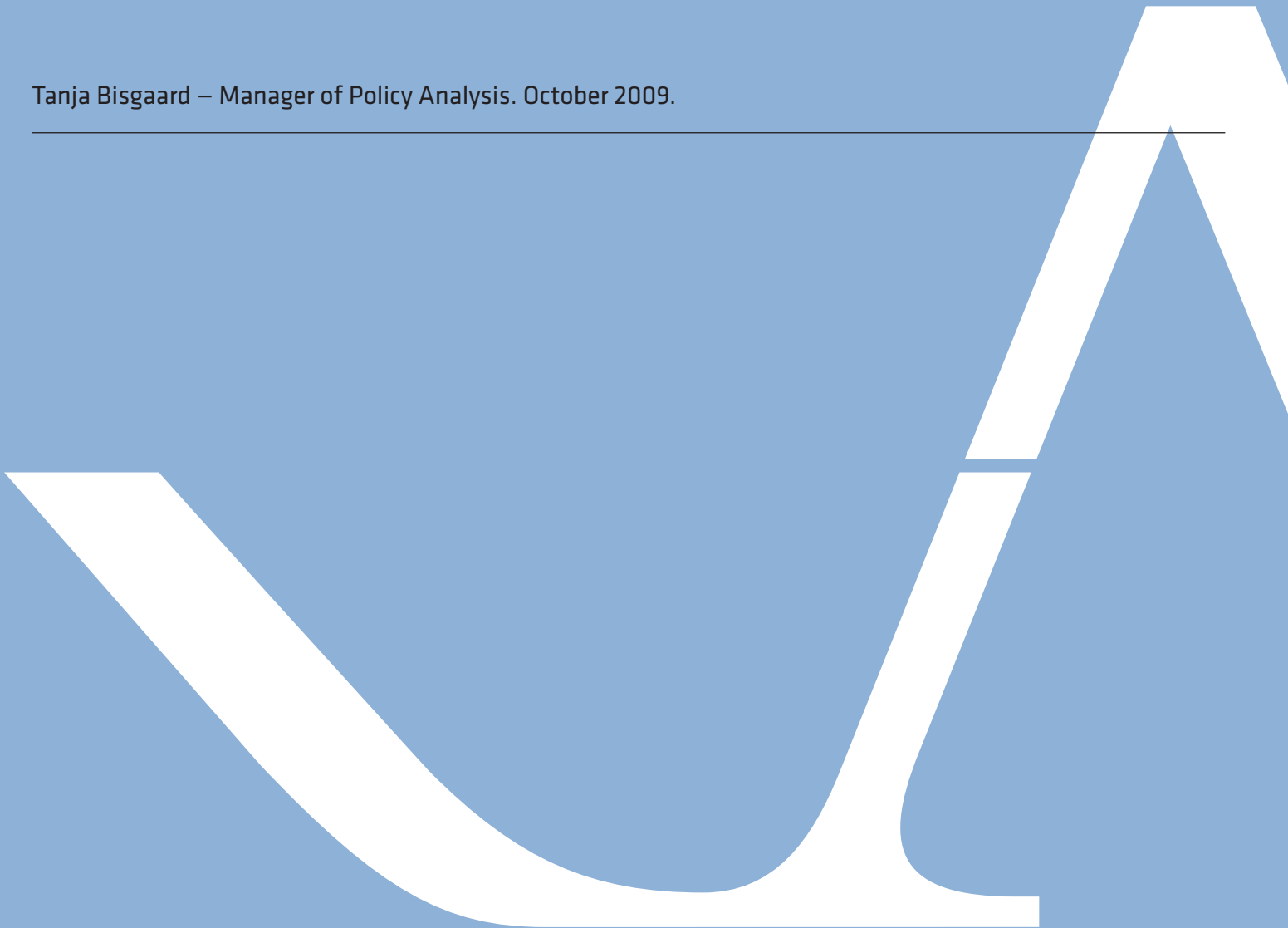


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# CSI. Corporate Social Innovation Companies' participation in solving global challenges

Tanja Bisgaard – Manager of Policy Analysis. October 2009.

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# Preface

Companies must innovate to stay ahead in business – and now a new source of innovation is inspiring companies: doing good. Companies are entering into the era of Corporate Social Innovation.

Companies are increasingly realising that there is an economic perspective in participating in solving social and environmental problems. The companies see these problems as opportunities for creating new business concepts. Doing good is being talked about in company board rooms and included into companies' business models.

We are currently experiencing turbulent times, where the financial crises in particular is creating strains on companies' business models and challenging their ability to stay profitable. Corporate Social Innovation will without a doubt be considered as vital when companies look for solutions to their financial problems. Almost 40% of Danish companies today see climate change and pollution reduction as relevant future business areas. In addition, a recent study from Harvard University identifies CSI as an important competitive parameter for Danish companies.

The government alone cannot create the necessary conditions for Corporate Social Innovation in Denmark. For this new driver of innovation to gain enough strength and momentum and “grow roots”, the public sector will have to take on a new role and cooperate with companies on changing and creating future relevant legislation that can ensure companies social innovations.

We hope this report will illustrate how companies can participate in solving the global challenges while they simultaneously remain profitable.



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# Executive Summary

Companies must innovate to stay ahead in business. While there is nothing new that innovation takes place in the development of products, services, processes, distribution channels and so on, the source of inspiration is being found in surprising areas. The new driver of innovation is found in the pursuit to do good.

While philanthropy and charity are ways for companies to provide funds for good causes, a new trend is emerging among companies that want to participate in doing something good while at the same time being well.

Companies are increasingly realising that there is an economic perspective in participating in solving social and environmental problems. 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 and be profitable business.

In the turbulent times of today, the financial crisis is challenging companies' business models and their way of making profits. Focusing on new ways of generating profits which has a social and responsible aspect to it, will play an important part in the solution of the economic challenges faced by the business community today.

## Converting Challenges into Opportunities

The last decades has seen an increased awareness in regard to environmental and social issues, finding its way up the corporate ladder and into company board rooms. 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.

CEOs and companies have become aware of and have started reacting to the global challenges that exist and have thereby changed their behaviour in the last decade. Incorporating environmental and social aspects is becoming a part of companies' strategy. Within many different types of industries, companies are changing their business models and gearing them towards the new era of sustainable business. The consequences of pollution and climate change can no longer be hidden, as the visible side effects of previous company behaviour is revealed globally. Management is changing focus from short term quick profits to long term sustainable innovation methods which result in long term profits.

Consumers are also changing their behaviour. Consumers have created a demand for sustainable products and services. They are placing greater demands on companies and expecting companies to act responsibly. Consumers are realising that companies can influence the way they treat their workers, their suppliers and the amount of pollution they generate. And while improving company behaviour has a price, consumers are willing to pay a premium for responsible and sustainable products and services.

Corporate social innovation is increasingly taking place today as a reaction to specific developments. The rising prices of natural resources have raised alarms in more than one way. Their use creates pollution and they are not going to last forever. Incentives to find alternatives are enabled in the form of advanced technologies which hopefully can be used to solve our energy challenges in previously unimaginable ways. At the same time, the globalised planet opens up for markets in countries and continents which were not previously thought to hold any opportunities for successful companies. The Bottom of the Pyramid – consisting of the world's poorest inhabitants – is creating business opportunities and is gaining ground as a new market. In our changing world, companies are changing their behaviour and finding new opportunities to create profits.

Corporate social innovation takes on many different forms. Among the 10 companies we interviewed some are creating innovations that provide people in developing countries with access to clean drinking water or lighting by targeting new markets with simpler versions of their products. It is possible today to make money in markets where consumption is low, but where the quantity sold is relatively high. Other companies are gaining better insights into their supply chain enabling them to ensure improved working conditions for farmers in Ghana and the Amazon, or weavers in India. Ensuring proper working conditions results in high quality performance, which can be sold at a premium. Understanding the workers conditions has enabled innovation to take place in the production and distribution of raw materials. Yet other companies are redefining their roles as companies, taking on the responsibility of informing their corporate customers and collaborators about energy efficiency and more efficient production processes. Enlightened corporate customers will purchase more of the responsible products in the long run. What all these companies have in common, is their focus on solving global challenges while continuing to innovate in their own fields, creating new business opportunities and profits.

This new era of innovation will not unfold unless companies cooperate and create partnerships to deliver their innovations. Innovative solutions are increasingly becoming more complex, requiring combinations of different types of companies which possess different kinds of skills. Unheard of matches are already taking place amongst the innovation frontrunners. Companies are working together with other companies to provide joint services and new solutions, while companies and NGOs are working together to reach out to poor people in rural areas.

Currently the percentage of projects that companies are undertaking under the umbrella of corporate social innovation is relatively small in comparison to

the production capabilities of companies. Like any other paradigm shift the idea of inventing in a radically new way needs first be tested and understood as it changes production techniques that have been in place for years.

Corporate social innovation is helping companies realise that the challenges we face globally are but a series of great opportunities disguised as insoluble problems. Through the multiplicity of initiatives that they are undertaking and testing they will participate in finding solutions that create a place where consumption can happen alongside intelligent and balanced production.

## Recommendations for policymakers

For corporate social innovation to gain enough strength and momentum and “grow roots”, the public sector will have to take on a new role and cooperate with companies on changing and creating future relevant legislation that can ensure the innovative nature of companies. Only through collaboration among the public and private sector will powerful and lasting results be created.

The most efficient way of creating favourable conditions for companies working with corporate social innovation, is for public sector officials to work together with companies on finding solutions to the problems the companies are facing. The public sector can take on the role as either a facilitator to company cooperation, or as a collaborator working together with companies. Companies know much better than public sector employees which conditions need to be changed or improved for them to be able to operate more efficiently, complete their innovations, stay competitive and act responsibly. Rules and regulation should be designed in collaboration with companies and policy makers. Public sector employees will thus have to change the way they work today and create a new culture in order to learn how to take on the role of facilitator and cooperate with companies.

In a recent study, FORA asked 150 companies in Denmark working with environmentally friendly technologies, which framework conditions they considered as the most important ones in creating new innovations for their business area. The companies were asked to rate the importance of 8 framework conditions. The two answers that ranked the highest were “public regulation” and “the possibility for testing new technologies”<sup>1</sup>. Cooperation between companies and the public sector, as well as a mutual understanding of what problems exist and which solutions must be found, is necessary to create future results.

The final section of this report takes a look at some specific barriers met by companies working with corporate social innovation, and what can be done to overcome them.

<sup>1</sup> Miljøteknologiske styrkepositioner – en erhvervsanalyse af klyngedannelse, FORA, 2006

# Introduction

Companies are constantly looking for new ideas that can drive their innovation, ensuring that they remain competitive. Today companies are finding inspiration for their innovation in unexpected areas.

A development is taking place among companies – they are realising that the global challenges we all face today, also are challenges that companies are facing and are therefore reacting to them. Climate change, pollution and poverty have social as well as economic consequences. Participating in solving these challenges will ensure the survival of companies as well as creating business opportunities, thus creating social as well as economic benefits. Companies are seeing these needs as problems that require innovative solutions.

This study has been conducted for the Danish Authority for Enterprise and Construction and for the Danish Commerce and Companies Agency. The work was done by Social Action, a consulting company focusing on corporate responsibility, and FORA, a public research and analysis unit.

We have taken a closer look at 10 companies and their work with corporate social innovation.

The making of this report would not have been possible without the help of a number of key people with great knowledge on the topic, and the companies who have been willing to participate in interviews with us.

We thank the people in the various companies which we have interviewed for the case studies:

Gregory R. Elphinston, Director of Community Involvement, Nokia  
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Mette Olsen, expert on sustainability, Novozymes  
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Ida Ebbensgaard, Head of communications, Ministry of Climate and Energy  
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Sune Aagaard, journalist, Børsen newspaper  
Jakob Petersen, partner, Charitylab  
Henrik Marstrand, founder, Mater Design

Selected results of the study can also be seen on film and in the form of a CSI map. We thank Andreas Thaulow, Thomas Lommee and Rafael Santos for their work in that regard.

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Tanja Bisgaard and Jørgen Rosted from FORA

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# How to read this report

This analysis is based on case studies of companies working with corporate social innovation. We shed light on why and how corporate social innovation is taking place, and what role the government can take on to enable and ensure the continued growth of this type of innovation. In order to obtain more in-depth information about the business community, we spoke to 10 companies and asked them how they work with corporate social innovation either in relation to environmental issues or social problems. We wanted to be able to find the answer to questions such as: How do companies work with corporate social innovation? Why are companies doing it? How do the companies make a profitable business model based on corporate social innovation?

Case studies are used to demonstrate the new trends. In each case study we describe a corporate social innovation project and highlight the new perspectives of company behaviour.

The problems and the solutions that the companies focus on cover a large range of topics. Some companies focus on social problems such as poverty alleviation by providing clean drinking water in African countries or by providing affordable products and services made to meet the needs of customers in newly industrialised or developing countries. Other companies focus on environmental concerns by reducing the use of pesticides, reducing pollution when producing and transporting their products, or becoming more energy efficient (also referred to as eco-innovation and clean-tech).

This report brings together all the company experiences and creates an overview of how the 10 companies are working with corporate social innovation. In chapter 1 a brief introduction is given to corporate social innovation and its increasing importance for inspiration among companies. In chapter 2 we highlight the changing conditions in the business environment which we argue have created opportunities for working with corporate social innovation today. In chapter 3 we take a look at how companies have been able to fulfil their corporate social innovation projects through various forms of partnerships. In the new business environment of today, companies will have to learn to work with each other as well as with organisations from the civil sector and the public sector. In chapter 4 we examine which barriers companies meet when working with corporate social innovation and which next steps can be taken in order to promote corporate social innovation among companies in the future.

A separate document is put together consisting of more detailed versions of the 10 company case studies.

# 1. A new way of thinking

Corporate social innovation was a term used a decade ago by Rosabeth Moss Canter to describe a new behaviour among companies. She describes companies that had started to look at the needs in the social sector, such as public education, and started producing innovations based on those needs. The companies considered social problems to be economic opportunities for the business community, and solving them thus benefitted the social sector as well as companies<sup>2</sup>.

<sup>2</sup> "From spare change to real change: The social sector as beta site for business innovation", Rosabeth Moss Kanter, 1999, Harvard Business Review

<sup>3</sup> "Cocreating Business's New Social Compact" Brugman & Prahalad, 2007, Harvard Business Review

<sup>4</sup> The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with TheTen universally accepted principles in the area of human rights, labour, environment and anti-corruption.

<sup>5</sup> "CEOs on strategy and social issues", The McKinsey Quarterly, October 2007

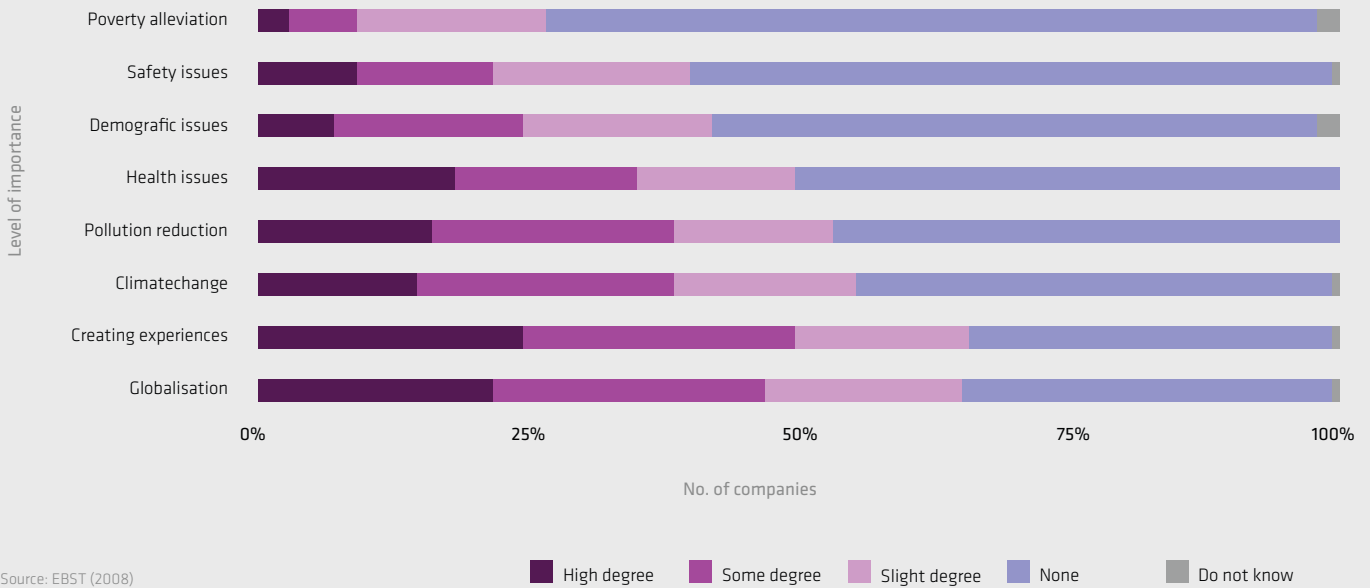
<sup>6</sup> EBST questionnaire

While Rosabeth Moss Canter focuses on company innovation related to the social sector, we use the term more broadly. Corporate social innovation is when companies innovate to develop new products, services, business models, processes, distribution channels and so on, while simultaneously being conscious of solving global challenges related to both environmental issues and social problems.

Company innovation is receiving inspiration from new areas which were not previously thought relevant to company behaviour. Corporate social innovation is providing companies with the opportunities for discovering new markets and creating new business opportunities<sup>3</sup>.

Companies participating in the United Nations Global Compact<sup>4</sup> have increased their focus on environmental and social issues in their core strategies, while management see it as an opportunity to gain competitive advantage and address global problems at the same time<sup>5</sup>. In Denmark 1100 companies were asked the question "What are the driving forces behind new business opportunities and the creation of radical innovations?"<sup>6</sup>. There were 8 possible answers to the question, and each company was asked to grade the importance of each of the 8 answers. Not surprisingly, the answers with the highest scores were globalisation and creating experiences. What is more surprising is that climate change was considered important to a high degree and to some degree by 39% of companies, while pollution reduction was considered important to a high degree and to some degree by 38% of companies. Another driving force behind new business opportunities today and one which was probably not considered important a decade ago, is poverty alleviation. While only 9% of companies reply that it is considered important to a high degree and to some degree, it is novel that Danish companies consider it as a driving force for the creation of new business areas.

### Sources of new business areas and radical innovation



Source: EBST (2008)

<sup>7</sup> Economic, social and environmental performance of the company

Some global companies are already taking issues of environmental and social concerns into consideration when creating their new innovation strategies for future survival. At the bottom line<sup>7</sup>, profit is not the only figure that adds value – the triple bottom line has already entered into the minds of CFOs and CEOs. By focusing on the economic, social and environmental performance, companies are able to identify new business opportunities in areas where they would not have looked before.

But what exactly is it we see happening now? In the following we describe and examine the new behaviour of companies by journeying through the events of the last few decades before we arrive at the current state of affairs.



FORA

## 2. The journey that led us to today's events

<sup>8</sup> Club of Rome "Limits to growth" (1972)

<sup>9</sup> The World Commission on Environment and Development (WCED), known by the name of its Chair Gro Harlem Brundtland, was convened by the United Nations in 1983. The commission was created to address growing concern "about the accelerating deterioration of the human environment and the consequences of that deterioration for economic and social development."

<sup>10</sup> The IPCC is a scientific intergovernmental body set up by the World Meteorological Organization (WMO) and by the United Nations Environment Programme (UNEP).

The notion of companies' responsibility in regard to the environment has been around for three decades or so. In the 1970s the world became aware of acid rain and other destructive side effects due to companies' use of chemicals in materials and production processes. Debates and discussions on how to save the environment from harmful toxins led some to argue that companies had to reduce production and thereby growth<sup>8</sup>. However, it gradually became clear that there need not be an either-or situation. Economic growth should not be considered the equivalent to material growth. A fall in economic growth would be measured as a fall in GDP, lowering the standards of living in a country, while a reduction of material growth would not have the same consequences. A change in production processes among companies would probably lead to a reduction of material growth as products would increase in price. But then again – that need not be the case.

In 1983 the Brundtland committee was appointed<sup>9</sup> and it spent four years formulating how sustainable growth could be addressed. Companies could pollute less by investing in technology and alternative materials when producing their goods. As a consequence the products would become more expensive. The companies' challenge would then be how to sell their more expensive products in a competitive market? Faced with such disadvantages it was a challenge few companies were willing to take on three decades ago.

The expected fall in the current living standard and the doubts of how important pollution and climate change really was, resulted in no steps being taken by either governments or companies.

But organisations such as World Watch Institute, the UN's IPCC and the German Wuppertal Institut für Klima, Umwelt, Energie are outstanding examples of the research that continuously has been conducted since the Brundtland-report in relation to the global challenges.

In addition, the frequent episodes of hurricanes sweeping across North America and the melting glaciers causing the world's water level to increase, has put the fight for the environment back on the agendas in the US, both amongst the public and in the business communities.

Corporate social innovation is taking place today due to the visible consequence of previous company behaviour that can be seen on the planet. The increasing awareness of companies' environmental responsibilities culminated in 2007 after Al Gore and the IPCC<sup>10</sup> were awarded the Nobel Peace Prize. Now no one could claim it was not important and a problem that needed enough attention in order to be solved. Not only have consumers become aware of the problems and the possible solutions, they are also willing to participate in solving the global challenges by paying a premium for products that are created sustainably. At the same time new incentives are creating opportunities and possibilities for companies to innovate

while solving global challenges. The rising prices of natural resources such as oil and gas are making it profitable for companies to invest in new forms of energy. The falling cost of new technology and the accumulated pool of available technology are creating new possibilities for innovations.

We identified five driving forces behind corporate social innovation:

- Increasing awareness among companies
- Increasing awareness among consumers
- Scarce natural resources are creating incentives for alternative energy production
- Current technology enables new solutions
- New markets in developing countries

Each driver is described in the following and a case study is used to exemplify the trends.

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## 2.1. More are getting on board

CEOs and top level management are increasingly becoming aware of and reacting to the global challenges that exist. The consequences of pollution and global inequality are painfully visible today and are therefore considered problems that need to be addressed by companies and top management. A stable global economy will foster growth opportunities for companies. Ensuring future stable conditions for the planet, will involve environmental considerations, as well as considering how to create stability and economic growth in the developing and newly industrialised countries.

Companies are already behaving differently than they did just a decade ago, and are taking on responsibilities related to solving the global challenges of today. There are more and more examples of large global companies that have acknowledged the growing levels of waste and pollution caused by their factories, and decided to do something about it. Some companies have taken the ultimate step in working with sustainable production processes and embraced the cradle to cradle principle of only generating waste that is either bio-degradable or which can be reused in other products<sup>11</sup>.

Some companies play a bigger role than others in influencing the choices available to CEOs. The Danish biotech company Novozymes has taken on a new role in addition to selling enzymes. Novozymes business focus has changed from a business model optimising the use of enzymes by finding alternative production methods, to a business model where the focus is to reduce the unfavourable effects from the production processes on the environment. Below a more detailed description is given on Novozymes focus on corporate social innovation where the innovation has taken place in their business model.

<sup>11</sup> “Cradle to cradle”

McDonough and Braungart, 2002



## Case. Novozymes – influencing the big fish<sup>12</sup>

<sup>12</sup> The full length case study can be found in “Corporate Social Innovation: Case studies”, 2009

Novozymes creates enzymes that are used in many different production processes. In many cases, specific types of enzymes can be substituted for certain chemicals. Since enzymes are a natural part of the environment, the use of certain enzymes will create less pollution and other types of side effects, than the use of chemicals in production processes. Novozymes sells more than 600 types of enzymes which are used in 40 different industries in 130 countries.

Novozymes has increasingly realised that they produce a product that can participate in reducing pollution. If companies are to take on the responsibility of sustainable production methods, the use of enzymes might bring them a step in the right direction. Novozymes has therefore taken a new role upon themselves – they see it as their responsibility to inform their customers (the various production companies) about how enzymes can be used in the fight against pollution.

By targeting the retailers themselves, Novozymes has changed their business model and rethought their sales channels. In stead of only influencing the choice of their customers, they are now looking to influence the players where the effect can be larger and make a difference. By influencing the retailers to change their demand towards more sustainable products, the producers will have to follow and change their production processes. Novozymes is no longer working alone on realising their goal; they are taking on new collaborators who also have



the same long term goals. This form of cooperation has become possible today as more companies focus their strategies on sustainability and long term goals of pollution reduction.

Last year Novozymes got in touch with the world largest retailer – Wal-Mart. Wal-Mart had already announced their new sustainability goals of “being 100% supplied by renewable energy, create zero waste, and to sell products that sustain our natural resources and the environment”. Novozymes visited Wal-Mart in the US and spoke to 100 of Wal-Mart suppliers on how to ensure more sustainable industrial production methods through the use of enzymes. In the long term, Novozymes expect their customers to purchase more types of enzymes as well as larger amounts, and create awareness of the use of enzymes among potential customers. The increased awareness created by Novozymes has already resulted in increased demand for their products. Novozymes is currently expanding and building factories in the US and China.

Novozymes has redefined their business focus as well as the way they do business. In stead of only defining areas where enzymes can be used, Novozymes is focusing on production processes where enzymes can replace current ingredients which are less environmentally friendly. Novozymes has innovated in their business model in several areas. It now includes life cycle analysis of production methods where enzymes replace unfavourable substances in order to ensure environmental sustainability, and a new angle is taken on their sales channels. Their goals are long term, where results will not be seen within the first quarter of implementation, but might take years.

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## 2.2. Consumers are willing to pay the price

A few decades ago consumers were not aware of the options companies had regarding the development of products or services in a sustainable manner. Consumers did not really know what could be expected of companies and what demands should be placed on them.

However, consumer awareness is increasingly leading to a change in consumer behaviour. While CEOs and companies today are reacting to the global challenges and adjusting their company behaviour towards more sustainable processes, consumers are simultaneously increasing the expectations of which issues companies should address. 4,000 consumers on 3 continents were asked which issues companies should be focusing on. Consumers were asked to rank 19 topics on importance on a scale from 1 to 5 where 1 is not at all important, and 5 is extremely important. Developing socially, environmentally responsible products and services was just one of several areas where consumers today

<sup>13</sup> "What consumers expect from companies", the McKinsey Quarterly, May 2007

expect large companies to place their focus receiving a score of 4 and ranking 7th of the 19 topics<sup>13</sup>. Consumers are also more willing to pay a premium for the products and services which have been produced in a sustainable manner.

The UK smoothie company Innocent has built their entire business model around sustainability in every step of their value chain. Innocent achieves a high quality product which consumers are willing to pay a premium for. Below a more detailed description is given on Innocent's focus on corporate social innovation.

## Case Innocent – good from the start<sup>14</sup>



Innocent wanted to run a responsible business from the outset. Their entire business plan is centred on creating a healthy and high quality smoothie. Almost all the fruit they use is organically grown, and no fruit is grown with the use of pesticides. They believe that fruit that is grown properly also will have more taste and result in high quality products. Therefore they do not use any additives in their smoothies. They do not use sugar, concentrates or water. Their smoothies only consist of fruit.

Innocent goes to great lengths to provide proper working conditions for the farmers that supply them with fruit. They work together with NGOs such as the Rainforest Alliance to ensure that the workers as well as the environment is being treated responsibly. Fruit grown in developing countries and newly industrialised countries count for 50% of Innocent's fruit supplies.

Also when transporting, Innocent considers what is the most responsible way of doing it. They are working together with the Carbon Trust<sup>15</sup> in order to locate where they can reduce the amount of CO2 emissions when they are transporting their fruit and smoothies. They have never used air cargo, and will never do so either. Innocent was the first company in the world to use bottles made from 100% recycled plastic. The labels on the bottles are made of recycled paper and the ink is without solvents.

In only 10 years Innocent has become an international company with offices in 7 countries. The company has a 68% market share in the UK, and on an international scale they sell 2 million smoothies a week – even though their smoothies are slightly more expensive than other smoothies. Innocent themselves put it down to the high quality of their smoothies –using only fruits and no additives what so ever, the quality of the smoothie could not be better. And consumers are willing to pay a higher price for this product. Innocent's smoothies are selling for around DKK 22 - 25 in Denmark, while smoothies from other companies are selling at DKK 17 - 22.

Innocent's focus on sustainable production of raw materials has resulted in

<sup>14</sup> The full length case study can be found in "Corporate Social Innovation: Case studies", 2009

<sup>15</sup> The Carbon Trust was set up by the UK government in 2001 as an independent company. Their mission is to accelerate the move to a low carbon economy by working with organisations and companies to reduce carbon emissions and develop commercial low carbon technologies.

<sup>16</sup> “Innocent er den bedste smoothie”,  
Politiken online Tjek, 27 June 2008

a high quality product which consumers are willing to pay a premium for. Consumer tests in Denmark picked Innocent as the only smoothie which received 6 out of 6 stars<sup>16</sup>.

When Innocent wants to enter a new market, they get in touch with the local shops or retailers and get an opportunity to provide test drinks to customers. During their very first attempt in London, they offered free samples to 50 shops, cafes and delis. The following day 45 of them called back and asked for more. They have continued using this model, even when they are in contact with large retail stores. When approaching Sainsbury’s, Innocent was given the opportunity to sell their smoothies in 10 locations to begin with. After achieving great sales, Sainsbury’s opened their entire chain to Innocent’s products. In Denmark Innocent took the lead on the Danish market of smoothie sales for 2008. Today’s focus of combining a healthy living with a healthy planet has made it possible for companies to sell responsibly produced products at a premium.

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## 2.3. The price we pay for natural resources

Increased awareness among business leaders and consumers is only one factor leading to companies’ change of behaviour towards focusing on corporate social innovation. The rising prices of natural resources, and in particular the rising oil prices is another. Combined the two factors have created vast opportunities for companies to innovate in the area of alternative energy.

Since the discovery of the “black gold” in the 1860s, oil has fuelled the global economy creating massive opportunities for growth. For a century oil seemed to be nothing but good for society, creating efficiency in production processes and enabling us to take advantage of transportation and distribution. But while the benefits of the use of oil seemed to be limitless, there was a growing awareness of the possible disadvantages generated by oil consumption.

The use of oil in its various forms creates pollution. The pollution results in global warming and other side effects, altering the balance of ecosystems and affecting human lives. Furthermore, during the 1970s it was discovered that there was not an abundance of oil in the ground – sooner or later the oil reserves would dry up, leaving no known fuel alternatives for the multitude of oil consuming equipments we had created throughout the century. In addition, global unrest has occasionally led the price of oil to increase. In 2008 oil prices went through the roof, resulting in a slowdown of the global economy as the amount of oil had to be reduced in production and transportation. Experts have predicted oil prices rising to \$200 a barrel or even higher. The question that now is asked, is, what is the alternative to oil?

After decades of listening to warnings of diminishing oil reserves, the threat must be taken seriously. The rising prices of natural resources such as oil has provided an incentive for taking advantage of alternative sources of energy as well as optimizing companies' energy efficiency. Alternatives to oil fuelled vehicles have already been seen – and companies have started thinking about how to consume less – rather than more – becoming more efficient in whatever way is possible. Energy efficiency has become a matter of cost saving as well as of saving the environment. How can companies continue using the same amount of computers or lighting to mention a few examples, without using the same amount of electricity? Innovation is already taking place in the production of sustainable energy as well as the use of it.

Energy efficiency innovation has occurred in a wide range of sectors, from energy production, transportation to IT. Within the IT industry, 'Green Data Centres' became the heading for projects that consolidated several systems on fewer, larger and more energy efficient hardware units. The starting point for this was the seminal report Data Centre Energy Crisis by the US Environment Protection Agency 2006, which stated that data centres accounted for 1,5 per cent of global CO<sub>2</sub>-emissions.

The American computer technology and consulting firm IBM produces equipment that consumes a lot of electricity. This is costly for the buyers of the products, while a high use of electricity also causes pollution in countries where the electricity is generated from coal fuelled power plants. IBM decided to expand their focus in addition to producing IT products and services, to providing their customers with consultants that focus on energy efficiency and minimisation when designing IT solutions. Below a more detailed description is given on IBM's focus on corporate social innovation.

# Case. IBM – more for less<sup>17</sup>

<sup>17</sup> The full length case study can be found in “Corporate Social Innovation: Case studies”, 2009



IBM started out as the maker of powerful machines which consumed greater and greater amounts of electricity as they became more powerful and faster. In the early 1990s IBM rethought their identity as a company. From being a producer of computer hardware they defined themselves as a service company. Their core business is no longer creating powerful machines. They were now in the business of creating great software and service solutions. In the last couple of years IBM has gone even one step further. They have launched a new strategy “A Smarter Planet” to position the company as a provider of intelligent solutions for energy consumption.

In today’s world, most systems are controlled by computer technology. Most companies use computers and therefore have large server setups. IT is also used in systems such as air traffic control or traffic light controls for road traffic.

IBM is taking advantage of their strengths regarding integration of different IT systems to promote their vision of “A Smarter Planet”, where all energy consuming devices become intelligent and interconnected. Denmark is a pilot country for developing specific IBM solutions for the Smarter Planet strategy, not least within the energy sector. IBM Denmark is involved in developing IT solutions to optimize the production, distribution and consumption of energy. For example, the right IT solutions make it possible to increase the share of renewable energy in overall consumption.

IBM has created a consultancy service which advises firms that use large computer systems and servers, and therefore consume a lot of electricity, on how to reduce their energy usage. They have educated their employees into highly-skilled energy consultants redefining their business model in regard to the products and services they sell. The recent attention given to the amount of CO2 emissions caused by electricity consumption has created a demand among companies for services related to energy optimisation.

IBM is currently working with the Danish Technical University, Danish Energy Association and DONG Energy on a research project where IBM will develop the software that will make electric vehicles ‘smart’ and able to charge according to the availability of wind energy.

## 2.4. Technology creates opportunities

The corporate social innovations that we see taking place are not only caused due to the increased awareness and the incentives that currently exist. They are enabled by the available technology of today.

Each decade sees more technological solutions than the previous ones – Moore's Law<sup>18</sup> still applies within the IT sector and has not been rendered obsolete yet. Rapid development is also taking place in several other fields including bio-technology, nano-technology and others.

<sup>18</sup>The number of transistors that can be placed inexpensively on an integrated circuit has increased exponentially, doubling approximately every two years. The trend was first observed by Intel co-founder Gordon E. Moore in 1965. It has continued for almost half of a century and is not expected to stop for another decade at least.

The problems we want to solve can increasingly be done so faster and more efficiently. Companies expectations of the future are challenged as planning ahead becomes increasingly harder when it is not possible to predict what future solutions might be available.

Technology has also become more affordable and can therefore be used by a larger group of consumers. The development of the mobile phone and the personal computer has transformed the way people communicate and work today. Thanks to more efficient batteries and faster and faster computer chips, mobile phones are becoming smaller and lighter, and laptops are becoming slimmer and faster. No one can imagine where the technology journey will take us.

Technology today has enabled us to expand the range of products and services that are offered. A mobile phone can be used for more than telephone conversations today, and a laptop can be used for more than performing complicated calculations. A mobile phone can guide you through unknown locations with its GPS while you download your favourite songs on the touch screen. Dyslectic students are able to spell correctly using specially designed programmes on their laptop. And students in China and India can learn a large range of school topics on their inexpensive laptops.

The Finnish mobile phone company Nokia has seen technology enabling the transformation of their mobile phones from large black boxes that were transported in cars, to slim, low weight fashion accessories hung around the neck of Japanese teenagers. As network coverage and capacity has increased and phones become more sophisticated, Nokia is developing concepts that allow mobile devices to be adopted in mainstream public services. Nokia has consciously moved into a new business area targeting problems related to social issues such as enabling the dissemination of information. Below a more detailed description is given on Nokia's focus on corporate social innovation.

# Case. Nokia – technology anywhere<sup>19</sup>

<sup>19</sup> The full length case study can be found in “Corporate Social Innovation: Case studies”, 2009

<sup>20</sup> The UN Foundation, a public charity, was created in 1998 to support UN causes and activities.



Nokia makes mobile phones as well as content for mobile phones. However, Nokia’s mobile phone technology can be used for more than just making phone calls. Responding to a request from the UN Foundation<sup>20</sup> and the Pan-American Health Organization, Nokia developed a system to help non-profit organizations shift data collection work from paper forms to mobile phones. This matters because manual systems can take months to process, resulting in spread of disease, famine and slow response times to disasters. In contrast, the ability to send and receive structured data over a mobile network, means that information can be received in near real-time for analysis and decision-making.

Nokia’s mobile phones were developed to take on a new function and thereby cater to a new need. Software was created to enable the collection of data on a mobile phone while the workers were in the field. A questionnaire is created on a personal computer which is uploaded to the organization’s server, from which it can be sent to specific mobile phones belonging to field personnel. The field personnel receive the survey and input the required data on the phone. Once the survey is completed, they send it back to the central server, where it is filtered into the organization’s database.

Field workers can also access data via the mobile phone using this technology. They are able to acquire information about e.g. patients’ health history, sanitary conditions or local health incidents. The development of the mobile phone from a “big brick” into a small handheld device has created new opportunities for its use. The technological capabilities of the mobile phone, from long battery lives to touch screens, make it a versatile and advanced tool. Due to the rapid development related to the technology in mobile phone handsets and software, it is today affordable for governments and NGOs to acquire that type of equipment creating a new type of demand.

When providing NGO’s and other organisations with the new type of mobile phones and software, Nokia anticipated a beneficial side effect – proving to governments that mobile infrastructure is critical for issues like health and food security. Incentives for setting up telephone masts should therefore be created, thus improving the local and national infrastructure.

Nokia’s new business model targets a new set of customers – governments and NGOs. Nokia donates the software to clients while the handsets are sourced by the organisation locally, which also ensures the benefit of local warranties and product support. Ultimately, the aim is to provide a solution that helps improve social conditions, in a way that is commercially sustainable.

## 2.5. Unventured territories require new business models

While the incentives and opportunities are in place for the enlightened CEO's, new business models and processes will have to be developed to work with corporate social innovation.

During the industrial era, the focus of the business model was the production and sale of the firm's core product. The purpose of a business model was to get a firm's product or service sold to as many as possible, doing it better than the competition. Focus was on the firm's core business which was clearly defined. Products were manufactured efficiently at the lowest possible cost, and sold at the highest possible price, creating the largest possible margin.

Companies that work with corporate social innovation today have to rethink their traditional business models. The companies have identified new markets, new ways of delivering their products or services or new ways of cooperating. The business model will therefore have to consider all of these innovations. When entering into uncharted waters, the company must ensure that the right competencies are available and create new business models that are appropriate.

One of the new markets holding business opportunities for companies, is the markets in developing countries or in newly industrialised countries. This new market is often termed the Bottom of the Pyramid (BOP)<sup>21</sup>. People living on very low incomes might not be able to afford the types of products or services offered in the western society, but that is not equivalent to having no demands. More and more companies are seeing business opportunities in the large number of poor people – what the poor people lack in income, they can make up for in numbers. This has opened up to possibilities of rethinking products, services, processes, distribution channels and so on, and designing them in new ways aimed at a new group of people creating business opportunities not previously seen. While making a profit on their innovations, companies are also participating in solving some of the current global challenges we all face.

The Danish pump manufacturer Grundfos is able to sell one of their water systems to a small community in Kenya thus providing them with safe drinking water – a first step towards poverty eradication. They worked together with the local bank in Kenya and Vodaphone's subsidiary Safaricom, when developing a payment system. An innovative business model was needed for Grundfos' project of setting up the system. Today it is possible for Grundfos to make a revenue on small amounts through the use of new technology and cooperation with several other companies. Below a more detailed description is given on Grundfos' focus on corporate social innovation.

<sup>21</sup> "The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits", C.K. Prahalad, 2005



## Case. Grundfos LIFELINK – making a profit on 5 eurocents<sup>22</sup>

<sup>22</sup> The full length case study can be found in “Corporate Social Innovation: Case studies”, 2009

<sup>23</sup> Waterpartners International, <http://www.water.org/waterpartners>

<sup>24</sup> Schilling 5 = euro 0,05

In many African countries safe drinking water is a scarce resource which is often purchased after walking for long distances. Many mothers and children spend most of their day on obtaining drinking water for the family.

40% of the Kenyan population does not have access to safe drinking water<sup>23</sup>. And in rural areas, women and children spend almost half of their time collecting and carrying water. The average price for 20 litres of clean drinking water is Kenya schilling 5 (KES)<sup>24</sup>. The water is sold by local vendors, and some communities might have to walk for hours before they are able to find a location where they can purchase the water.

Grundfos saw an opportunity in installing automatic water systems in Kenyan villages that had access to safe ground water and installed a system for a community of 400 people where it was possible to access the ground water in the village, thus providing the community with safe drinking water. Grundfos sells the system and the installation of it to the community who take up a bank loan at a micro financing institution.

The community then owns the water system and is in charge of generating enough income by the use of the system, to repay the loan to the bank. If one

<sup>25</sup> Human Development Report 2006 by the UNDP estimates average water consumption per person in Kenya for 46 litres a day. We assume the rural inhabitant consumes less, and have used an estimate of 20 litres a day per person.



<sup>26</sup> Pesa is the Swahili word for cash, M stands for mobile

person on average uses 20 litres<sup>25</sup> a day, the total amount of water used in that community amounts to almost 3 million litres a year, repaying almost Kenya shilling 730,000 (euro 7,300) a year on the bank loan for the pump.

Grundfos teamed up with several other companies in order to accomplish the LIFELINK project. One of Grundfos' main partners in Kenya is a local company that is a distributor of Grundfos' pumps, Davis & Shirliff Ltd. They mainly assisted with the practical installation work related to the LIFELINK system. Two local engineering companies, helped with the heavy work related to constructing foundations and mounting of the water tower.

In order to reach out to communities in rural Kenya and sell the water systems, Grundfos worked with local NGOs. Since the NGOs know the country as well as the culture, they were considered the most qualified to select which villages or which regions in Kenya to target. However, Grundfos has learned that these NGO's have to be selected with care. They must have a good understanding of the commercial character of the LIFELINK project.

Grundfos made an agreement with one of Kenya's preferred banks for micro financing. While Grundfos informs the community about what the bank expects and how the process happens, the bank makes a credit evaluation of the community. The community creates a co-operative that takes out the loan for the system. The bank owns the pump until it is repaid.

The most important issue was to enable the consumers to pay for the use of the water system. Many people in Kenya have mobile phones. They do not have a bank account, or a credit card – but they can now use their phone as means of payment. Mobile phone users in Kenya purchase their “talk credit” through local vendors.

Grundfos wanted to find out how they could take advantage of the fact that mobile phone users have credit on their phones. Together with Safaricom, one of Kenyas largest mobile operators, Grundfos developed an additional feature to Safaricom's current payment system on mobile phones, M-Pesa<sup>26</sup>.

By sending a text message from the mobile phone, the user can transfer M-Pesa money onto a water card which in turn can be connected to the water system to pay for using it. When the user arrives at the water station, the water card is inserted into a slot where the credit amount on the card is updated. Thereafter the user can insert the updated water card into a slot next to the water faucet allowing the water to flow.

The money which is paid by the consumer is transferred to the community's bank account holding the loan, slowly repaying the loan on the system. Once the community owns the pump after 5-6 years, the income generated can be used by the community to finance further development. Grundfos is involved in localising organisations that help the local communities in building up their independent systems for using the funds that are generated from the system.

The income generated will also be used for a LIFELINK service contract which ensures the system's sustainability. This service contract guarantees maintenance of the system, spare parts if needed and repair of breakdowns.

LIFELINK can via SMS and the internet monitor the water system in terms of technical and financial data (i.e. revenue from the water system) and thereby act proactively in relation to system breakdowns. The local LIFELINK sales and service organization will assist the communities whenever required.

The complete payment system is completely closed and transparent. There is no cash between people or even in relation to the bank transactions and all transactions are accessible electronically. The users themselves have described the payment facility as “corruption-free”.



# 3. Companies can not go the distance alone

To be able to take on the global challenges of today, companies will have to work together with other companies, the public sector and the civil sector. Delivering solutions to the increasingly complex challenges of today, require a combination of multiple skills found in multiple companies.

In the past, it was unlikely for companies to work with other organisations on solving common problems. The nature of companies was to compete and maximise own company profits. Sharing information was often seen as a weakness, and cooperating was a way of exposing the companies' inner secrets.

<sup>27</sup> "Open Innovation, Researching a new paradigm", Eds. Chesborough, Vanhaverbeke and West, 2006

Shared information lead to the fastest competitor taking advantage of the knowledge and bringing an improved product first to the market. Strategic alliances between companies often led to power struggles of how the sharing of responsibilities should be divided between CEOs.

<sup>28</sup> "Connect and develop: Inside Procter and Gamble's new model for innovation", Huston and Sakkab, Harvard Business Review, 2006

However, even though the goal of achieving economic benefits have not changed, the way companies go about reaching the goal is changing.

Corporate social innovation is in many cases rooted in open innovation<sup>27</sup>. Open innovation is a paradigm that assumes that firms "use internal ideas as well as external ideas" in their innovation processes and development of systems. Companies can not develop new innovations that solve the global challenges we all face, by working alone. The problems that need to be solved are complex, requiring knowledge about several conditions and requiring a multitude of skills. Procter & Gamble created a systematised process for using open innovation when developing new products. 35 % of their products in 2006 were based on interactions with other companies and knowledge sharing through electronic marketplaces<sup>28</sup>. Companies that take advantage of the knowledge that already exist, and create partnerships where necessary, obtain better results when solving a problem.

Companies' collaboration can range from partnerships with other companies or NGOs, to governments or local councils. When working with innovation that is socially and environmentally responsible, partnerships occur anywhere in the value chain – from the development of new products or services to distribution and sales.

## 3.1. Company partnerships

It has not been common to see companies cooperating. Companies' research and their development of new products and services has been considered their most important source to growth and profits, and information related to those processes or results were kept secret from other companies and competitors. Attempts at creating joint ventures or partnerships seldom led to successes. However, a change of behaviour is taking place. Top management are realising that they can not find all the answers on their own. Company's cultures are changing towards more openness in the way they work.

Efforts of open innovation amongst companies have proved to create positive results for all involved. Some of their knowledge is useful for them, while some of their knowledge might be useful for another company. But open innovation can also take on more concrete forms in the shape of partnerships. Companies' are often involved in solving a problem for their customers which cannot be solved by the company alone. In stead of letting the user be in charge of solving a problem by buying products or services from multiple companies, the companies themselves are forming networks and partnerships in order to deliver complete solutions to customers<sup>29</sup>.

<sup>29</sup>"The new age of innovation" Prahalad, 2008

The Danish utility company DONG Energy has formed an international company partnership together with Project Better Place, creating the company Better Place Denmark. The project is large and complex, consisting of infrastructure, energy distribution and the development of batteries and cars geared towards the use of electricity. Getting electrical cars rolling in Denmark can only be accomplished through cooperation between many types of companies. The case is described in more detail below.



## Case. Better Place Denmark – cars go electric<sup>30</sup>

<sup>30</sup> The full length case study can be found in "Corporate Social Innovation: Case studies", 2009

DONG Energy has recently been launching a set of new products. More and more windmills are being put up in order to generate clean electricity. Denmark holds the position as the country with most windmill powered electricity per person where a total of 20% of the total electricity is generated by windmills.

The idea of electrical cars was presented to DONG Energy by the company Better Place. A company founded in 2007, Better Place was looking for partners who would be part of realising their vision - a world without oil. At the beginning of 2008, DONG Energy and Better Place signed a letter of intent regarding a partnership, and are currently negotiating the formalities of the joint company Better Place Denmark.

The long term vision is a fleet of electrical cars which run on electricity generated by windmills and thereby do not create any pollution stemming from the use of petrol or diesel. Better Place Denmark will be in charge of creating the infrastructure which will be needed in order to sell electricity to electrical car owners - enough charging stations where people can hook up their car to a source of electricity, and battery stations where people can change the batteries in their car for a new and fully charged one.

Renault-Nissan has already developed an electrical car which was presented at



the Paris car show in October 2008. The ZE Concept can drive for 200 km before it needs a new fully charged battery. This car is targeted at the more than 90% of Danes who drive less than 100 km a day. Better Place Denmark expects to be able to cater to private consumers in 2011 providing an adequate infrastructure of charging possibilities. The goal is to have 25% of the Danish car fleet consisting of electrical cars by 2020.

## 3.2. Partnerships with NGOs

Until recently companies, NGOs and the public sector did not seem to represent the same values. In the last decades there have been numerous accounts of NGOs protesting against companies in the fight against globalisation and the consequences it brought to society.

However, within the last few years or so, companies and NGOs have been taking on different roles<sup>31</sup>. Companies have started focusing on customer groups that require acquiring local knowledge of consumers in villages, while NGOs are setting up businesses to provide jobs and incomes in order to offer independence to the local population suffering from unfavourable conditions. Companies as well as NGOs have come to realise that the other party has competencies and knowledge which could benefit them both. A new trend is emerging. Some companies are hiring people from NGOs to learn how they work, while other companies are working together with NGOs to break into new markets.

NGOs too have taken on a different view. They are realising that government aid and private sector charity as a means to poverty reduction can be supplemented by other methods. Entrepreneurship and targeted business models are also seen as a viable approach now<sup>32</sup>. The carpet manufacturer Interface works together with Indian NGOs in the production of carpet tiles. Their cooperation has been beneficial to both parties. The case is described in more detail below.

<sup>31</sup>“Cocreating Business’s New Social Compact”, Bruggmann & Prahalad, Harvard Business Review, 2007

<sup>32</sup>Ibid



## Case. Interface Floor – certifications by NGOs<sup>33</sup>

<sup>33</sup> The full length case study can be found in "Corporate Social Innovation: Case studies", 2009

Interface is the world's largest producer of carpets for commercial and residential applications. In 2007 they had 59% of the markets in the Americas. Interface has focused on sustainability since the 1990s. Since 1996 they have reduced their greenhouse gas emissions by 60% and waste sent to land fillings has been reduced by 70%. These efforts have resulted in savings of \$ 336 million since 1996.

Interface produces carpets in several countries, India being one of them. They wanted to take advantage of the unique Indian handicraft to create unique and unusual products, which were sustainable and produced in a responsible manner. In order to come up with ideas of how this could be done, Interface invited Indian NGOs and other experts to participate in a workshop. One of the ideas that became a concept was carpet tiles made from lake grass and coconut hair. In order to create legitimacy of their new product, Interface wanted to certify the carpet tiles as a fair trade product. Currently there are no fair trade certificates that include carpet tiles. Interface therefore made their own certificate in collaboration with the Indian NGO, Industree Crafts Foundation, and named it Fair Works. Industree Crafts Foundation is also involved in hiring the carpet weavers for Interface and ensuring they receive a fair wage.

Another example is how NGOs and companies are working together when it comes to distribution and sales. Philips found that traditional methods were not able to reach the consumers they wanted to target in India. By involving the NGOs, Philips gained knowledge on how to reach their customers in rural India. Today the NGOs are actively taking part in distributing and selling Philips products. The case is described in more detail below.

# Case. Philips – distribution by NGO<sup>34</sup>



Close to 2 billion people worldwide do not have access to electricity, while 1.5 billion people use the dangerous and health hazardous fuel kerosene to light their homes, causing 1.5 million annual deaths. And with rising oil prices, the fuel is becoming too expensive for more and more families. Once it becomes dark, shop vendors have to shut their stores, children have to stop studying and farmers and fishermen have to stop working. With this market in mind, Philips designed 2 types of devices that would give this group of people light at night under the name of the SMILE project (Sustainable Model In Lighting Everywhere).

After in-depth user research and testing in rural areas in India, Philips obtained the confirmation that the needs of people in that area request a different approach than the one the company is used to. In those underserved areas, the quality of the light of course important, but affordability is more critical than the amount of light. Philips developed two products in 2006. The KIRAN was a hand cranked flash light which can be used in areas where there is no access to electricity, while the UDAY was a rechargeable portable lantern which needs limited amounts of electricity to recharge.

<sup>34</sup> The full length case study can be found in "Corporate Social Innovation: Case studies", 2009

The retail prices of the products included in the India pilot were set according to actual cost (material, production, distribution...). Besides those obvious constraints, it is essential to consider the total cost of ownership of the lighting solution, compared to currently used fuel-based solutions. In India it is estimated that the inhabitants in rural areas spend around 25 USD a year on fuel-based lighting (this amount is still rather low compared to other countries as kerosene is subsidized by the Indian Government). The challenge is to offer the consumer a return on investment lower than 1 year (optimally 6 months or lower). Philips started selling the flash-lights and lanterns in rural areas in India, as part of a pilot to check the needs and the possibilities to serve them in an optimal way. When trying to reach out to rural areas in India or African countries, traditional distribution channels involving stockists, distributors and retailers at various levels are actually often not yet in place, especially when the potential consumers are in remote areas and therefore very difficult to reach. In those cases, setting up such a 'traditional' distribution channel up to the remote end-consumer is often not an optimal solution because of high cost versus low sales. To cover those specific areas in India, Philips tested several alternative business models, such as selling products through women Self-Help Groups, being introduced to them by their partner NGO's.

NGO's and Self Help Groups are often connected to Micro Financing Institutions (MFI). Philips delivered the flash lights and lanterns to the local micro entrepreneurs/ marketing group of the Self Help Group. That group would typically consist of women who buy and sell products to other consumers. The Self Help Group would usually make use of micro financing, i.e. the women would save some little amount of money each week, put in on the bank and be allowed to borrow some amount of money either for personal or for business



purpose (depending on the type of MFI). Potential consumers are introduced to the products on the market place or by being visited in their homes by a vendor, or by attending group meetings where the products are presented – partially to be compared to the famous “Tupperware parties”. In regard to the Philips pilot, women would advertise how meaningful it is to have a good-quality light to perform tasks at home, outside or light up a small shop at night.

Philips is now developing some more affordable solutions based on the conclusions of the pilot and insights given by the NGO’s. To Philips, NGO’s will remain one of the key stakeholders to partner with in view of reaching and meeting the needs of people in remote and underserved areas both in Africa and India.

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## 3.3. Partnerships with foreign government institutions

When expanding the business into new countries and wanting to work directly with the suppliers or other stakeholders, it might be necessary to work together with foreign government institutions. In some cases it is necessary to work directly with the public sector. In other cases access to local companies often means partnering up with the public sector along the way. Depending on what countries a company is expanding to, the role of the public sector can vary, thus making it necessary in some countries to be in close contact with the public sector.

The Danish chocolate producer, Toms Group, involved the Ghanaian government owned logistics company in order to obtain better knowledge about where the cocoa beans that Toms Group received came from. After working together to uncover the suppliers, the Ghanaian government and Toms Group continued the cooperation and developed new methods for the farmers to ferment their cocoa beans. The case is described in more detail below.



## Case. Toms Group – Tracking the beans<sup>35</sup>

<sup>35</sup> The full length case study can be found in "Corporate Social Innovation: Case studies", 2009

Toms Group imports cocoa beans from Ghana and in 2007 they wanted to know where in Ghana their cocoa beans came from. The government in Ghana has centralized the export of cocoa by creating a government based company that manages all the export orders, CoCoBud. Information was not previously organised according to which beans were delivered by which supplier. All the beans were piled up in one heap and later distributed to buyers. It was therefore very difficult for a purchaser of cocoa beans to gain an insight into the supply chain.

In order to learn more about the individual suppliers and gain better insights into their supply chain, Toms Group started working together with the government owned organisation CoCoBud. The cooperation has led to more transparency related to the suppliers of cocoa beans, information that Toms Group now can use to their advantage. They now know exactly which cocoa farm each single cocoa bean is from. In addition, Toms Group has been working with a department of CoCoBud to develop a simpler method for fermenting the cocoa beans which is less strenuous for the farmer and more environmentally friendly.

# FORA

## 4. Encountered difficulties

Companies working with corporate social innovation encounter barriers because the solutions they are delivering are often unprecedented. Current systems and regulation are made based on existing solutions. New innovations will therefore often require adjustments according to different circumstances.

A company that wants to do good has spent a lot of time and resources understanding the consequences and advantages of the different materials or production processes – but how do companies communicate these benefits to the market and persuade customers into purchasing? The consumers might only see a product or service which is not different from any other, or they might see a product or service which is merely more expensive. And what about communicating to the regulators? Companies taking the lead in the innovation race face challenges and problems due to regulation or sometimes the lack of it. The various challenges will vary depending on the company's focus – be it environmentally sustainable innovation or innovation focusing on new markets in developing countries. We have identified four areas which the 10 companies in this study have identified as barriers to their innovations.

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### 4.1. Entering new industries

When a company starts focusing on solving problems that are not related to its core business, it might enter into markets where the operating conditions are different. Within some industries, legislation governs which types of firms are able to do what. If a company not related to that specific industry enters the scene, industry specific legislation might prevent the firm from operating within the industry thus hindering the innovation process. For a new firm to obtain the necessary rights, it will have to fulfil specific conditions – something that is not always possible.

Better Place Denmark can be used as an example of how current regulation slows innovation. Within the EU there is very specific regulation on which types of companies may sell electricity. When creating a new infrastructure for selling electricity to car owners, the current legislation does not cover the new aspects of the sale of electricity. Better Place Denmark is therefore facing very specific challenges with respect to the design of the future sale of electricity.

The sale of energy is usually limited to private consumers or companies, either in people's homes, in office buildings or in factories. The sale of energy to battery charging stations has never been heard of before. This challenges the current legislation on the sale of energy.

In the near future homes will be provided with an “energy box” with an electrical socket. The box can be used for charging the electrical car parked in the garage, as well as any other rechargeable equipment that will exist in future homes. The more futuristic scenario involves homes that produce their own electricity. Each home will be provided with fuel cells or solar panels, and excess electricity can be sold to the main electricity grid.

There are many situations related to the sale of electricity which have never been seen before, and which current regulation does not address. If these future scenarios are wanted, it will be necessary to create incentives for energy companies to develop advantageous solutions.

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## 4.2. Slow changing systems

Infrastructure and systems that exist today are based on yesterday's way of living, producing and consuming. They are large and hard to change since they involve many different actors – government, organisations and companies. When new products are introduced they might not always fit in to the current structures for e.g. distributing or recycling.

Innocent is an example of how a company's innovation can not fit into the existing infrastructures. The company was one of the first ones in the world to develop a bottle that is 100% bio degradable. However, for the use of the bottle to be truly good for the environment certain systems must exist that are capable of handling the degeneration process of the bottles.

The bottle is made of corn starch which can be 100% biologically decomposed. However, in order to get rid of the bottle, specific conditions must exist. The bio degradable bottle will turn into biological waste if it is put into a compost. But sadly, there are not many homes in urban areas that have compost heaps, and not many councils are offering commercial composters. The alternative would be to put the bottles for recycling with plastic bottles – but that turned out to be a bad idea since the bio degradable bottle would “pollute” the plastic not allowing the plastic to be recycled. The only alternative left is to through the corn starch bottle out with the rest of the garbage – not allowing for any type of recycling.

As a consequence, Innocent concluded that bottles made of 100% recycled plastic are better for the environment. The lack of infrastructure targeted at bio-degradable waste is slowing the rate of innovation when it comes to creating sustainable packaging.

But the future possibilities seem countless. Packaging is merely one example where biological products can be created. Fuel is another area where 2nd generation of bio-ethanol soon will be a reality. The infrastructure of the future should collect all the biological waste generated from society and use it for creating fuel, or packaging or other currently unimaginable products.

## 4.3. Certification

Companies wanting to make their innovation process more energy efficient or reduce emitted pollutants are not always able to make the calculations on their own. And if calculations are made by companies themselves, they might vary from company to company and therefore not be perceived as being credible. Or if a company wants to ensure responsible working conditions for their suppliers, certificates only exist within certain commodities such as tea and coffee. Companies that want to document their responsible behaviour and which do not produce commodities covered by current fair trade certification are forced to make their own certification labels. The result will be numerous certification labels designed by individual companies. It will eventually be impossible for buyers to be able to evaluate which certificates are credible, and which are not.

There is a lack of trustworthy independent official labels for responsible products both in terms of fair-trade and CO<sub>2</sub>-emission. With the current fair-trade labels a fee is charged to be able to use the label – does that make it truly objective? Similarly when a company wants to prove to the rest of the world that it has actually taken good care of its suppliers, produced raw materials in a sustainable manner and not polluted more than necessary when transporting its products, there does not always exist a certification procedure.

It is important to pick up on new trends that are unfolding today, such as the cradle-to-cradle idea of sustainable and no waste production, and create certification procedures that can guide companies as well as consumers.

Interface is an example of a company who took matters into their own hands and created their own certificate for fair trade in the carpet industry. In order to live up to the standards of the certificate, the materials used when producing the carpet tiles must all be natural and environmentally friendly. Going through the process of creating their own certification has been time consuming and costly for Interface. They had to start from scratch since they had no previous knowledge of how to create a certificate.

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## 4.4. Lack of knowledge

In the fast moving world of today, it is not always possible to keep up to speed with everything that is happening. Companies are constantly innovating and creating new solutions. Consumers as well as other companies are not always aware of what choices they have when it comes to purchasing products and services, and what the consequences are of the choices they make.

Philips can be used as an example of how keeping up to date with current knowledge sometimes is difficult for the users of products and services. The company has been around for a long time and is selling some products that were invented many years ago. Many of Philips users are not able to keep up with the development in the lighting business and the new innovations that exist in the business area today. Philips is therefore spending a lot of time and effort on educating their users – from the contractors and engineers to the end users.

Already in the 1990s Philips business focus was aimed at creating profitable products in a sustainable manner across all their product lines. During the next 5 years they will be investing more than euro 100 million on “green innovation”.

Philips new line of green products is based on environmentally friendly technology. The products are more energy efficient and Philips has estimated that the world's energy use could be reduced by up to 40%. To be realistic, Philips find a 20% reduction in the amount of electricity used a reasonable assumption. However, 2/3 of lighting in the world today is based on old technology that is less environmentally friendly than the new products of today. Few people seem to realise that purchasing more efficient televisions or other electrical equipment might lead to long term savings for them as well as on pollution that is created from the production of electricity.

According to Philips, 1/3 of outdoor lighting use inefficient mercury light bulbs, while 75% of office buildings use old lighting technology which does not even live up to the EU standards of office lighting. In 2005 2 billion incandescent light bulbs were sold in the EU, where 75% are bought for peoples homes. By using energy efficient light bulbs in stead, a 50% saving could be achieved.

However, there is still a lot of prejudice about energy efficient light bulbs. Consumers remember the first generation of energy saving light bulbs that emitted low light quality and were expensive. The energy consumption of the light bulb had been reduced at the expense of the quality of the light emitted. Few consumers are aware of the technological advances that have taken place within the lighting industry, now allowing energy saving light bulbs to have the same quality as the old fashioned types of light bulbs. The lighting industry now has a great challenge in educating the end consumers as well as engineers and architects about the new options that are available related to sustainable lighting.

## 4.5. Policy challenges

Governments can encourage corporate social innovation in many ways.

Green taxes can change demands in an environmental friendly direction and thereby stimulate corporate social innovation.

Public procurement can be used to foster corporate social innovation. In stead of stating specific details of a solution a tender could encourage a company to compete on the most sustainable solution.

Investment budgets and operating budgets should not be seen separately because long term benefits from more sustainable solutions could be overlooked. Increased costs of investments are often regained within a relative limited time through savings on operating cost. This is why investment decision should be based on cost benefit analysis to find sustainable and cost efficient solutions thus stimulating corporate social innovation.

Governments can facilitate pollution measurements to indicate how much different processes will pollute or save energy so companies can be able to make objective choices when building, producing or transporting.

Governments can also encourage companies to work with corporate social innovation by creating common reporting systems such as the UN Global Compact.

Another way for the public sector to enable corporate social innovation is through collaboration with companies and research institutions as facilitator, or by working closely with companies when developing future legislation.

The increasing complexity of innovation is also related to work done in relation to corporate social innovation. Often a single company, even if it one of the largest companies, does not have all the competencies needed to create new and more sustainable solutions. Therefore they need partners with complementary competencies. The range of challenges which are faced by partnership innovations can sometimes be overcome if the public sector takes the responsibility as facilitator in the creation of the partnership. This is particularly relevant if the area for innovation is government regulated, which often is the case for corporate social innovation. Sometimes new solutions are only commercially relevant if the regulation is changed. But often regulation can only be change if new solutions are in place. In that way innovation can be hindered by a chicken or the egg dilemma. Intensive dialog between the regulative authorities and private companies can pave the way for a common understanding of the challenges and the need for new solutions and new regulation to go hand in hand.

Historically the regulative authorities have kept a distance to companies which were subject to regulation. Therefore it will be necessary to foster a new administrative culture in the public sector in order to collaborate with private companies on future regulation while at the same time make sure that the

regulation is based on objective criteria.

A change of mindset requires trust from both sides and will probably take time. But pilot projects and role models can pave the way for the proliferation of collaboration between regulative authorities and private companies on future regulation.

Cooperation in the formation of regulation could take place in regard to e.g. environmental regulation, construction regulation, food regulation and health and safety regulation.

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