



FUTURE-PROOFING BUSINESS WITH BABSON



Moving from Risk Management to Opportunity Creation

A Toolkit for Effective Corporate Social Innovation

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Research and Advising from Babson
Executive Education Experts

**CHERYL KISER
& KEN FREITAS**



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A Toolkit for Effective Corporate Social Innovation

Babson Executive Education has created a toolkit series for future-focused business executives. This Corporate Social Innovation Toolkit stems from over two decades of research and consulting from both Cheryl Kiser and Ken Freitas.

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Babson Executive Education Expert and Executive Director of the Institute for Social Innovation

CHERYL KISER



Cheryl Kiser is the founding director of the Institute for Social Innovation and a global leader in corporate social responsibility and social innovation. She is the author of *Creating Social Value: A Guide for Leaders and Change Makers* and has directly influenced the strategy, operations, and mindsets of dozens of Fortune 500 companies, global NGOs, nonprofits, community organizations, and academic institutions.

Babson Executive Education Expert and Executive-in-Residence at the Institute for Social Innovation

KEN FREITAS



Ken Freitas brings a unique combination of marketing strategy, corporate responsibility, and communications expertise to business, nonprofit, and education organizations. As a senior executive for leading brands and as an entrepreneur, he has over 25 years of experience in integrating strategy, brand building, communications, and corporate responsibility for premier brands including Timberland, City Year, Time Warner Cable, FIRST, Fidelity Investments, L'OREAL USA, Cartoon Network, Action for Healthy Kids, Communities in Schools, Citizen Schools, Citrix Systems, and Disney.



» WHAT'S IN A WORD?

In today's world, terms like environmental, social, and governance (ESG), corporate social responsibility (CSR), and an entire alphabet soup of concepts can mean vastly different things to different people. New language and an entrepreneurial mindset are required to be able to shift internal and external stakeholders to enable results. Every company and context is unique, and at Babson, we work with each individual and organization to find the language that is most resonant and impactful.

Leveraging an Entrepreneurial Mindset to Shift from Reaction to Creation

“To lead effectively in a world in constant flux, you need to build and nurture an ability to think like an entrepreneur. This way of thinking goes far beyond venture creation. It allows you to act under uncertainty while developing and facilitating opportunities. It is good for you as an individual and good for the health of your company.”

By developing an entrepreneurial mindset throughout your teams and organization, you can shift the “social” element of your work from a reactionary risk-management approach to an entrepreneurial opportunity—creating expanded and new value within the context of your business.

Source: Babson Experts Andrew Corbett & Scott Taylor, “Re-envisioning Leadership to Build the Future: An Entrepreneurial Leadership Toolkit,” Babson College, 2023



DEFINING CORPORATE SOCIAL INNOVATION

The corporate world is undergoing an evolution from corporate social responsibility (CSR) to corporate social innovation (CSI).

Corporate social innovation is:

1. a strategy that combines a unique set of corporate assets (innovation capacities, marketing skills, managerial acumen, employee engagement, scale, etc.)
2. in collaboration with other sectors and firms
3. to co-create breakthrough solutions to complex economic, social, and environmental issues that
4. impact the sustainability of both business and society.

Source: Babson Experts Philip Mirvis & Bradley Googins, “The New Business of Business: Innovating for a Better World,” The Conference Board, 2017

How CSI Differs from Corporate Social Responsibility

Traditional CSR

Philanthropic Intent
Money and Resources
Employee Volunteerism
Contracted Service Providers
Social Services and Eco-Services
Social Good

Corporate Social Innovation

Strategic Intent
R&D and Corporate Assets
Employee Development
NGO and/or Government Partners
Social and Eco Innovations
Sustainable Social Change

Needed for Successful Corporate Social Innovation

- Fit your corporate social innovation efforts to your corporate structure and strategy
- Commit the necessary resources
- Manage these efforts as a core asset
- Connect these efforts across the enterprise

Corporate Social Innovation Tackles Demands Simultaneously

1. Shareholder demands for growth
2. Employee desire for meaningful work
3. Customer and public expectations that corporations address social, economic, and environmental challenges

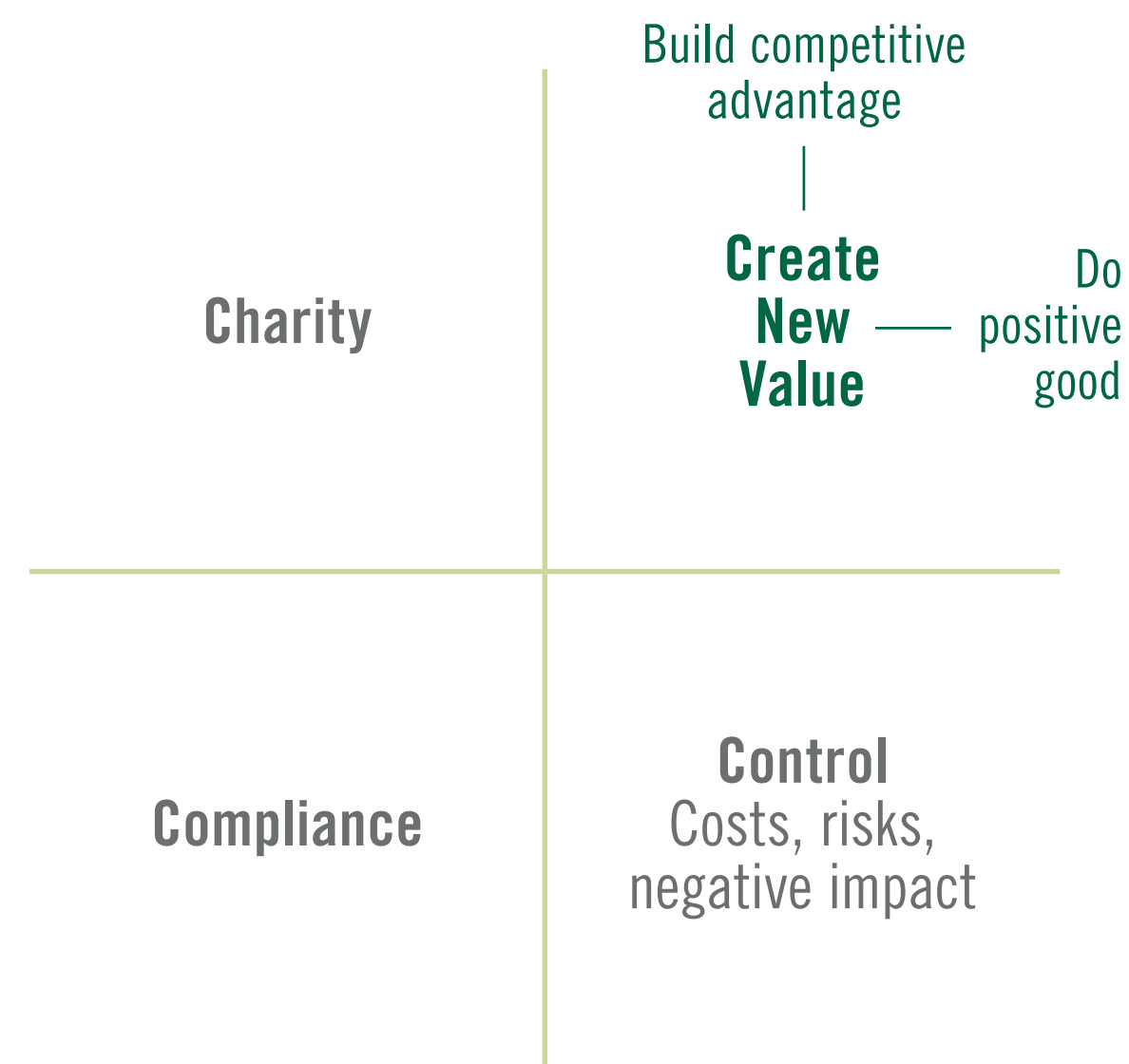
CSI creates economic, social, and environmental value simultaneously.

What's in It for Corporations?

By applying corporate innovation to engagement with society, CSI embeds social impact more directly in corporate strategies, activities, and partnerships. This investment in new innovation sources and methods has the following outcomes:

1. Generates new products
2. Unlocks new markets
3. Provides greater employee satisfaction
4. Engages corporations in more creative and lasting philanthropy that contributes to a rich business environment
5. Allows cross-functional collaboration for expanded opportunities

Different Approaches



Source: Jane Nelson, Harvard

“No one has ever complied themselves to greatness.”
—Cheryl Kiser

Compliance

There is value when companies simply follow existing law, but this doesn't foster much innovation.

Charity

There's a formalized built-in separation between the benefit to the community and the benefit to the corporation. Corporations are not SUPPOSED to directly benefit from their philanthropic work.

Control (Risk Management)

This starts to bring the interests of the business back into alignment with the interests of society; however, the focus is on operations, and it tends to be a relatively honor-based system of voluntary industry standards (with sometimes competing certifications of varying effectiveness).

Create New Value

This value is economic for businesses and social for society; businesses ask what market need they can address and how to do this in a way that creates economic and social value simultaneously?

Source: Corporate Responsibility Initiative at the Harvard Kennedy School



» CHOOSING A MANAGEMENT FRAMEWORK FOR SUSTAINABILITY

There are three common management frameworks to choose from when setting sustainability-related goals for your business. Which framework's emphasis points best match your company's needs and comfort level?

What Emphasis Is Right for Your Business?

1. **Emphasis on strategy:** Corporate Shared Value framework, for companies that value competitiveness
2. **Emphasis on governance:** CERES Roadmap model, for investors who want to assess a company's sustainability approach and for companies who want a practical tool for communicating with investors
3. **Emphasis on purpose and values:** 5 Factors for Success model, which also consolidates several different approaches in the field



Corporate Shared Value

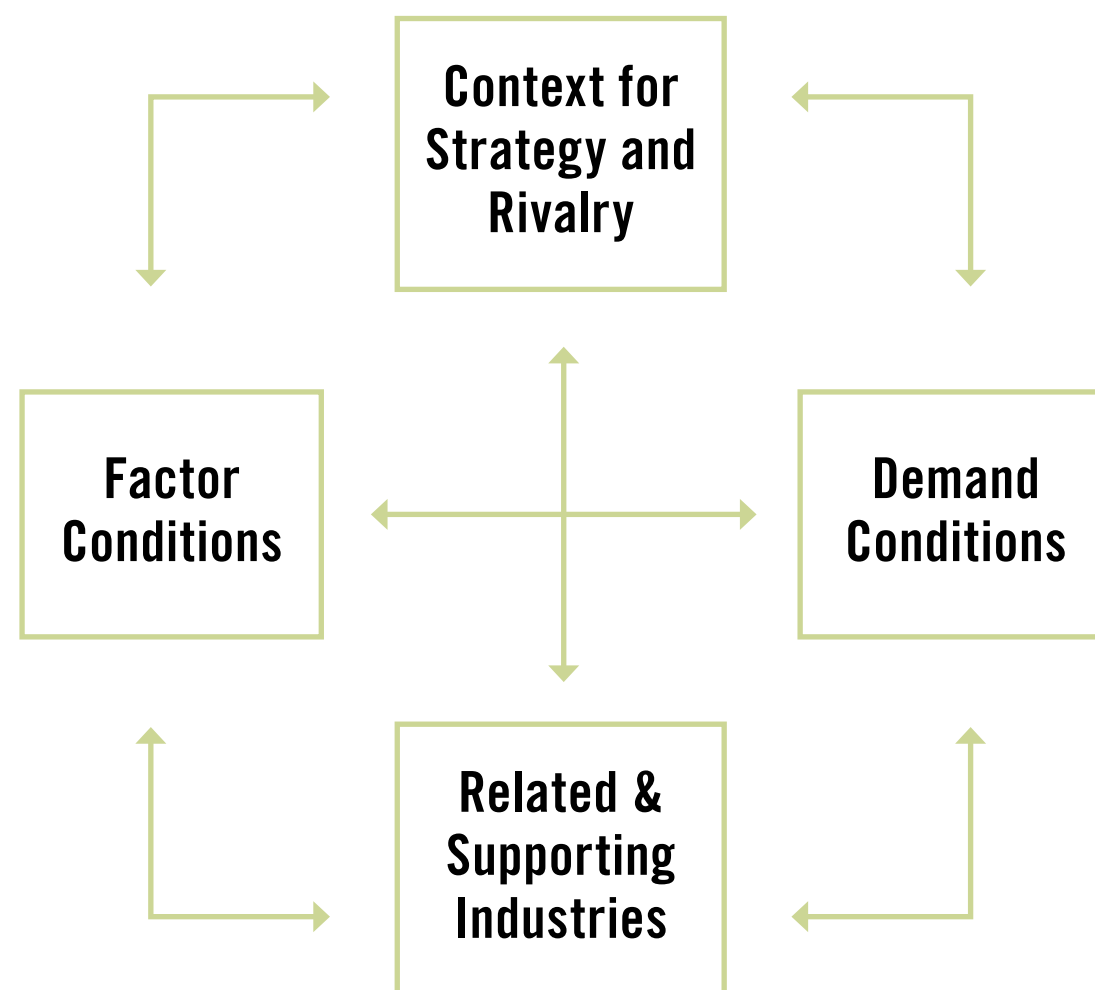
Developed by Michael Porter

Who Is It For?

Companies that value competitiveness and want a rigorous standard.

Key Focus

Rigorous definition of business value: Business value is realized when a company improves its competitive context or ability to compete. Social initiatives create business value when one of these **Four Elements of Competitive Context** is improved:



Context for Strategy and Rivalry

- Are the organizations free to compete?
- Do the local laws, policies, and conditions allow for open and strong competition?

Demand Conditions

- Are there customers around?
- Are they well informed?
- Will they/do they choose to buy what you offer?
- What are the drivers of demand?

Related and Supporting Industries

- Is there a strong presence of suppliers and related industries?
 - The Corporate Shared Value model emphasizes the local aspects of competition—with local clusters of an industry—and the ability to influence that local cluster

Factor Conditions

The factors of production:

- Is there a quality supply of the labor your business requires?
- Is the infrastructure needed present?
- Think of cities with a large healthcare industry and what's present in those cities: research hospitals, education institutions, etc.

Corporate Shared Value Model in Action

Social Initiative Analyzed:

Avon has been running the Avon Breast Cancer Crusade since 1992, contributing more than \$800 million to educate women about breast health and fund mammograms and clinical breast exams.

Analysis:

This framework argues that this initiative does not improve any of the four elements and therefore does not meet the criteria for creating shared value.

Example of Logic:

Although Avon may have increased its share of an existing market, they did not impact the demand conditions, as their initiative did not grow the total market size for their products.

CERES Roadmap Model

Who Is It For?

1. Investors who want to define what areas they should examine when judging a company's sustainability program.
2. Companies that want to address the investor's perspective with a practical, useful tool for planning and implementing a sustainability initiative.

Key Focus

The CERES model defines the general categories to address and the very specific actions to take under each so that you meet a strong and credible standard for sustainable business; we'll focus here on Strategic Planning and Execution within the Business Integration Actions section of the model—a useful place to start for this process.

Strategic Planning and Execution Within CERES Business Integration Actions

Corporate Purpose and Business Case

Articulate a purpose that demonstrates shared value for all key stakeholders and aligns financial interest, business strengths, and the company's role in sustaining and improving the well-being of the planet and society.

Materiality and Saliency

Expand the definition of financially material risk to include material and salient sustainability impacts, and prioritize these risks and also the related opportunities in the setting of business priorities.

Strategic Planning and Scenario Analysis

Integrate material and salient sustainability risks and opportunities into strategic planning, enterprise risk management, capital expenditure and investment calculations, and conduct sustainability-related scenario analysis to better analyze environmental and social impacts throughout the value chain and across multiple time horizons.

Stakeholder Voice

Regularly invite and equally consider a diversity of stakeholder voices in the development of strategic business priorities and decision making, prioritizing transparent and ongoing engagement of those most impacted by the decisions being made.





5 Factors for Success

Who Is It For?

Companies that are solidly grounded in a higher purpose that guides their daily business.

Key Focus

This model represents a consolidation of thinking in the field.



Other Available Frameworks

There are a range of other available frameworks, including ISO 26000 Guidance on Social Responsibility and the UN Global Compact. Babson Executive Education can help you parse out the strengths and weaknesses of these frameworks in relation to the unique characteristics of your business.

Four Needed Elements

We've found that no matter the framework, there are four elements needed for a successful CSI strategy that results in both economic and social benefits, and we are happy to help you evaluate these:

- How the company fits CSI practices into its business
- The company's commitment to CSI practices
- How the company manages CSI practices as an asset
- The way the company makes connections that enable CSI practices to drive ROI

Source: Babson Experts Steve Rochlin, Richard Bliss, Stephen Jordan, & Cheryl Kiser for Project ROI, led by IO Sustainability and Babson College, "Defining the Competitive and Financial Advantages of Corporate Responsibility and Sustainability," 2015

» USING MATERIALITY TO IDENTIFY AND PRIORITIZE SOCIAL ISSUES

To understand “materiality,” think of “financial materiality”: information that a reasonable investor would consider important in deciding if a company is a good investment.

Corporate social innovation materiality is not as well defined. There are different bodies with different definitions. Companies are asked to select one and report on the process they used to define their particular materialities.

Three Definitions of Corporate Social Innovation Materiality

Stakeholder’s Perspective: Global Reporting Initiative (GRI)

This definition approaches materiality from the perspective of the stakeholder and sustainability reporting:

- Stakeholders need to make informed judgments about companies from a sustainability perspective, so companies should publish or report on their sustainability impacts.
- It uses the term “material aspects,” which are those that reflect the organization’s significant economic, environmental, and social impacts or that substantially influence the assessments and decisions of stakeholders.
- GRI has emerged as the leading reporting standard. The process of identifying material issues is a required step to meet their standard of reporting, and the content of the report must address those material issues.

Investor’s Perspective: The Sustainability Accounting Standards Bureau (SASB)

SASB views materiality with an emphasis on the financial regulator’s perspective—the idea that publicly traded companies will be required to report to investors on sustainability issues in mandatory filings with the SEC, including sustainability information in financial reports like on the Form 10-K statement. SASB standards utilize the financial reporting legal definition of materiality.

Integrated Perspective: International Integrated Reporting Council (IIRC)

This approach places an emphasis on creating value over a longer term.

This impacts capital use decisions and ultimately combines financial and nonfinancial reporting into one integrated report on company performance. IIRC defines a material issue as a matter that could substantially affect the organization’s ability to create value in the short, medium, or long term.



What Is a Material Issue?

Financial

Would a reasonable shareholder consider it important in deciding if Company X is a good financial investment?

Corporate Social Innovation

Would a reasonable stakeholder consider it important in deciding if Company X is a good corporate citizen?



The Benefits of Clearly Defining Materiality



Drives strategy

The essence of strategy is choosing what not to do



Meets investors' and stakeholders' expectations

Informed judgment and decisions on accountabilities



Focuses communications on priority issues

Helps limit greenwashing and misdirected perspectives



Creates internal alignment on strategic priorities



Improves firm performance

Using the GRI as an Example of Process for Defining Materiality

Step 1: Identify all the sustainability issues the company impacts.

Step 2: Prioritize them.

Step 3: Validate them, to make sure the review is complete. This includes the scope of the issues, the boundaries between company and its relationships, and the time frame.

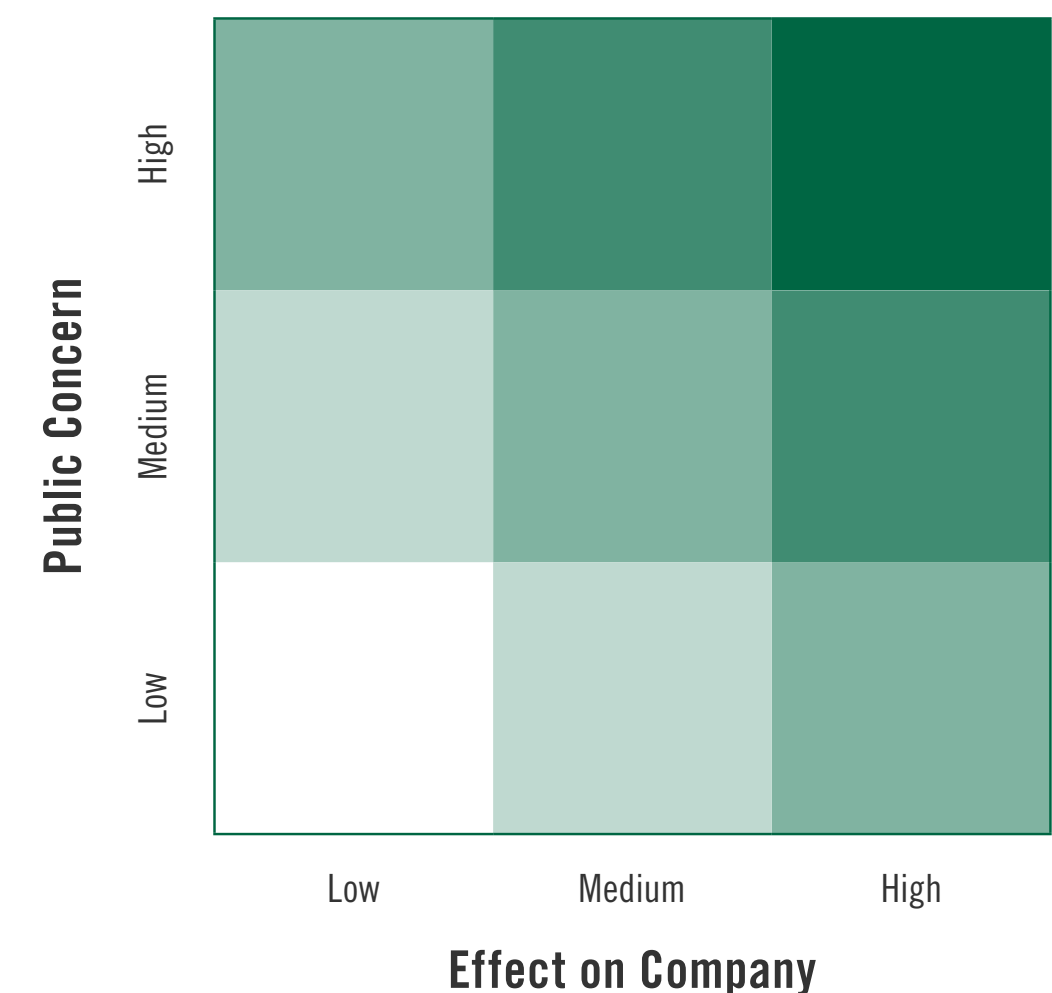
Step 4: Review those issues with multiple, diverse stakeholders, not just the company meeting alone in a boardroom.

[Learn More About the GRI](#)

Using the Materiality Matrix Tool to Prioritize Issues

The Materiality Matrix is a useful tool that paints a visual picture of the results of the process you go through to define your materiality issues. You should be aiming to prioritize issues that fall within the darkest square, then medium squares, etc.

Materiality Matrix



Source: McKinsey

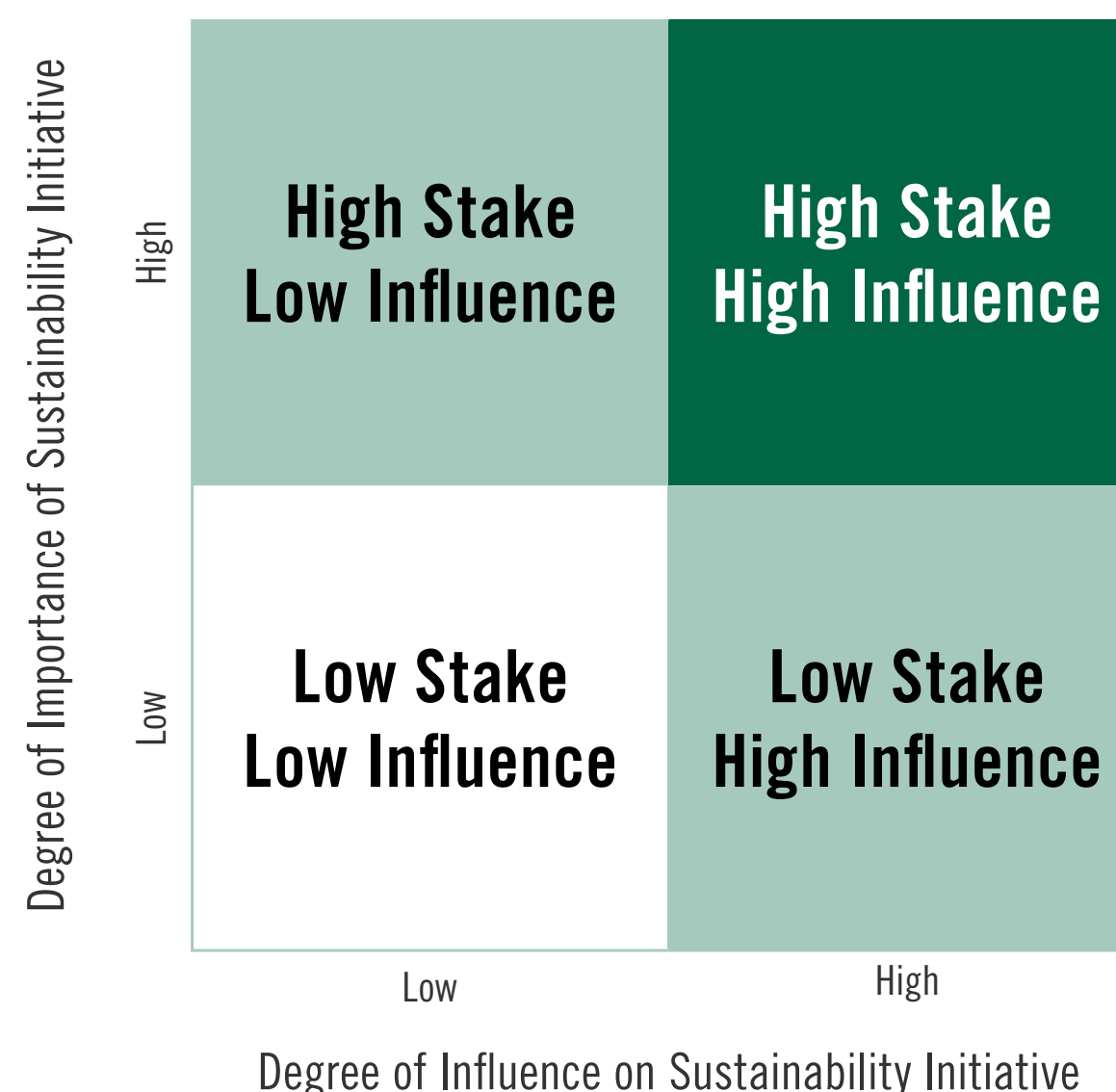
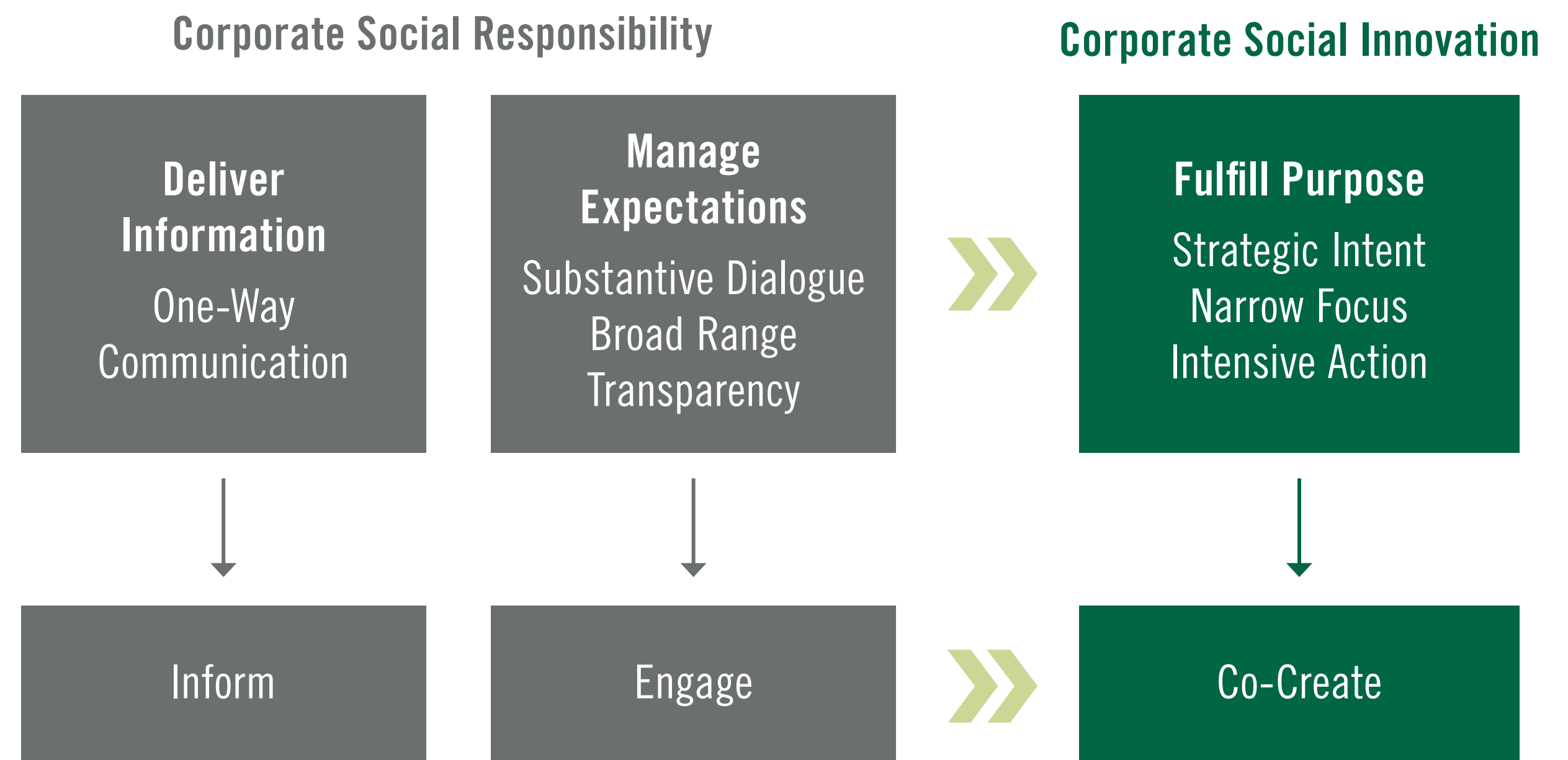
Remember that the goal is to create economic and social value. An effective materiality process will result in identifying the strategic focus that represents the best opportunity for the company's resources, people, and partners to collaborate on innovative solutions to create that value.

» CREATING STAKEHOLDER ENGAGEMENT

Stakeholder engagement is key to the success of any innovation or initiative. Here you can see how the priorities of a purpose-driven business that creates social and economic value can be guided by the Materiality Matrix—and how this fosters co-creation with key stakeholders.



Stakeholder Engagement: CSR Versus CSI



Prioritizing Your Stakeholders

Not all stakeholders are equally valuable as co-creators within your prioritized initiatives or innovations. As stakeholders progress along the vertical axis, they stand to lose or gain more and more; as they progress along the horizontal one, they have more and more influence on the outcomes. You should talk to stakeholders in all “high” categories, but those who fall within the dark green quadrant are most important to leverage for co-creation.

»» MAKE A SHIFT IN MINDSET AND ACTION

By developing an entrepreneurial mindset in your teams and organization and practicing entrepreneurial leadership, you'll unlock a new world of opportunities.

Less

What we do
Transactional
Planning for
Minimizing risk
Mindset of scarcity
Top-down planning
What we know
Expertise
Administrative orientation

More

Why we do
Relational
Co-designing with
Maximizing opportunities
Mindset of abundance
Experimentation
What we are learning
Exploration
Entrepreneurial mindset

»» WE CAN HELP YOU WITH MINDSETS, FRAMEWORKS, PRIORITIES, STAKEHOLDERS, AND IMPLEMENTATION

Within the relatively new field of corporate social innovation, there are a lot of unknowns. Babson Executive Education faculty know how to help individuals and companies develop an entrepreneurial mindset to tackle the challenge, using our award-winning Entrepreneurial Thought & Action® (ET&A™) methodology. We can help you survey what's out there and pick the best path forward for your unique businesses. Get research-based processes and support. Stop wondering how to get buy-in and move toward your future social innovations.



Babson Executive Education Faculty

Our faculty experts can advise and support execution on any topic.
What we deliver is based entirely on your unique needs.



Cheryl Kiser

Executive Director and Lecturer in
Management and Social Innovation



Ken Freitas

Executive-in-Residence



Gina O'Connor

Professor of Entrepreneurship



Phil Kim

Professor of Entrepreneurship



Wendy Murphy

Professor of Management



Shakenna Williams

Executive Director of the Center for
Women's Entrepreneurial Leadership



Anirudh Dhebar

Professor of Marketing



Scott Taylor

Associate Professor of Management

Take Your Next Steps with Us



**GET AN ACTION PLAN
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BABSON EXECUTIVE
EDUCATION**

Contact:

Tammy Gage
Business Development
+1 (781) 239-4443
beeinfo@babson.edu

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