions in the science and technology sectors focused on linking creative inventors with small businesses ("bees") and major producers with investors ("trees"). These intermediary institutions—technological transfer units, spin-out teams,⁴³ venture capital firms, and cooperative research programs—have been growing quickly over the last few decades and are unquestionably playing a vital role in the technology ecosystem. Social innovation, however, still lacks these types of intermediaries, though they are starting to gain more of a presence⁴⁴ and the future looks promising: there is now talk about "social Silicon Valleys" where institutions mobilize resources to address social problems, just as years ago an investment was made in technology to create the knowledge hubs. All the same, we still face the

⁴² *Business Planning for Enduring Social Impact: A Social-Entrepreneurial Approach to Solving Social Problems*, Andrew Wolk & Kelley Kreitz (Root Cause) 2008.

⁴³ A new, independent company created via technology transfer from a public research center or a university with the aim of marketing the technology developed by that institution.

⁴⁴ Time to Cut in the Middleman? The Guardian Social Pioneers supplement (March 18, 2009).

eternal challenge of convincing governments and public institutions to step up and prioritize setting up these kinds of environments.

There is also a need in developing countries to identify innovative business models that can be scaled for greater impact, through the use of technological resources. Surprising though it may seem, many experts agree that emerging markets have a clear advantage over developed markets in the technological arena because they can leapfrog certain steps in the path to technological maturity, getting where they want to go more quickly and sustainably. For example, they can directly use renewable energy resources without having first relied on high polluting energy sources. In addition, developing countries tend to have an abundance of diverse natural resources, affording them natural resources and affording them many energy options that developed countries do not have. According to a study by [BT](#) and [Cisco](#)⁴⁵ developing countries must focus more on so-called soft technology: "Rather than trying to catch up with developed countries by investing the bulk of funds, resources and energy into traditional hard technology, developing countries can treat skills in areas such as finance, management, service and marketing as 'technologies' in the same way as a new IT application. A strategy of consciously developing soft technologies and improving the soft environment... could open the way for a new model of development."

Technology also has a direct and tangible application in terms of providing solutions to the socially disadvantaged. [Benetech](#), for example, puts high technology at the service of those communities. "The [Benetech](#) alternative is a 'non-profit venture-capital' model that fosters and finances the development of technological initiatives that would not otherwise be taken on by for-profit software developers due to their low market returns."⁴⁶ The [Benetech](#) technologies include a reading machine for the blind, a website ([Bookshare.org](#)) providing an extensive online library of digital books that can be downloaded in Braille, and a landmine detector. In the following chapter, we will look at more cases of technology serving as the engine for social innovation.

In closing, we would like to stress that, after starting up and implementing social programs based on innovative business models, the aim of social entrepreneurs is to replicate and scale those models to meet other social needs and achieve the greatest possible impact. Technology fosters social and environmental programs because, firstly, it reduces costs and, secondly, it resolves many of the problems that social entrepreneurs face. The future looks quite encouraging: in the United States—and in parallel to some of the impressive "super-philanthropists"—we are witnessing the startup of some of the most fascinating companies in the financial sector. Acumen Fund, founded by Jacqueline Novogratz, is a nonprofit global venture fund serving the 4 billion people who live on less than US\$4 a day. Companies like this are the future of social innovation, capable of creating sustainable, scalable organizations that deliver reasonably priced and essential goods and services that raise the standard of living for the most socially disadvantaged people. Hopefully, these socially conscious, sustainable organizations will discover the path toward solving the challenges facing us in the 21st century.

⁴⁵ *A New Mindset for Corporate Sustainability*, A White Paper sponsored by [BT](#) and [Cisco](#) (2008).

⁴⁶ *Hot Spots: A whistle-stop tour of social enterprise around the world*, SustainAbility sponsored by [Skoll Foundation](#) (November 2006).

d. Economic sustainability in times of uncertainty: ensuring the future

From the second half of the 20th century and well into the first decade of the 21st century, world economic growth has been unprecedented. This truly spectacular growth has brought about significant social advances. We only need mention that in 1955, life expectancy in the world was only 48 years; in 1995 it was 65 and by 2025 it will reach 73. It is predicted that by 2025 no country will have a life expectancy under 50 years.⁴⁷ Undoubtedly, scientific and technological advances have helped trigger economic growth on an enormous scale, despite falling far short of reaching the majority of the world population. Indeed, "economists estimate that between 50% and 80% of economic growth comes from innovation and new knowledge. Although we have no reliable metric, it seems clear that innovation plays an equally decisive role in social progress. Moreover, social innovation is key to promoting economic growth. Past medical advances and the spread of new technologies like the automobile, electricity or the Internet depend on social innovation as well as innovation in technology or business"⁴⁸ Given the growing challenges facing the world due to the aging of the population and environmental degradation, it is necessary for this social innovation to foster above all solutions that are sustainable in the long run. Innovative capacity should be applied to projects that ensure the future of humanity and guarantee the appropriate conditions for the equitable advance of society.

Who are the agents responsible for leading this social innovation in a context of increasingly complex challenges? Until now there has been a very clear distinction between the activities of a for-profit business and a nonprofit organization. With respect to innovation, business has led the way. This is largely due to several factors, including access to new markets, sources of capital, funding and earnings, human resources and advances in operational efficiency, risk management and brand reputation.

The agents of social action are increasingly aware of the importance of ensuring these factors in undertaking lasting sustainable social or environmental projects. This trend is happening from two directions. On one hand, the goals of many companies now complement pure profit maximization for shareholders with the pursuit of social benefits. Examples of this trend include social marketing, the search for sustainability, corporate social responsibility, investment in needy communities and "green" businesses (see Figure 12). Meanwhile, nonprofit NGOs are increasingly adopting business practices to boost their income and involve themselves more actively in the market for goods and services. The key feature is the search for sustainability and economic autonomy. A new scenario is taking shape marked by these types of transitions, where it is common to find "[business] models for addressing societal challenges that blend attributes and strategies from all sectors. They are creating hybrid organizations that transcend the usual sectorial boundaries [private, public and social]."⁴⁹ This is the so-called "fourth sector," which appropriates businesses practices for social purposes.

⁴⁷ World Health Organization, <http://www.who.int>.

⁴⁸ *Social Innovation. What it is, Why it Matters, How it can be Accelerated*, Oxford Said Business School, 2007.

⁴⁹ The Emerging Fourth Sector ©1998-2008 Fourth Sector Network.

The private sector has extensive experience in resource management: "Businesses create and distribute goods and services that enhance our quality of life, promote growth, and generate prosperity. They spur innovation, reward entrepreneurial effort, provide a return on investment and constantly improve their performance responding to market feedbacks."⁵⁰ The social sector seeks to protect people by covering their basic needs and ensuring opportunities for their physical, mental and spiritual development. It also protects the environment and pressures organizations and individuals to do the same, or at least minimize the damage they cause.

The public sector, in turn, protects the interests of the communities by establishing an area of opportunity within a legal framework. Moreover, the public and social sector jointly oversee the channels of distribution and communication to deliver social assistance where needed.

Borrowing the best from each of these sectors, a new sector is emerging, one that seeks to, and can, take a new approach to addressing the major challenges that have become hard to ignore and even harder to manage, with the common goal of achieving the sustainability of social action. The pursuit of effective business practices aimed at sustainability, while also serving a social agenda, is largely dependent on the expansion of funding sources to supplement financial support from individuals, governments, corporations and foundations. If they are able to achieve more predictable sources of revenue based on their own performance, their sustainability as an organization becomes more feasible. At the same time, they must not overlook non-financial resources; the struggle for talent among countries and among private companies is now spreading to the organizational ranks of the social sector, which seeks to recruit people with specific skills and knowledge, with backup from a more stable core of volunteers. The prime example of a "fourth sector" company is Grameen Bank, a company that provides microcredit without collateral or guarantees to the poorest people in Bangladesh. "As of December 2007, Grameen has over 7 million borrowers, and a 95% percent repayment rate. In 2006, Grameen earned a profit of US\$20 million. It is the first and only business to ever be awarded the Nobel Peace Prize."⁵¹

In conclusion, the goals of the "fourth sector" could be summarized as follows: to identify new business opportunities in solving a particular social problem; to develop innovations that lead to promising new projects; to demonstrate a strong sense of economic and social responsibility frequently measuring its performance and impact; and to secure a predictable source of income to ensure financial sustainability.

The Challenge of Measuring Results

The gradual emergence of organizations that are founded and sustained, operating and offering results like private companies with the aim of providing solutions to social and environmental problems, entails a number of challenges specific to the field of business, but are challenges that these social innovation

⁵⁰ <http://www.fourthsector.net/learn/fourth-sector>.

⁵¹ Social Entrepreneur Coach, C.J. Hayden, <http://www.socialentrepreneurcoach.com/resources/social-entrepreneurship.html>.

hybrids must take on. If the goal of traditional companies is profit maximization, the goal of these new companies is the maximization of positive impact on society while generating enough income to ensure their long-term sustainability. The gathering of data for producing and interpreting the ratios necessary to obtain a set of reliable, representative results with which to gauge performance is standard practice in the business world. There are even rules for presenting these results. However, enterprises seeking to measure their impact in social or environmental terms may run into the problem that, for the moment, we have yet to reach a consensus on what we mean by "bad," "good" or "better" impact.

Despite numerous attempts by businesses to achieve "sustainability," this concept is still too ambiguous to arrive at a clear and accurate definition. Apart from some corporate social responsibility indicators more focused on policies and procedures than on impacts and results, there are few models to draw on in order to get an idea or make a comparison of what is considered optimal for social enterprises. The [Skoll World Forum](#) paints an accurate picture: "Metrics and evaluation are to development programs as autopsies are to health care: too late to help, intrusive, and often inconclusive."⁵² Rather, social enterprise must seek to create a performance management process to "take the pulse" of its work: simple frequent measures that would allow it to refine its thinking, change course and diagnose problems before they become too significant.⁵³

Since the Future Trends Forum experts agree that measuring results is one of the fundamental requirements for the economic sustainability of social action, the need arises to examine some of the indicators that are beginning to shape the way in which reports on the predicted impact of social action are presented. A good way to start this analysis is to follow the criteria of the [Skoll World Forum](#),⁵⁴ according to which financial, operational, social and environmental indicators must adhere to three principles:

- Do not collect anything that is not fundamentally important for the company to manage its business
- Do not collect any information that cannot be generated by the company's existing management information systems
- If the current information systems cannot capture the kind of data that is important to managing business, think about medium-term improvements that strengthen its ability to manage

Despite the inconsistency and lack of acceptance of social sustainability indicators, it is important to progress towards the standardization of indicators to compare companies in this sector. The situation is comparable to that of total quality management (TQM), which when it first appeared was the object of much criticism for being immeasurable. Today, TQM is a standard instrument used by many companies, and not only in the social sector, so there is no reason to believe that sustainability guidelines will not become a business practice.⁵⁵ Accordingly, in

⁵² *Social Entrepreneurship: Shifting Power Dynamics featuring Skoll Social Entrepreneurs*, Special Edition for the Skoll World Forum 2009.

⁵³ *Social Entrepreneurship: Shifting Power Dynamics featuring Skoll Social Entrepreneurs*, Special Edition for the Skoll World Forum 2009.

⁵⁴ *Social Entrepreneurship: Shifting Power Dynamics featuring Skoll Social Entrepreneurs*, Special Edition for the Skoll World Forum 2009.

⁵⁵ *A New Mindset for Corporate Sustainability*, a White Paper sponsored by [BT](#) and [Cisco](#) (2008).

many circles they have begun to speak of "total responsibility management," an explicit reference to TQM. Thus, we start to see the laying of some groundwork for social responsibility management in companies, as in the case of [Sainsbury's](#), the third largest supermarket chain in the United Kingdom. The company has set a number of key performance indicators in twelve priority areas relating to the concerns of stakeholders on social and environmental issues. [Sainsbury's](#) has also "developed a sophisticated auditing support to support the implementation of its principles throughout its supply chain." This has made it the leader of its sector in the [Dow Jones Sustainability Index](#) for three consecutive years and one of the companies included in the Global 100 Index of Most Sustainable Corporations in the World.⁵⁶

Ultimately, the standardization of indicators, through the implementation of a methodology and tools to assess sustainability projects, will enable companies to measure their results and reach a high degree of transparency. This transparency is fundamental to justifying the activities of companies operating in the social sector for all stakeholders. Some experts are already talking of a Sustainable Balanced Scorecard, which measures the performance of business in terms of sustainability based on the assessment of indicators in four key areas: financial (economic value added, income growth, cash flows, return on investment), operational (number of businesses, opportunity success rate, accident rates, environmental compatibility, effectiveness of fixed capital), customers (customer satisfaction, market share, operational excellence) and learning (personnel turnover, internal promotions, male/female ratio, rates of sick leave). Indicators must be clear and effectively communicated, be in accordance with the dimensions of the triple bottom line (see Figure 14), embedded in company strategy and supported by management tools. In addition, all levels and departments within the company must be committed to corporate responsibility.

What are the benefits of using these types of social sustainability indicators in companies? First, they enable stakeholders and investors to pressure companies to improve their social performance. Second, the indicators provide investors with valuable information on management and company performance so that they know at all times what they are investing in and can ensure themselves that the proposed social and environmental goals are being reached. Finally, investments in social enterprises that demonstrate better results according to these indicators would entail less risk, and thus these businesses should enjoy lower capital costs, i.e. financing at lower interest rates. However, as we have seen so far, indicators that enable investors to be fully informed in making decisions have yet to be developed, which has a negative effect on the volume of transactions in the aforementioned impact investing. Nor is there a legal infrastructure similar to that of traditional investments to promote the participation of more agents in an environment of opportunity with a common language and standards. We can expect that gradually investors and the investment market itself will demand investment indicators that justify putting money into one project or another.

⁵⁶ *A New Mindset for Corporate Sustainability*, a White Paper sponsored by [BT](#) and [Cisco](#) (2008).

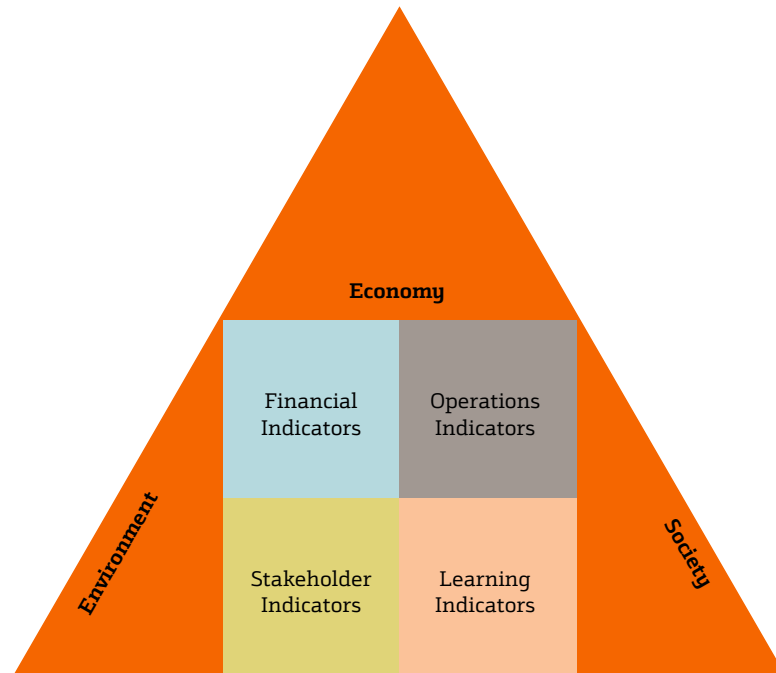


Figure 14: The Sustainable Balanced Scorecard: Managing Organizations for Sustainable Development.

Source: Cleaner Production International LLC (<http://www.cleanerproduction.com>). Based on the Balanced Scorecard by Robert S. Kaplan and David P. Norton.

However, indicators have their detractors. In the article "Robbing the Grandchildren," Charles Conn, the top adviser to the Gordon and Betty Moore Foundation, holds that foundations' shortsightedness is being compounded by questionable management practices such as "businesslike metrics and controls in a way that reinforces short-term thinking and behavior." Thus, the new foundations limit their scope to a few problems and conform to the dictates of indicators that leave little room to maneuver. However, another article, in *Stanford Social Innovation*,⁵⁷ warns against mixing the terms "short term," "metrics" and "businesslike" in the same context. So-called "philanthrocapitalism" or "venture philanthropy" seeks precisely to apply standard business indicators and practices to promote a certain order in an area abounding in fragmented and failed programs. Although short-term solutions are also needed, social action projects often require more time to make their impact sustainable.

Most experts from the Future Trends Forum agreed on the importance of developing and implementing a set of precise indicators to measure social and environmental impact. The task is not easy and standardization will presumably take time, but there is the intention to protect the credibility and reputation of

⁵⁷ "Short-term vs. Long-term Focus in Philanthropy," *Stanford Social Innovation Review* (14/04/2008).

investment in sustainability. Thus, for the time being, the sector must depend on frameworks such as the Global Reporting Initiative and the Ceres Principles to continue to meet socially responsible goals. Nonetheless, there is a group of experts who do not approve of the use of indicators in the context of social innovation because they could act as a drag on such projects by putting the need to conform to metrics to the detriment of flexibility and creativity, both of which are necessary for innovation.

The experts from the Future Trends Forum were also asked about the specific indicators they knew of to measure the impact of social action. Some responses were quite targeted, largely because the respondents apply them in their daily jobs: "number of households served," "average salary of the beneficiary households," "educational level reached by the children," "percentage of population with access to financing" or "decline in mortality." Other responses were of a more financial nature: "service charge over total business revenue," or "net income over total operating costs." In general, they combined indicators that, on one hand, monitor parameters related to health, education, income stability and environmental quality, and, on the other, reflect the economic sustainability of the business. One expert from the Future Trends Forum said that Ashoka's approach is to check whether "after five years of operations, the [original] idea continues to attain the expected impact, if it is achieving changes in rules, and if it is replicating itself." However, rather than trying to identify any quantitative value, some enterprises still prefer to measure their impact in qualitative terms. One of the most pervasive concepts in this line of thinking is "lives touched" because they consider it the simplest and most effective way of representing the reach of any project. Overall, the experts agreed that addressing the lack of standardization of indicators is a pending issue in the field of social innovation.