



CORPORATE SOCIAL IMPACT STRATEGIES – NEW PATHS FOR COLLABORATIVE GROWTH

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EVPA
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**THE FUTURE
makers**

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Preface

PREFACE

In our decade, increasingly questions are asked as to whether companies should only seek to maximise profits, and more and more examples have become known where pure profit seeking has negative effects on our societies and environment. At that same time, there is a growing awareness that solving wicked social or environmental problems **can** go together with profits and that there is huge potential for corporates in catalysing this change.

That is why we feel it is timely to present you with the outcomes of our research: '*Corporate Social Impact Strategies – New Paths for Collaborative Growth*' charting the developments in this space, and the collaborations and linkages that are starting to take shape.

Ever since EVPA was set up in 2004, it has worked to bring together a broad range of actors from diverse sectors having a common objective; to enable social purpose organisations to generate greater and more sustainable societal impact. This report shows how some of the most innovative corporations have devised and implemented Corporate Social Impact Strategies to solve social and environmental challenges. It also highlights some of the first success stories in collaboration between Corporate players and VP/SI organisations; illustrating how the latter have helped shorten Corporates' learning curves, thus reducing the risk and investment cost.

It is our firm belief that this report will inspire more corporations to enter the VP/SI arena – by investing human and financial capital to generate a combination of financial, social **and** strategic return.

We also encourage VP/SI organisations to proactively reach out to corporations to seek possible areas for collaboration; amplifying Corporate activities and building long-term partnerships for impact.

EVPA is convinced that VP/SI organisations and Corporates working together can lead to great social change – at lower cost and with higher impact.

We trust the captured knowledge will be useful for your practise.

Pieter Oostlander
Chairman, EVPA

Executive summary

EXECUTIVE SUMMARY

Venture philanthropy (VP) and social investment (SI) organisations (VPOs) work to build stronger investee organisations with a social purpose (SPOs) by providing them with both financial and non-financial support in order to increase their social impact¹. Engaging corporates in their work can help VPOs reach further and deeper; ultimately generating greater societal impact. This report shows how corporations can successfully collaborate with VPOs to increase the resources to the sector by providing access to financial, human and social capital. We also show how collaborating with VPOs can enable corporations to develop and enhance their work of integrating social impact into their core business, thus moving from a more traditional corporate social responsibility (CSR) approach to a shared value, integrated strategy. Indeed, collaboration between the VP and the corporate sectors is already happening with very positive results, but much more can be done. We aim to reduce the barriers between the corporate and the VP/SI sector by explaining to VPOs how corporations currently approach the social impact arena, by showcasing pioneer examples of successful collaboration, and by increasing the awareness of VP/SI in the corporate world.

Leading corporations have started to explore and implement *Corporate Social Impact Strategies* (CSIS), defined in the report as investment oriented approaches to build sustainable value creation models while also generating strategic social return. These corporations are finding new ways of leveraging the strength of their core business to generate positive societal impact. The most effective corporate social impact strategies are the ones that help the corporations grow their business and increase profitability, by attracting and retaining the right people, adopting relevant innovations and growing into new market segments. This study looks at three CSI strategies in detail through specific examples and case studies: *Inclusive Business models*, *Corporate Impact Venturing* and *Strategically Aligned Corporate Foundations*. Companies employ one or a combination of these strategies in order to fuel growth and innovation, build an enabling eco-system for future business, attract and retain top talent, strengthen brand value and to improve supply chain efficiency. Investment in CSI strategies is still small in absolute terms, but is on the rise and has enormous potential – considering the volume of unmet needs of people at the bottom of the economic pyramid, the scale of critical social issues they face and the availability of resources that could be invested. Successful examples of pioneering corporations show that integrating social impact strategies into corporate strategy can be good business, but many challenges need to be overcome.

VPOs can help corporations overcome such challenges. They can be intermediaries that act as a bridge or translator between corporations and social purpose organisation investees. They can deliver investment ready social innovations ready to scale and thus reduce the corporation's risk and associated cost when it decides to invest in the growth of such innovation. VPOs can also act as co-investors, sharing the investment risk and providing valuable services to the corporate partner, such as due diligence or portfolio support. An increasing number of corporate foundations are adopting a venture philanthropy approach themselves, thereby becoming more engaged with their investees, while

1. <http://www.evpa.eu.com/knowledge-centre/what-is-vp/>

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strategically aligning their investments with the core business strategy of the company. These models of collaboration take a long-term sustainability view resulting in win-win situations for all stakeholders.

Venture philanthropy organisations and corporations are valuable partners in developing and implementing social impact strategies, where VPOs bring their experience, knowledge, skills and risk-taking social investment approach to the table, while corporates bring significant resources, solid structures and scaling opportunities. In order to facilitate collaboration there needs to be more information sharing between corporations and VPOs about their social investment philosophy, strategic objectives and expectations. They need to have more opportunities to exchange experiences and share the stories of specific success cases and failures. This report shows the immense potential for social change there is in a stronger collaboration between VPOs & Corporates.

The European Venture Philanthropy Association (EVPA) aims to build on the momentum generated by this research and host a forum for future discussions about opportunities and social impact potential. Corporations and VPOs can generate greater social impact by working together and EVPA will continue to enable such partnerships to thrive.

Introduction

Why this research

Successful leading companies like Allianz and Lafarge have started to engage in and embrace ideas of Inclusive Business² or Shared Value³ in their sustainability strategy – in addition to their established corporate social responsibility or philanthropic activities. Furthermore, the traditional corporate social responsibility approach of companies is moving towards a more investment oriented one that evaluates joint opportunities for both financial return and social impact. We use the term *Corporate Social Impact Strategies (CSIS)* to cover a whole range of investment strategies and approaches that corporations use to build and invest in sustainable value creating models that generate social (or environmental) as well as strategic return.

In addition to being strong drivers of economic development, corporates can contribute to social impact by applying their capacity, knowledge, skills, networks and assets to societal issues. Some multinational corporations generate financial and social impact through Corporate Impact Venturing (CIV) – understood as an investment in impactful outside ventures aiming for social or environmental, as well as financial return.⁴ Other companies invest in internal ventures or outsource the social value creation to their corporate foundations that practise venture philanthropy and social investment⁵, such as for example the Shell Foundation. These are the most important strategies for corporates to generate social impact through different forms of social investment observed in the study interviews. The nature of these different investments can be financial (CIV etc.) or non-financial (technical advice, access to networks etc.).

EVPA considers these developments in the corporate world as increasingly important for the European venture philanthropy (VP) and social investment (SI) space. According to the most recent EVPA annual survey of the venture philanthropy and social investment industry, in 2013 VP funds raised 17% of their resources from corporations, representing the second most significant source of finance for VP/SI after individuals⁶ (see Figure 1). Thus corporations are already strong partners, but there is potential to make such partnerships both stronger and more frequent. Therefore, EVPA in partnership with LGT VP and The FutureMakers conducted an exploratory study to identify and analyse different approaches and angles of current corporate involvement in VP/SI, and the future role corporations could play in the venture philanthropy space.

2. **Inclusive Business** is defined as commercially viable and replicable business models that include low-income consumers, retailers, suppliers, or distributors in core operations.
3. **Shared Value** is a management strategy focused on companies creating measurable business value by identifying and addressing social problems that intersect with their business.
4. **Corporate Impact Venturing** is the practice of companies engaging in venturing through impact investing.
5. Big Society Capital defines **social investment** as the use of repayable finance to achieve a social as well as a financial return. It can deepen engagement with communities; and help to share a new responsible form of capitalism.
<http://www.bigsocietycapital.com/what-social-investment-0>
6. **Hehenberger, L., Boiardi, P. and Gianoncelli, A., (2014).** “European Venture Philanthropy and social investment 2013/2014 – The EVPA Survey”.

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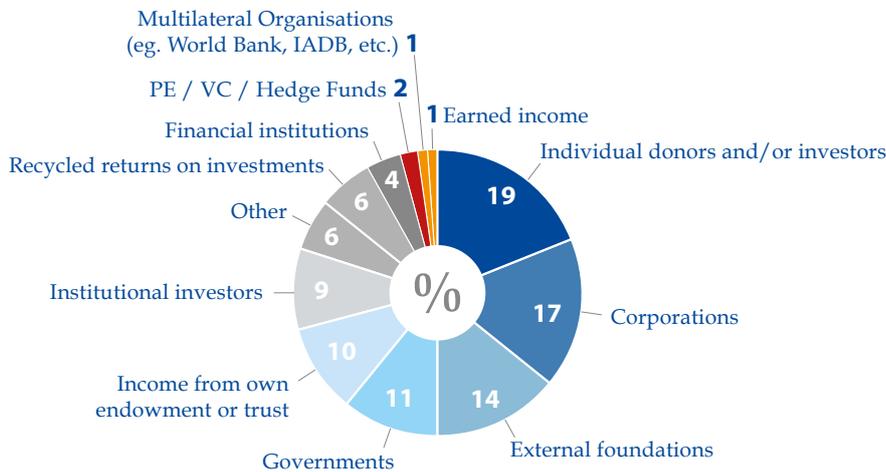


Figure 1: Sources of funding of VPOs

n=85

What is venture philanthropy/social investment?

Venture philanthropy and social investment organisations (VPOs) work to build stronger investee organisations with a societal purpose (SPOs) by providing them with both financial and non-financial support in order to increase their societal impact. In EVPA’s definition, the venture philanthropy approach includes the use of the entire spectrum of financing instruments (grants, equity, debt, etc.), although some call the use of equity, debt and other financial instruments that may generate a financial return ‘social investment’. Importantly, all VPOs pay particular attention to the ultimate objective of achieving societal impact. The key characteristics of venture philanthropy include a high engagement support of few organisations, organisational capacity-building, tailored financing, non-financial support, involvement of networks, multi-year support and impact measurement.

Objectives of the study:

Concretely, the study aimed to:

1. Develop an understanding of corporate social impact strategies that generate social return with different degrees of financial return. We were interested in the ‘state-of-the-market’: to what extent corporations are adopting CSIS to support their sustainability strategy.
2. Gauge to what extent companies co-operate with Venture Philanthropy Organisations (VPOs) to realize social impact strategies and how they have benefited and can benefit from partnering with venture philanthropy/social investment practitioners
3. Explore how VPOs with experience of collaboration with corporate partners have benefited and can possibly benefit from corporate social impact strategies in the future. What can these strategies bring to the VP/SI eco-system (e.g. through scaling, offering exit routes, distribution channels, resources, know-how etc.)?

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4. Better understand the reasons why corporations and VPOs are not working together, the bottlenecks and pitfalls, and to identify barriers to future collaboration. At the same time, we wanted to highlight examples of win-win situations and give recommendations how to overcome the barriers and challenges both parties have experienced.
5. Stimulate the discussion, enhance the collaboration and as such accelerate and scale the social impact we are all looking for.

The research

This study uses the term *Corporate Social Impact Strategies* defined as corporate investment strategies in sustainable value creating models that aim to generate social or environmental returns as well as strategic returns for the company. They include inclusive business strategies, corporate impact venturing and strategically aligned corporate foundations. Importantly, these strategies aim to generate concrete business value for the core activities of the corporation and are not seen as risk mitigation tools (as could be the case for CSR programmes or corporate philanthropy whose mission is often disconnected from the area of work of the core business).

Our research consisted of an extensive review of existing literature about corporate social impact strategies that allowed us to identify current approaches and identify gaps in the literature that our study could contribute to filling. Keeping in mind the overall objectives of the study as listed above, we conducted over 50 in-depth interviews with corporations that are active in the social impact investment space, venture philanthropy organisations that are members of EVPA and experts of the social investment field. Preliminary findings were presented to research participants at a roundtable discussion at EVPA's annual conference in Berlin in November 2014 with the aim to gather feedback to inform the final conclusions. Additional discussions revealed many interesting similarities and common opinions between corporations and VPOs, but also pointed out some differences and challenges. This report highlights the most important findings, illustrating them with specific cases and examples described by the interviewees. It should be understood as a piece that helps frame and especially accelerates the discussion on this topic and should lead to significantly more corporates developing and rolling out corporate social impact strategies in the future.

We believe these are cases of real pioneers, and their value is to show how commitment to social issues, availability of resources and a willingness to collaborate can result in groundbreaking models and solutions. Pioneers suffer setbacks at times too, but we also believe in the true learning opportunity that the less successful examples present.

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Research participants/interviewees:

We decided to select a wide range of interviewees, who represent different angles and play different roles in the venture philanthropy/social investment space. They were selected based on the literature review, as well as on knowledge of specific companies and VPOs that have been involved in recent activities and transactions. Companies and VPOs varied in size, and had broad levels of engagement or experience, which made the set of interviewees even more diverse. Some represent an overlap between sectors (see Figure 2), for example corporate foundations, which may be VPOs at the same time. They were able to share their views with us from both points of view. Experts provided valuable analysis, probed us with additional questions, and corroborated our initial findings thanks to research they had done in the past. We are grateful to all the organisations listed below for the time dedicated to speaking to our research team. It is important to note that we could not develop detailed case studies on all the organisations interviewed. Our approach was to select cases that would illustrate the range of strategies used by our interviewees.



Figure 2: Positioning of interviewed organisations

INTRODUCTION

This report consists of five main sections. The first one explains the context: why corporations are moving from risk mitigation to value creation and what the key reasons are for them to use corporate social impact strategies. The second section provides a theoretical framework for various corporate social impact strategies placing them in the context of motivation and integration with corporate business strategies. In section three, through a number of corporate case studies the report provides specific examples to illustrate corporate social impact strategies and offer learnings from the cases. The report then explores in section four what the potential is for collaboration between corporations and venture philanthropy organisations, highlighting challenges, as well as benefits of such collaboration using case studies of VPOs that have worked with corporate partners. Finally, the conclusion offers reflections on where the sector will head next and how to continue building stronger and deeper relationships between the corporate and the VP sectors.

PART 1.

**Understanding
the context:
why corporations
are moving from
risk mitigation to
value creation**

UNDERSTANDING THE CONTEXT: WHY CORPORATIONS ARE MOVING FROM RISK MITIGATION TO VALUE CREATION

Globally we are at a point in time when the social and environmental challenges have become so significant that there are plenty of business opportunities in contributing to solving them. More companies have started to realise that being part of the solution is not only a necessary tool for their risk management to protect their brand and reputation, but also helps them to grow their business through innovative new products, services and business models, very often attracting new customer segments in emerging markets, while at the same time attracting and retaining top talents. Many CEOs increasingly treat the topic of social and environmental issues as a top priority as they have understood that it is attractive to drive growth and innovation through creating social impact. This is not only good for their top line and often profitability but also differentiates their brand for customers and top talent, as well as creates the motivation among their own employees needed to be successful in today's highly competitive market. But while sustainability, shared value or inclusive business might be on the minds of CEOs of large companies, real activities in the field still remain small scale compared to the size of companies' core businesses and very much in an exploratory phase.

20 years ago, only a few companies were truly interested in mitigating their impact on the environment. For most companies, preserving nature was something society, green activists or government should take care of. Nowadays, it is hard to imagine any company that is not at least aware of its CO₂ footprint. The more advanced companies go beyond reporting on their environmental impact and are able to turn this challenge into a competitive edge: achieving important cost savings through the reduction of energy use or re-cycling, addressing 'green' consumer needs, etc. In many cases this green revolution is technology driven, hence involving not only marketing professionals in the organisation, but also operations, supply chain and engineering. Some companies even started venture capital funds to actively source green innovations (e.g. Patagonia's \$20 Million & Change⁷) or to offset CO₂ production (e.g. Danone's Livelihood Fund⁸ for carbon credit trading).

Dealing with seemingly juxtaposed goals such as environmental preservation and business benefit, is something that successful, vanguard companies have done well. In the 70s, Japanese companies clearly showed that good quality and low cost can perfectly go hand in hand, whereas beforehand many companies had thought that they had to choose between them. The same happened with the seemingly conflictive goals of cost efficiency and diversity in the 80-ies. Companies in the automotive industry embraced the concept of mass customization, and other companies, such as IKEA proved that offering choice to customers does not necessarily mean high prices.

In the current era, where the business paradigm is very much 'sustainable growth', we may wonder whether 'doing good while doing business' is not the next juxtaposition front-running companies will be dealing with: how to enhance business benefits while creating positive societal impact. Social is the new green!

7. See <http://www.environmentalleader.com/2013/05/07/patagonia-commits-20-million-change-in-venture-funding/>

8. See <http://www.livelihoods.eu/> and <http://www.danone.com/en/for-all/mission-strategy/our-way-of-doing-business/social-innovation-platforms/>

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*‘Sustainability and Profitability are not just juxtaposed
... Get out of this mindset of juxtaposition. The interest of
shareholders (more profit) and poor people (lower prices)
are aligned!’*

Paul Polman, CEO Unilever, May 2012⁹

Realizing that social inclusion is essential to successfully address the needs of the emerging middle class now seems widely accepted by multinational corporations active in emerging markets. But also in the Western world, where income and wealth gaps are growing and the middle class is gradually dissolving, there is a growing awareness that social inclusion will be critical for future business success. It is reflected in McKinsey’s July 2014 Global Survey Results that sustainability is increasingly important in company strategy: 49% of surveyed CEOs said that sustainability is the most important strategic priority for them or it is among the top three¹⁰.

A similar evolution can be seen in the global investment community. A number of green venture capital funds were created over the last couple of decades as environmental sustainability and green innovations gained attention. With regard to the social aspect of sustainability, a new type of investor, the impact investor stepped onto the scene. According to the definition of the Global Impact Investing Network (GIIN) ‘impact investments are investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return’¹¹. Although still somewhat marginal today (at least in terms of capital invested), their influence starts to reach classical mainstream investors such as pension funds. The 2014 Impact Investor Survey of JP Morgan suggests an increasing interest from institutional investors in impact investing. It cites examples such as AXA Group or a UK consortium of five local government pension funds named Investment 4 Growth that have committed €150 million and GBP 250 million respectively to impact investment.¹² According to fund managers in the same survey, pension funds or insurance companies were the main investors in impact investment funds representing 22% of the \$16 billion in impact investment assets under management in 2014, followed by 17% from family offices and high net worth individuals. Institutional investors are major shareholders of corporations and as such have the power to further push corporate sustainability agendas.

At this point in time, we ask ourselves: How will corporations respond to these new trends? How will they source innovations that are less technological in nature than in the green revolution, but rather deal with business model innovation, co-creation challenges or products and services that should address the needs of the growing number of socially disadvantaged or excluded people? Which departments within the organisation will take the lead? To what extent will corporations adopt Corporate Social Impact Strategies that aim for social (or environmental) as well as strategic/financial return?

9. See http://www.philosophie-management.com/docs/2013_2014_Valeur_actionnariale_a_partagee/Serneels_-_Philoma_Shared_Value_extern-1.pdf

10. **Bonini, S.** and **Bové A.-T.**, (2014), “Sustainability’s strategic worth – McKinsey Global Survey Results”. McKinsey&Company.

11. See <http://www.thegiin.org/cgi-bin/iowa/resources/about/index.html>

12. **Saltuk, Y.** and **El Idrissi, A.**, (2014). “Spotlight on the Market The Impact Investor Survey”. The GIIN – Global Impact Investing Network.

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It is a continuous challenge for CEOs to identify smart ways to create value, if possible, more and faster than their competition. We discovered in our research that there are at least **five strategic reasons** why CEOs think that they can create significant value, directly or indirectly, through corporate social impact strategies and therefore have pushed their companies to increase these activities. In what follows, we will outline these reasons, using examples where relevant.

1.1. Corporate Social Impact Strategies as a source of innovation and growth

‘Leading companies – like Toyota, GE, The Timberland Company, and Starbucks Coffee Company – are taking a different tack. Instead of a risk-management perspective, their view is that sustainability can be a platform for profitable growth.’

Darrell Rigby, Bain & Company¹³

Many global corporations today are struggling in mature markets in their core countries and core client groups where growth opportunities seem limited and competition is harsh. Therefore they try to become more successful in new emerging markets, with new services, products and business models mostly targeting new client segments at the bottom of the economic pyramid. These companies use corporate social impact strategies that help them gain local market intelligence from organisations that are close to the customers in emerging markets.

Allianz¹⁴, for example, used such a strategy to pilot and launch micro-insurance products in Indonesia, India and several Sub-Saharan countries. They created new partnerships and investment opportunities, which gave access to promising product and service innovation (social and technological) that could be piloted and tested with relatively low costs and risks. This approach is also illustrated by the example of **Lafarge**¹⁵, which launched a new product, Durabrick, a soil brick that can be produced cheaply using local materials. Breakthrough innovation can then be taken to scale using structures, resources and processes that large corporations are very successfully using in their traditional business models, as shown in the case of the Lafarge brick innovation, which was taken to 8 countries after a successful pilot in Malawi in 2013.

13. **Rigby, D.**, (2008), “*Growth Through Sustainability*”
Bain & Co. Boston.
http://www.bain.com/WEFweb/WEF_Growth_through_sustainability.pdf

14. Source: interview with **Michael Anthony**, Head of Emerging Market Development, Allianz.

15. **Lafarge**, (2013), “*Sustainability report*”. Lafarge.
http://www.lafarge.com/05072014-publication_sustainable_development-Sustainable_report_2013-uk.pdf

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1.2. Corporate Social Impact Strategies to attract and retain top talent

There are progressively more top talented professionals who do not accept to work for companies, which destroy the social fabric of society and/or the environmental basis for future life. These professionals prefer to be part of the solution and, therefore, are more attracted to companies that play a pro-active role in solving societal challenges, while, at the same time, doing good business. Almost all of our interview partners mentioned that this factor plays a role even though it might not be the main driver for increasing CSI activity.

Novartis¹⁶, for example, developed a whole programme around providing its most talented employees with the opportunity to work on social venture ideas that originated from one of their local business units. Every year the best inclusive business ideas provided by the local business units are selected and screened centrally. Top talent within Novartis is consequently delegated to those business units for a couple of weeks to work together on these ideas.

LGTVP's ICats programme¹⁷ helps companies to place their top talents into outstanding social enterprises around the world. The participants leave their familiar corporate environment and get challenged by applying their skills in small and fast growing businesses across different industries and cultures in emerging countries. After an assignment in the field, the talents return to their companies with first-hand insights on the business drivers at the economic base of the pyramid.

16. Source: interview with **Michael Fuerst**, Senior Manager, Corporate Responsibility, Novartis and **Dorje Mundle**, former Head of CR Management, currently Head of the Healthcare Practice at BSR.
17. <http://www.lgtvp.com/iCats.aspx>
18. Source: interview with **Francois Rouvier**, Sustainable Mobility Director, Renault.

'Another reason for setting up the Mobiliz programme is that we want to become more attractive for young top engineers. It is a hard struggle to attract the best people and talent and this is definitely a way to differentiate ourselves from other, maybe more fashionable car manufacturers.'

François Rouvier, Renault Sustainable Mobility Director¹⁸

UNDERSTANDING THE CONTEXT: WHY CORPORATIONS ARE MOVING FROM RISK MITIGATION TO VALUE CREATION

1.3. Corporate Social Impact Strategies to build and improve local social innovation eco-systems

Several companies engage in such strategies in order to build or develop a social innovation friendly eco-system, which can create more favourable conditions for strategic business returns in the long run. The outcomes could be, for example, improved quality of life or purchasing power of certain customer groups at the bottom of the pyramid, improved working conditions or changing regulations. Companies have realised that successfully entering emerging market segments requires a broader eco-system or market building approach and they cannot do it alone. They need partners, who know the local context, have the networks, can make things happen and thus reduce the risk. Large companies like Danone, Novartis or FrieslandCampina have engaged with a wide spectrum of local stakeholders, such as government, non-profit organisations, aid agencies (e.g. USAID) and international organisations (e.g. UN agencies), as well as with other companies sharing the same interest.

FrieslandCampina, a €11 billion Dutch dairy company and one of the largest dairy cooperatives in the world has been running its Dairy Development Program (DDP) in South East Asia since 1996 in order to boost local dairy farming. In 2013 the company opened the FrieslandCampina Innovation Centre in Indonesia and Vietnam and the programme now offers education as well as affordable finance to farmers. Loans can be used for purchasing cows, improving conditions in barns or funding biogas units. FrieslandCampina supports local dairy farmers by leveraging their knowledge and expertise to increase their milk yield and improve its quality, providing financing to build infrastructure and securing the procurement of the milk supplied. Approximately 30 FrieslandCampina staff and member dairy farmers are directly or indirectly involved on a daily basis. The initiative involves an overall investment of €22 million, of which FrieslandCampina provides a total of €12 million. Financing for farmers is offered by Rabobank Foundation and Rabo Development.

Close collaboration with the Indonesian and Vietnamese governments is also required to secure land titles when farmers buy additional land. Furthermore, Wageningen University and Agriterro, an NGO, assist to increase the professionalism of the farmers. This wide coalition and the co-creation between the company, financial institutes, NGO's and government enable a sustainable win-win situation for all parties.¹⁹

19. Source: interview with **Frank Van Ooijen**, Sustainability Director, Royal Friesland Campina and **Schaap Atze**, Global Dairy Development Program Coordinator, Royal Friesland Campina and press releases of the company.

UNDERSTANDING THE CONTEXT: WHY CORPORATIONS ARE MOVING FROM RISK MITIGATION TO VALUE CREATION

1.4. Corporate Social Impact Strategies to strengthen corporate brands

Corporate social impact strategies and social engagement programmes in general, play an important role to reduce the downside risks of potential damages to the brand. Market leaders, like Unilever or Danone, have already been successful in competitive differentiation and increasing the value of their brand. However, brand value enhancement through corporate social impact strategies is a very long-term effort and depends largely on the credibility of that effort, which, in turn, is influenced by the size of such an effort compared to the total size of the business. There are still only very few companies today, which take corporate social impact strategies seriously enough to operate them at a credible size.

Unilever is one of the few corporations that have a large scale integrated corporate social impact strategy called Unilever Sustainable Living Plan (USLP)²⁰, their 'blueprint for sustainable business'. It was launched in 2010 and has three main areas: improving health and well-being, reducing environmental impact and enhancing livelihoods. Unilever has integrated sustainability very consciously in their brand building as they believe that by focusing on sustainable living they can create brands with 'significant purpose' and profits. Brands that integrated sustainability into their core performed well above company average in 2013. Each Unilever brand develops their 'USLP Ambitions', i.e. how they will grow, while contributing to the USLP goals at the same time. Eleven of the company's 14 brands (with sales over €1 billion) have already created their USLP Ambition. This means taking a complete view of their social, environmental and economic impact and factoring in the interests of key stakeholders. Knorr, the largest Unilever brand chose sustainable sourcing as its focus and thus encourages consumers to choose products with more sustainably sourced ingredients as well. According to the company's website this strategy is already being rewarded with increased brand equity in Knorr's most important market: Germany.

Even though only few companies use the upside brand potential of corporate social impact strategies today, no company can afford to neglect the downside brand risk they may run, if they are not at least compliant with existing social and environmental standards.

20. Source: <http://www.unilever.com/sustainable-living-2014/our-approach-to-sustainability/unilever-sustainable-living-plan-summary/>

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1.5. Corporate Social Impact Strategies to increase supply chain efficiency

Social impact strategies can help reduce operating costs and capital expenditure in the company's core business. Understanding the local context by building partnerships on the ground will allow the corporation to both better cater to the needs of local stakeholders, identifying opportunities to generate positive social impact, but also to create efficiencies that affect the bottom line.

Danone explained in the interview that depending on the geography, it can be more relevant from the business point of view for their dairy production plants to invest in organising a network of existing dairy farmers and help them develop their farms, rather than setting up a number of new farms from scratch. In the framework of their social impact strategy Danone was able to implement this approach working with local partners in African and Eastern European countries. The outcomes were very positive; improved livelihoods – for the local farmers, and a more secure supply both in terms of quality and quantity of sourced milk, contributing to the bottom line of Danone's core business.²¹

'Danone has a set of objectives it wants to achieve through corporate social impact strategies: in the long run we want to gain a 'license to operate' and access to scarce and volatile resources in our markets; we also want brand differentiation. Our short term objectives, on the other hand, include the desire to bring down operating expenses (sourcing cost) and capital expenses. And finally, there are some intangible objectives, such as sourcing innovation through open-enterprise and co-creation approach, and employee engagement.'

Jean Christophe Laugee, Danone Ecosystem Fund Director²¹

21. Source: interview with **Jean Christophe Laugee**, Ecosystem Fund Director, Danone.

PART 2.

**Corporate social
impact strategies:
different ways
corporations can
accelerate value
creation**

CORPORATE SOCIAL IMPACT STRATEGIES: DIFFERENT WAYS CORPORATIONS CAN ACCELERATE VALUE CREATION

2.1. Framework

Companies that think seriously about how to create additional value for their stakeholders in today's world give high priority to their sustainability agenda. The interviews with corporations revealed that large companies apply different Corporate Social Impact Strategies to implement that agenda (Please refer to Figure 3).

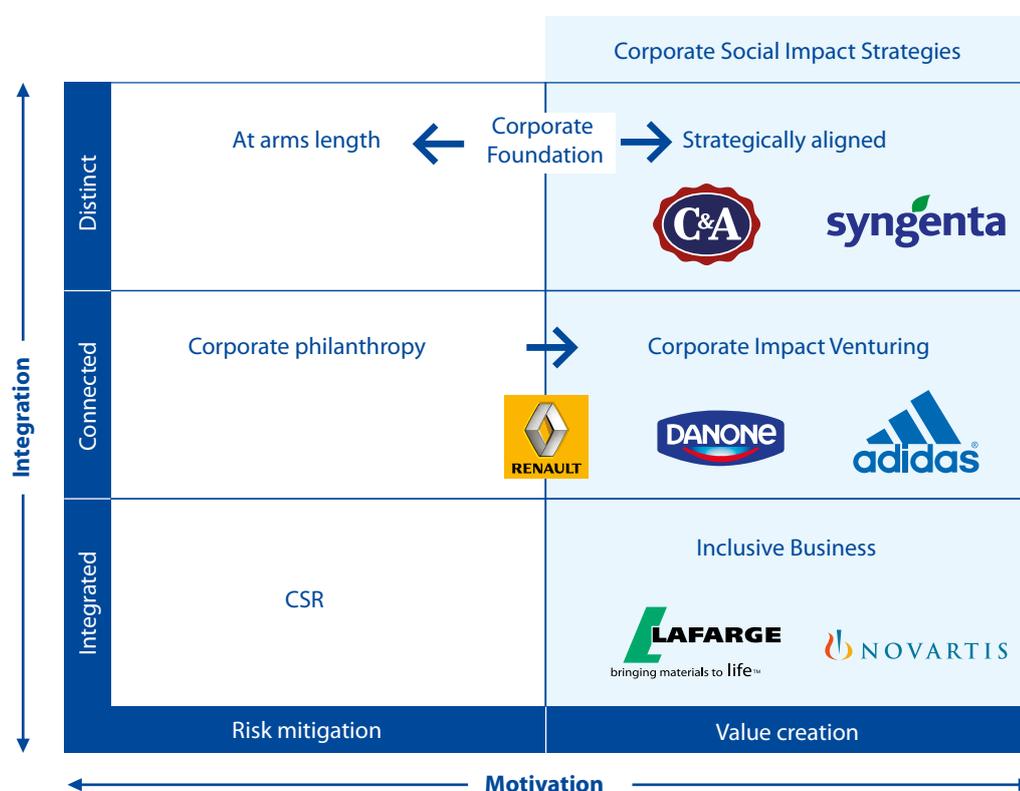


Figure 3:
Positioning Corporate Social
Impact Strategies

Figure 3 outlines the framework we have developed to map out and position CSIS. We classify the different approaches along two dimensions: the first being the 'degree of *integration* with the core activities of the business' and second the '*motivation* of the company's efforts.' Concretely, the Y axis, 'Integration' shows that the social impact activity can be *integrated* as part of the main business; it can be housed in a distinct department or division but *connected* to the business or it can be *distinct*, as an external entity, at arm's length from the corporation. Along this dimension we have seen companies, which clearly distinguish the areas where they create societal impact from the ones where they make profits, while others see that goal as completely integrated. The X axis, 'Motivation' explores whether companies' sustainability strategy is mainly focused on risk mitigation, a 'license to operate', being compliant with existing legal or societal demands, or if they use Corporate Social Impact Strategies as a proactive strategy to differentiate themselves in their respective industry and create upside value.

CORPORATE SOCIAL IMPACT STRATEGIES: DIFFERENT WAYS CORPORATIONS CAN ACCELERATE VALUE CREATION

We have often found companies trying different approaches in parallel. Part of the sustainability strategy mix of today's companies can be the following: a corporate foundation, some form of risk management, a Corporate Social Responsibility (CSR) or corporate philanthropy department, some inclusive business projects in the core business and in very few cases separate Corporate Impact Venturing Funds. In many companies these different approaches exist in parallel and in a rather disconnected fashion, so they do not leverage potential synergies.

Based on this framework we arranged the interviewed companies according to where they seem to have their main focus. However, due to the sizes of the interviewed corporations we cannot exclude that our external view differs from the strategic intent of the company. As most efforts are in early stages and are developing in a very dynamic way, it is not surprising that it may sometimes be difficult to judge based on the data at hand where the company will put its major effort in the future.

2.2. Corporate strategies focusing on risk mitigation

On the left hand side of our framework we show a variety of sustainability initiatives, which are typically started by corporations with a motivation of risk mitigation; perhaps other companies in their industry have already started such initiatives and they feel the pressure to meet the new 'norm'. It may also be the case that the company or their industry is facing a crisis of integrity and needs to manage reputational risk. Risk mitigation motivated initiatives can have different levels of integration with the core business:

- a. **Corporate Social Responsibility (CSR):** The purpose of CSR strategies is to implement environmentally and socially responsible corporate behaviour. True CSR strategies are integrated within most activities of the business; they aim to reduce financial and operational risks, responding to the business needs and the geographies in which the company operates. CSR is also used to manage a corporation's image and reputation, typically reporting into the Corporate Communications or Public Relations or Public Affairs department. CSR is integrated within the business to the extent that externally the goal is to portray an image useful for the continued operation of the business; to governments of countries where the company operates, to customers who buy the company's goods or services and to business partners and suppliers. The same reputation-related goal may exist internally; the CSR initiatives may seek to create an image to attract and retain talent.
- b. **Corporate philanthropy:** Corporate philanthropy involves regular or ad hoc engagement with social problems, almost always involving institutional partners. It may have a long-term focus area or be open to various societal issues, and it usually provides significant funding to partner organisations, corporate volunteering programmes and/or marketing opportunities. Similarly to other CSR initiatives, corporate philanthropy

CORPORATE SOCIAL IMPACT STRATEGIES: DIFFERENT WAYS CORPORATIONS CAN ACCELERATE VALUE CREATION

is used extensively for building the reputation of the company targeting various stakeholders that affect the business. Corporate philanthropy is usually not integrated within the core business; it is not directly tied to the business units and the team managing it usually reports only to the Executive Committee or CEO.

- c. **Corporate foundation:** Corporate foundations are typically separate legal entities and may or may not be at all related to the industries in which the company operates. For the purposes of this study, corporate foundations that focus on activities or sectors that do not relate to those of the mother company, are considered to be positioned in the upper left hand corner box in our framework. They typically follow a more traditional charity model where profits are made by the company and some portion is given away through grants and donations to causes that resonate with the CEO, employees or the communities in which they operate. Other corporate foundations may fall into the value creation box (upper right hand corner), if their goals and strategy are aligned with the company's core business strategy. Aligning a corporate foundation with creating long-term value is one of the biggest opportunities identified in this report, which we will discuss in the next chapter.

2.3. Corporate Social Impact Strategies with the core motivation of value creation along different levels of integration

Inclusive Business (Motivation: value creation; Integration level: integrated)

Using an inclusive business strategy is a way for corporations to move towards creating Shared Value. They should be commercially viable and replicable business models that include low-income consumers, retailers, suppliers, or distributors in core operations. To pursue an inclusive business strategy, companies use the lens of societal value to challenge and push their businesses into new markets, reach new customer groups and innovate in the development of new products and models. Business unit heads often initiate and always 'own' inclusive businesses and design them to be an extension of their existing business. They are typically funded and governed by the business units themselves, unless a very long term effort is required. In the Corporate Case Studies section there is a detailed description of the inclusive business models of two corporations: Allianz and Lafarge.

Allianz uses an inclusive business strategy to target a growing middle class in emerging markets like Indonesia, developing new insurance products for people who had no access to them in the past. According to BCG, there are 74 million middle-income people in Indonesia today, projected to double by 2020, to roughly 141 million people. During that 5-year period, some 8 million to 9 million people will enter the middle class each year²². According to market research conducted by the company, there is significant unmet demand for basic insurance

22. Rastogi, V., Tamboto, E., Tong, D. and Sinburimsit, T., (2013). "Indonesia's Rising Middle-Class and Affluent Consumers. Asia's Next Big Opportunity". BCG Perspectives. https://www.bcgperspectives.com/content/articles/center_consumer_customer_insight_consumer_products_indonesias_rising_middle_class_affluent_consumers/

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products and micro-insurance. Allianz decided to develop new, innovative insurance products and distribution networks to tap into this population and build a relationship with low to middle income customers before they enter the middle class.

Corporate Impact Venturing (Motivation: value creation; Integration level: connected)

In a very business minded-fashion, a few corporations are pursuing value creation through Corporate Impact Venturing (CIV). Similar to Corporate Venturing, CIV offers discrete pools of capital or investment funds, which seek access to innovations that they would not be able to obtain internally, through external exposure. In Corporate Impact Venturing, corporations typically invest in innovations that aim to serve emerging markets or lower-income populations, seeing these customers as the upcoming middle class and/or a lower margin/higher volume incremental business. In the Corporate Case Studies section there is a detailed description of corporate impact venturing examples of three corporations: Danone, Adidas and Renault.

Adidas launched Hydra Ventures, its own corporate impact venturing fund in 2011 with the aim to explore new market opportunities and business models in the apparel, footwear and sports industry in emerging markets. They take a long term view and back innovative local teams, not only product ideas. It was almost a surprise for them to realise that high profitability investments can go hand in hand with social impact; this is increasingly the case, as the new products or business models backed by Adidas investment meet the needs of low-income or marginalized populations in emerging countries.²³

Strategically Aligned Corporate Foundation (Motivation: value creation; Integration level: distinct)

Some corporations are taking very strategic approaches to their corporate foundations, aligning them with the core business. They use the foundations to invest in creating long-term value and pilot ideas that take much longer to develop and/or are riskier than what the mother company is willing to take. Once (and if) the foundation's investments show commercial viability, they are handed over to the business (or sometimes the whole industry) to 'make the whole pie bigger or better'. In the Corporate Case Studies section there is a detailed description of examples of Strategically Aligned corporate foundations: Syngenta Foundation and C&A Foundation.

23. See <http://www.adidas-group.com/en/group/profile/>

CORPORATE SOCIAL IMPACT STRATEGIES: DIFFERENT WAYS CORPORATIONS CAN ACCELERATE VALUE CREATION

C&A has a long history of philanthropic activity across multiple countries with multiple aims. Over the past decades, several philanthropic entities were set up to complement the sustainability activities of C&A, that have historically supported a number of worthy causes from health to education, entrepreneurship and humanitarian relief.

However, the recent tragedies in the apparel sector led to a serious review of how C&A's philanthropic activities could not only help to prevent such tragedies, but also work to build a better and fairer apparel industry. This triggered the transformation of the C&A philanthropic entities into one, international **C&A Foundation** united by a global strategy. This strategy is closely aligned with the sustainability framework of the C&A business.²⁴

24. See <http://www.candafoundation.org/>

PART 3.

**Corporate case
studies to illustrate
corporate social
impact strategies**

CORPORATE CASE STUDIES TO ILLUSTRATE CORPORATE SOCIAL IMPACT STRATEGIES

As this report is intended to focus on new ways of creating value through corporate social impact strategies and to showcase companies that are creating value through such approaches, our case studies wish to illustrate how such strategies can be designed and implemented in practice. On the pages to follow you will find examples of companies identified by and explored in our research, which applied Inclusive Business Strategies, Corporate Impact Venturing and Strategically Aligned Corporate Foundation strategies (or a combination) to create value.

3.1. Companies applying Inclusive Business Strategies

Case study Lafarge²⁵

Quick Facts about Lafarge²⁶

Annual revenues in 2013: €15.2 billion
 Number of employees: 64,000
 Number of countries: 62
 Inclusive business model: Affordable Housing Programme
 Beneficiaries reached: 120,000

Lafarge, a French-based multinational corporation is a top global producer of cement, aggregates and concrete operating quarries and cement factories in 62 countries. Lafarge is very active in integrating environmental thinking into its core business, having realized that environmental sustainability is a precondition to the sustainability of its business. Lafarge has started to integrate circular economy principles²⁷ in everything they do; because they believe that 'it is possible to create a symbiotic relationship between multiple industries, so waste from one company can be used as fuels or raw materials for another, thus preserving natural resources.'²⁸ The company helps build sustainable cities and creates energy efficient housing.

They also combine social impact and business growth within their core business: 'Global population growth of 50 million people each year on average until 2050, mostly in urban areas, will strain economic and social systems and put unprecedented pressure on the allocation of scarce resources. In response to the enormous challenge of providing the world's population with decent, sustainable housing, we offer solutions which enable populations with low purchasing power to be housed at low cost. Our goal, through our **Affordable Housing Programme**, is to implement a range of initiatives to provide decent affordable housing and financing for home extensions and renovations, for a total of 2 million people by 2020.'²⁹ At the same time, Lafarge wants to obtain new markets for its future growth. According to the company's 2013 sustainability report³⁰ in that year affordable housing projects were launched in 15 countries where Lafarge operates, benefiting 120,000 people.

25. Interview with **François Perrot**, Director Affordable Housing, Lafarge.

26. **Lafarge**, (2013), "Sustainability report". Lafarge. http://www.lafarge.com/05072014-publication_sustainable_development-Sustainable_report_2013-uk.pdf

27. The circular economy refers to an industrial economy that is restorative by intention; aims to rely on renewable energy; minimises, tracks, and hopefully eliminates the use of toxic chemicals; and eradicates waste through careful design. The term goes beyond the mechanics of production and consumption of goods and services, in the areas that it seeks to redefine (examples include rebuilding capital including social and natural, and the shift from consumer to user). The concept of the circular economy is grounded in the study of non-linear, particularly living systems.

<http://www.ellenmacarthurfoundation.org/circular-economy/circular-economy/the-circular-model-an-overview>

28. http://www.lafarge.com/wps/portal/2_4-Ambitions-2020-Environnement-Economie-circulaire

29. http://www.lafarge.com/wps/portal/2_7_1-Ambitions-2020-Logement-abordable

30. **Lafarge**, (2013). "Sustainability report". Lafarge. http://www.lafarge.com/05072014-publication_sustainable_development-Sustainable_report_2013-uk.pdf

CORPORATE CASE STUDIES TO ILLUSTRATE CORPORATE SOCIAL IMPACT STRATEGIES

The offer is organised around 4 key market segments:

- Microfinance to help people finance the construction or refurbishment of their homes using Lafarge cement bag retailer networks in cooperation with microfinance institutions
- Earthen and cement solutions to strengthen traditional earthen constructions; production and sales of soil bricks
- Bagged concrete for slum rehabilitation supplied to small customers in informal settlements
- Social housing in emerging countries in collaboration with developers to improve speed and quality of construction

All of Lafarge's initiatives are fully integrated into their core business. If they want to produce a new soil brick using local materials and an easy production process, they would do all the development and testing in house, in their R&D department. The same is true for their technical assistance support under the Affordable Housing Programme, which Lafarge delivers through its own retail network in many different countries, and which is a part of the expansion of their affordable housing business. The company has a dedicated team in Paris, which provides support to local marketing teams in Lafarge subsidiaries. Lafarge does not consider this an exercise in philanthropy; 5 projects were profitable in 2013 and all are expected to deliver additional EBITDA in 2014.³¹

Talking about lessons learnt during the implementation of the Affordable Housing Programme, François Perrot, Director, mentioned in the interview the need to build an eco-system and work with partners, as well as the tension between short term and long term thinking within the company. In his view it was essential to realise and accept that Lafarge is not 'alone in the game'; there are other partners that need to be included. For example, the company not only cooperates with microfinance institutions (MFIs) in its credit programme, but also encourages venture philanthropy organisations to invest in those MFIs to provide them with more capital and capacity building.

François Perrot also underlined that an integrated inclusive business strategy only works, if there is a 'mixed bag' of 'inclusive' projects: some with short term business benefits, which satisfy the short term return expectations, and some with longer term results, which benefit the business in a different way, through for example market development. This conclusion was confirmed by other interviewees, such as Dorje Mundle, former Head of Corporate Citizenship Management of Novartis, current Head of the Healthcare Practice at BSR, or Jean-Christophe Laugee, Ecosystem Fund Director from Danone.

31. **Lafarge**, (2013). "Access to housing" in "Sustainability report". Lafarge. http://www.lafarge.com/05122014-publication_sustainable_development-Sustainable_report_2013-affordable-housing-uk.pdf

CORPORATE CASE STUDIES TO ILLUSTRATE CORPORATE SOCIAL IMPACT STRATEGIES

Case study Novartis³²

Quick facts about Novartis³³

Annual net sales in 2013: \$57.9 billion
 Number of associates: 135,696
 Number of customers: 1.2 billion
 Number of customers reached through CSR programmes: over 111 million

Novartis provides innovative healthcare solutions that address the evolving needs of patients and societies. Headquartered in Basel, Switzerland, Novartis offers a diversified portfolio: innovative medicines, eye care, cost-saving generic pharmaceuticals, preventive vaccines and over-the-counter products.³⁴

One of Novartis success stories is a social venture in India, called '**Arogya Parivar**' ('Healthy Family' in Hindi) to reach rural communities of a total population of over 830 million.³⁵ The Novartis team recruits and trains local people to teach villagers about health and prevention. They help organise health camps that provide screening, diagnosis and therapy. The programme provides access to 80 medicines. According to Novartis, in five years, Arogya Parivar has improved access to healthcare across 33 000 villages, home to 70 million people, and provided training to more than 50 000 doctors and pharmacists in rural areas. They will be the future customers and distributors of the company's products developed for this market, such initiatives are really important for the company's human resource management as well; Arogya Parivar not only attracts new top talent to Novartis, but also helps retain existing staff in the organisation.

Novartis³⁶ also uses simple technologies like SMS texting and electronic mapping to help public health facilities in poor countries avoid running out of medicine, especially for malaria. Every week, health facilities receive a text message asking for their supply levels. Workers count their stock of medicines and text back. Consolidated reports enable health officials to make new orders or redistribute medicine within a few days, as opposed to three months, the time it used to take for them to restock. Dorje Mundle further explains: '**The 'SMS for Life'** programme is generating real results, and we're expanding the programme around Africa and want to include diagnostic tests, additional medicines and surveillance data.' Novartis managers explained that working with governments to solve their challenges is not only good for the government and the beneficiaries who receive better services, but also for Novartis' relationships and future business expansion in emerging countries.

32. Source: interview with **Michael Fuerst**, Senior Manager, Corporate Responsibility, Novartis and **Dorje Mundle**, former Head of CR Management, currently Head of the Healthcare Practice at BSR, Novartis.

33. Source: <http://www.novartis.com/investors/company-information/fact-sheet.shtml>

34. Ibid.

35. Source: <http://www.novartis.com/corporate-responsibility/access-to-healthcare/our-key-initiatives/social-ventures.shtml>

36. Source: interview with **Michael Fuerst**, Senior Manager, Corporate Responsibility, Novartis and **Dorje Mundle**, former Head of CR Management, currently Head of the Healthcare Practice at BSR.

CORPORATE CASE STUDIES TO ILLUSTRATE CORPORATE SOCIAL IMPACT STRATEGIES

Case study Allianz³⁷

Quick Facts about Allianz³⁸

Annual revenue in 2013: €110.8 billion
 Operating profit: €10.1 billion
 Number of countries: 70
 Number of employees: 148,000
 Number of clients: over 83 million

Another interesting example of a global company very actively applying an inclusive business strategy to grow their markets and get access to new customer groups is Allianz. A global financial services provider, Allianz is one of the leading insurance companies in the world. Headquartered in Munich, Germany, it runs operations that serve over 83 million retail and corporate clients internationally.

Allianz has very distinctly and deliberately pursued growth in emerging markets focusing on the top of the income pyramid, but also adding bottom of the pyramid (BOP) business as a complementary activity to the core business, where it identified gaps in insurance offerings, assessing the needs of people at the bottom of the pyramid and innovating product and delivery systems to reach this market in a profitable way. This approach stemmed from several of its employees, among them, Michael Anthony then Head of Microinsurance at Allianz SE: 'Our micro-insurance policies have a positive social impact. At the same time we are building relationships to customers that will hopefully remember us in the future as they become wealthier', Anthony explains. The company's inclusive business model was integrated into its regular business using the same methodology for assessing new markets as its traditional business, the same approach to innovating products and the same people that were running the Allianz businesses in these emerging markets.

In partnership with the German development agency GTZ (the government-owned German Organisation for Technical Cooperation, now called the German Organisation for International Cooperation (GIZ)) as well as the United Nations Development Programme (UNDP) and the NGO Care, Allianz did a market assessment tackling traditional commercial questions such as: What risks do low-income people face and what strategies do they use to manage them? What insurance products would they want to buy? How much would they be willing to spend? The demand studies were conducted in India, Indonesia and Laos.³⁹

In Indonesia a market gap was identified, as penetration for insurance was low, although demand was high in the low-income customer segment. Allianz therefore decided to develop customized products in Indonesia and also broaden its already existing engagement in India. They began to innovate in product development, just as they would do in traditional markets. They studied customer needs and behaviours. In Indonesia, households were most concerned about the education of their children, serious illness, loss of harvests and death of relatives, especially since elaborate and expensive funeral traditions present a major financial burden to low-income

37. Source: interview with **Michael Anthony**, Head of Emerging Market Development, Allianz.

38. Source: https://www.allianz.com/en/about_us/who_we_are/at_a_glance/index.html#!cd59c5350-bb2c-44b2-94f9-32a24106657d

39. **Gradl, C., Herrndorf, M., Knobloch, C. and Segupta, R.**, (2010). "Learning to insure the poor. Microinsurance Report". Allianz Group. https://www.allianz.com/v_1339501924000/media/press/document/microreport2010.pdf

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families. But insuring these risks is complicated and requires a deep understanding of the market. So Allianz decided to start with credit life insurance (designed to pay off the borrower's debt in case the borrower dies), where claims are easy to assess and settle, and the risk of fraud is low. To provide additional value to customers, Allianz decided to pay out twice the amount of the loan to the family on top of the credit cover for the microfinance institution (MFI) supplying the loan.

Continuing to assess the social impact of their micro-insurance products, Allianz pushed even harder to create impact. After interviewing 26 beneficiary families, Allianz found that micro-insurance was generating only marginal impact. 'Pay-outs were mainly spent on funerals, which would otherwise be supported by friends and family. Some customers spent more on those funerals than they otherwise would have. Others gave to charity because they felt the money belonged to the deceased. Because it is tied to microcredit, the insurance covers mainly women, who are rarely the main breadwinners at home. So the greater economic risk is not actually covered' said Martin Hintz, Microinsurance Manager in Indonesia⁴⁰.

As a result, Allianz Indonesia developed their micro-insurance product further, offering insurance that covers the spouse of the insured person as well. In addition to improving the product, Allianz wanted to ensure that the MFI staff, which is the company's sales and distribution channel, are properly informed about product characteristics and can assist customers to select the joint coverage insurance in the purchasing process. Allianz is now busy marketing the improved product; for its own benefit and for that of the Indonesian BOP customers.

Sales have grown from 35,000 in 2007 to close to 4 million insured in 2014. Premium income has risen as well, yielding more than €1.5 million in 2014. Although this sum is still relatively small, it already includes a profit. The company is happy with this result, as the most important consideration for them is to acquire new customers and accompany them in their growth. The BOP market as defined by Allianz of those living on less than \$8/day PPP⁴¹ is massive including over 4 billion people. The integrated approach of its inclusive business strategy is a long-term growth strategy for Allianz to build its customer and product pipelines as well as its brand loyalty, while making urgently needed insurance products available to low income customers.

40. Ibid.

41. Purchasing Power Parity.

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3.2. Companies applying Corporate Impact Venturing

A second group of companies we interviewed was applying 'Corporate Impact Venturing (CIV)'. In contrast to the inclusive business models, which create innovation from within, the group of companies applying CIV was looking for external innovations they could invest in to consequently grow their own business. Similarly to the corporate venture capital model, these corporates set up funds to invest in companies with outstanding social innovations around the world. This approach helps them identify and grow social innovations without having to deal with the short-term profit pressures of their core business. If these investments are successful, companies can later integrate them in their core business and grow them to scale. A recent report published by Volans, 'Investing in Breakthrough Corporate Venture Capital' gives a description of several interesting cases of Corporate Venturing in sectors where social challenges are apparent⁴².

As we learned through our interviews, Corporate Impact Venturing is gaining traction. It is often difficult for companies to develop innovative products, services and business models within their corporate structures with employees who are very much used to traditional ways of operating in the industry. Sourcing innovations from the market can be promising and if this can be combined with a positive social impact, it becomes a very interesting proposition for many companies.

Case study Danone⁴³

Quick facts about Danone⁴⁴

Annual revenue in 2013: €21 billion
Of which from outside Europe: 60%
Number of consumers: 900 million
Number of countries: 140
Number of employees: 100,000

Danone funds:

- **Danone Communities Fund: €70 million** mutual fund that, with 10% of the fund, encourages social innovations related to its business eco-system (last mile distribution and poverty)
- **Danone Ecosystem Fund: €100 million** foundation that provides grants to initiatives that improve business practices across its value chain; it fuels sustainability in its existing businesses
- **Livelihoods Fund: €33 million** fund that invests in carbon sequestration projects in poor rural communities in developing countries to improve food security and increase income

Danone is a global food company headquartered in France that produces and sells fresh dairy products, water, baby and medical nutrition. It was one of the first companies applying a Corporate Social Impact Strategy successfully to grow its business in Bangladesh and other emerging markets⁴⁵. Their mission of 'bringing health through food to as many people as possible' has not

42. **Feldman, A., Love, C.** and **Afanasieva, S.**, (2014), "Investing in Breakthrough, Corporate Venture Capital". Volans Ventures Ltd. <http://volans.com/project/investing-in-breakthrough-corporate-venture-capital/>

43. Source: interview with **Jean Christophe Laugee**, Ecosystem Fund Director, Danone and **Laura Palmeiro**, VP Nature, Danone.

44. Source: <http://www.danone.com/en/for-all/mission-strategy/danone-at-a-glance/>

45. Source: <http://www.danone.com/en/for-all/mission-strategy/our-way-of-doing-business/social-innovation-platforms/>

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changed since 1972. 'Corporate responsibility does not end at the factory gate or the office door. The jobs a business creates are central to the lives of employees; and the energy and raw materials we consume change the shape of our planet. The public will remind us of our responsibilities in this industrial society.' With those words, Antoine Riboud, former CEO of Danone defined the broad outlines of Danone's mission, which rests on a dual commitment to business success and social progress. Today, 1,500 key managers and directors at Danone are directly responsible for achieving this mission. Part of the bonus of Danone's management integrates the meeting of social targets. Members of the Executive Committee are required to sponsor one of the Danone Sustainability Initiatives.

The main purpose of the company's corporate social impact strategy is value creation, defined as creating long term competitive advantage.

More specifically this value is created in five aspects of the company's operations:⁴⁶

- **Licence to operate:** to earn the right and hold the responsibility to be in communities; this covers local community and government relations
- **Access to resources (sourcing):** to innovate new ways to access raw materials, which may help reduce costs and capital expenditure
- **Brand differentiation:** to distinguish Danone from the competition
- **Innovation or 'non-material capital':** to tap into expertise otherwise not available internally through an 'open enterprise' approach; i.e. co-funding and co-creating external initiatives
- **People engagement:** to attract and retain top talent to work for Danone

This list of aspects ties in very closely with the reasons that motivate companies in general to consider Social Impact Strategies and encourages Danone to employ several strategies simultaneously.

Danone has established three funds, reflecting Danone's culture of innovation in their approach to investing as well: each of the funds started out as an experiment to achieve the double bottom line mission. They are of different types: one is a mutual fund, the second is an endowment fund and the third is a carbon offset fund.

The first fund, **Danone Communities** was established in 2005; it is a €70 million mutual fund designed to encourage social business initiatives that fight poverty and provide access to clean drinking water. The fund's mandate is to support social businesses consistent with Danone's mission in other parts of the world through the use of innovative and sustainable business models. Managed and marketed by Crédit Agricole, investors are invited to buy into the fund for both a financial and social return on their investment. Currently, the fund is structured such that 90% of its assets are invested in financial instruments favouring a socially responsible investment approach, while 10% of its assets are invested directly in societal development through the venture capital fund managed by Omnes Capital (formerly Crédit Agricole Private Equity). The 90%/10% split is intended to a) protect the capital through the socially responsible investments;

46. Source: interview with **Jean Christophe Laugee**, Ecosystem Fund Director, November 2014.

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b) achieve innovation and generate social impact at the same time. The venture capital fund aims for at least the return of its investments and it does seek exits that are successful both socially and financially. Currently two of the fund's ten direct investments are profitable; and applying a patient capital approach, the Fund will look for the two organisations to achieve scale before seeking an exit.

Danone as a company has contributed €20 million to Danone Communities (representing almost 30% of the funding). In addition to their financial contribution, Danone also offers its expertise in business areas, specifically having their employees support the development of their partner social entrepreneurs from product design to marketing and commercialisation. An outstanding example of such an investment is La Laiterie du Berger⁴⁷ in Senegal, which received a 25.5% investment from Danone Communities in 2008. By supporting the company's production, marketing and sales efforts, Danone strengthens its goodwill and brand in the local communities and helps build a strong local dairy industry. The French global giant also offers an exciting development opportunity for its staff, who work with the Senegalese enterprise on the ground. Once La Laiterie du Berger grows and consolidates, Danone may be able to receive financial dividends in the future. In 2010 Danone invited other investors, among them a VPO, PhiTrust to invest in La Laiterie du Berger, to enable it to reach its next growth phase.

The second fund, **Danone Ecosystem**, was established in 2009 with a €100 million endowment. The Ecosystem Fund aims to strengthen the company's business ecosystem by transforming business practices of the Group to ensure sustainability throughout their value chain including

- a) small farmers, who supply fresh milk directly
- b) micro-distributors and street vendors
- c) care-givers and healthcare professionals, and
- d) waste pickers.

The fund:

1. supports job creation and the development of micro-entrepreneurship,
2. delivers training for skills development,
3. offers partnership to small farmers,
4. integrates disadvantaged people by developing new, accessible distribution channels of Danone products, and
5. organises work for local communities in recycling empty packaging.

This fund is a grant based vehicle and currently supports 54 active projects in 24 countries in partnership with 38 Danone subsidiaries and 40 non-profit partners. Examples include micro food retailers, and running skills development training programs for small farmers. One of the fund's purposes is to reinforce Danone's local supply chains in the countries where it operates, thus contributing to value creation in a very tangible and direct way. All 54 projects come within the scope of five strategic business axes: responsible sourcing, distribution, recycling, local development and caring services. All projects are designed jointly with a Danone business unit and a local non-profit organisation. Each project must be proposed and sponsored by a Danone subsidiary.

47. Source: <http://www.danonecommunities.com/en/project/la-laiterie-du-berger?mode=history>

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The third fund is **Livelihoods**, which was established in 2008 as the Danone Fund for Nature to restore degraded ecosystems, redevelop local economies, and combat climate change. In 2011, the Danone Fund for Nature opened to outside investors, now comprised of 10 European companies: Danone, Schneider Electric, Crédit Agricole, Michelin, Hermès, SAP, CDC Climat, La Poste, Firmenich, and Voyageurs du Monde. The investors receive high quality voluntary carbon credits from the projects, which are expected to sequester⁴⁸ more than 8 million tonnes of CO₂ in the next 20 years and received its first carbon credits in 2014. Investors realise their returns in the form of carbon credits, which they can use to offset emissions in areas that they find challenging in their own operations.

The fund invests in three types of projects (agroforestry, mangrove restoration, rural energy) during an investment period of 3 to 4 years. Following that time the fund will co-manage the projects with the support of local non-governmental organisation partners for a period of up to 20 years. The fund is an independent entity valued at €40 million.

In February 2015 it was announced⁴⁹ that the operating team of the Livelihoods Fund, Livelihoods Venture will take on a new fund to manage: the 'Livelihoods Fund for Family Farming'. This is a €120 million new investment fund announced by Danone and Mars, two of the world's largest food manufacturers, with the aim to increase the productivity of smallholder farmers. It is intended to make 4–5 investments a year averaging €3–5 million each over the next decade in Africa, Latin America and Asia. Investments will aim at low tech, sustainable farming practices that are easy to adopt and quick to scale. The primary objective of this corporate investment fund is to secure sustainable supply for both companies of raw materials such as cocoa and vanilla or milk and fruits. Another important motivation for both corporates is that they want to take care of the ecosystems in which their suppliers operate. The fund will work through NGOs that have experience implementing projects with smallholder farmers and involve government agencies, where necessary and possible. Investors will be receiving a social return on their investment such as increases in farmer incomes, improvements in farmer livelihoods and benefits to the environment. There is expectation of non-farmer benefits as well, which private sector and public sector actors will be invited to invest in. Any financial returns will be used to repay debt raised or invested in future projects.

During their exploratory journey operating the three funds Danone faced several challenges, and highlighted the following learnings:

- Business people dealing with investments in social ventures should have specific profiles and skills, able to address both the (often short term focussed) business rigour as well as the (longer term) social impact; money is not so much the issue; rather the availability of time of the people with the right skills and experience
- Danone may have underestimated the time it takes to scale; it requires more preparation than usual business deals. More time is needed in the design phase of the programme and it is important to be ambitious, otherwise small scale complexity might eat up ROI. Once the social businesses reach scale, they are likely to need focusing on productivity measures to compete

48. **Carbon sequestration** is the process of capture and long-term storage of atmospheric carbon dioxide (CO₂).
http://en.wikipedia.org/wiki/Carbon_sequestration

49. <http://www.theguardian.com/sustainable-business/2015/feb/05/danone-and-mars-launch-79-million-fund-for-smallholder-farmers>

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with mainstream businesses. So it is a real challenge to get the size right in order to end up with a market based, systemic change company without putting social output/outcomes at risk.

- In order to achieve systemic change, support of local authorities and society is required and essential but often lacking; especially in emerging countries, where the challenge is to build a sustainable relationship between the formal and informal sector. Hence the need for an eco-systems approach. Time and resources to build an eco-system should be factored into the investment and a precious balance has to be found: what (part of the) money can generate financial return and what part should be considered as subsidies. A clear design, specifying inputs, resources needed, expected benefits and outputs, both financial and social, should be drawn up from the start.
- There is a need to better communicate to both consumers and shareholders; a good monitoring system to measure and follow up the financial & social performance of social ventures is absolutely key.

Case study Adidas

Quick Facts about Adidas⁵⁰

Annual revenue in 2013: €14.5 billion

Number of employees: 50,728

Number of countries: 160

Adidas funds:

- **greenENERGY Fund**, 2012: aims to accelerate carbon reduction
- **Hydra Ventures**, 2011: to build sustainable consumer brands

Adidas AG is the largest sportswear manufacturer in Europe and the second largest in the world. For a long time the company had very extensive social engagement programmes run by their CSR/corporate philanthropy department and had a very pro-active sustainability department. At the same time, Adidas had been running an extensive shared value initiative around how to integrate green, ecological thinking into their entire business. Motivated by the intention to improve its ecological footprint Adidas started their greenENERGY Fund. Launched in 2012, the pilot greenENERGY Fund is an investment fund with three goals:

1. accelerate carbon reduction in Adidas's global properties,
2. rigorously track project performance, especially energy and financial savings, and
3. deliver a healthy return on capital.

After six months of operation and seven projects funded, the pilot was showing impressive results. It is forecast to deliver 36 % return on investment and cut carbon emissions by 1,401 metric tons of CO₂, equal to taking 256 cars off the road each year. This pilot is in the scaling phase with \$2 million committed to energy efficiency projects across the globe. Projects with attractive financial and carbon returns deserve preferential treatment. Adidas Group looks at the carbon reduction projects of the greenENERGY Fund like a venture capitalist might: a portfolio

50. Source: <http://www.adidas-group.com/en/group/profile/>

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of value-creating investments. They rigorously scout, evaluate and invest in efficiency projects because they deliver great financial savings and reduce Adidas's greenhouse gas emissions. Green investments are therefore seen as a business opportunity, delivering revenue for the business.

In parallel, Adidas was always keen to learn about innovative approaches emerging in the market and so it started Hydra, their corporate venture capital fund. 'Launched in 2011, Hydra Ventures is the corporate venture arm of Adidas AG, and is dedicated to exploiting new market opportunities by creating and developing new consumer brands and trends in the apparel, footwear and sports-related areas. Hydra Ventures takes a long-term perspective in building sustainable consumer brands. It is able to back management teams and entrepreneurs through all stages of their companies' development and assist them to foster their companies' growth. It takes great care in identifying talented teams, rather than investing simply in concepts and ideas, and understands that financial performance, while crucial, is only one amongst several key metrics that ultimately measures a brand's long-term sustainability and success⁵¹. Interestingly enough more and more of the ventures that Hydra looks into have a very strong social impact component as they often target new, bottom of the pyramid customers or are based on completely new business models. It has been a fascinating journey for Hydra to see that in its investments there seems to be a natural alignment of high financial returns through growth and innovation and value creation thanks to the environmental and social performance record of investees.

Case study Renault⁵²

Quick Facts about Renault⁵³

Annual revenue: €41.27 billion
 Number of countries: 118
 Number of employees: 127,000
 Number of sites in commercial network: 113,000

Renault fund:

- **Mobiliz Invest**, a €5 million venture company that invests in sustainable mobility solutions.

Renault is a global car manufacturer founded in 1898 and headquartered in France. As a leading manufacturer Renault had fully integrated 'green growth opportunities' into their core business relatively early on by developing electric cars, reducing CO2 emissions by reducing fuel consumption, or changing the design of their vehicles. Green growth played a dominant role in the company's R&D for many years, and it was key to develop its main product, a car with a much better ecological footprint.

In 2008–2009 the top management at Renault decided that 'green cars' and environmental innovation were no longer sufficient and the company started its CSR journey to target social innovation. The first initiatives were around the three pillars of improving business performance through gender & ethnic diversity, through cultural education and through road safety programmes. These programmes were hugely successful and motivated many Renault employees,

51. Source: <http://www.hydra-ventures.com/about-us/index.html>

52. Source: interview with **Francois Rouvier**, Sustainable Mobility Director, Renault.

53. Source: http://www.renault.co.uk/about/renault_group/

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who saw that their employer was going beyond just increasing profits, and was taking responsibility for a healthy development of society as well. The Renault CSR team, however, wanted to take their efforts to a next level.

They were inspired by corporate impact venturing funds at Danone, Schneider Electric, Adidas and others, which were all set up to identify new business growth opportunities through investing in social innovations that target new customer segments with new business models, products and services. The Renault team launched 'Sustainable Mobility for All' as the fourth pillar of its corporate responsibility programme in 2010. There are two key components of this pillar: the 'Sustainable Mobility Institute' and 'Mobiliz Invest', part of the Mobiliz programme, which was started in 2012. As our interview partner François Rouvier, Sustainable Mobility Director noted: "We consider mobility to be crucial to economic development and the creation of social bonds. A means of pleasure and escape, it is also a way to fight exclusion and poverty. That is why we strive to facilitate access to mobility solutions for everyone.

To make mobility universally accessible, we have been conducting a social entrepreneurship programme 'Mobiliz' since mid-2012 aimed at facilitating the integration of people in difficulty by providing them with mobility solutions. Intended initially for France, the programme is being implemented in particular through socially responsible garages ('garages solidaires') in the Renault network, which have volunteered to offer products and services at cost to individuals selected on the basis of social criteria."

The Mobiliz programme is backed by the investment company Mobiliz Invest, which provides financing for innovative socially responsible mobility projects. Mobiliz Invest S.A.S., a €5 million corporate impact venturing company is mainly investing in businesses, which have outstanding solutions to the mobility problem and, at the same time, provide Renault with the potential opportunity to either access a new client group, learn about a new business model or provide a new mobility service. This means that through sourcing innovations from the market, Renault can generate social impact and simultaneously prepare itself for future business growth in areas where their current product and business model do not work. As Laetitia Soulerot, Head of Mobiliz Invest said, 'Mobiliz Invest is a laboratory for emerging mobility solutions for new target groups, which are currently excluded from Renault's offering.' François Rouvier, added: 'our low cost – high quality Dacia experience shows that such external innovative models can lead to reverse innovations for our core business. Similarly, we hope we can identify lots of business models that will help Renault grow the business while creating a social impact. This is not only good for our growth ambitions, but also helps to attract and retain top talent in our company and, last but not least, differentiates our brand in the market. Many customers come to see us because they like the way we act in a socially responsible way.'

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The focus of Mobiliz Invest is to source and explore innovations that can help the company in finding long term solutions to potentially replace its current product, the car, in the future. The first investments of Mobiliz Invest are, for example, 'Association Wimoov', which removes mobility obstacles for jobseekers or 'MobilEco', which helps people return to the workforce through hiring and selling electric vehicles and providing maintenance services. They show Renault's intention of clearly providing a measurable social impact while creating value for Renault.

Over the next years the Mobiliz Invest team wants to do more investments in the €50,000 to 1 million range in the form of debt or equity targeting early stage companies with mobility solutions for people living below the poverty line (in January 2014, 8.7 million in France⁵⁴; billions in the rest of the world). Their goal is to show that it is possible to grow businesses with a fair profit while creating social impact at the same time.

54. Source: http://rue89.nouvelobs.com/sites/news/files/assets/document/2014/01/compasetudes11_janvier2014.pdf

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3.3. Companies applying a Strategically Aligned Corporate Foundation Strategy

In our research we identified a third strategy where companies want to encourage innovation and create/enhance a sustainable business environment by strategically aligning their corporate foundations to work in new fields and/or countries, or on specific sustainability topics relevant for the business. This strategy allows companies to take a long-term approach towards an innovation field without the short-term profit maximization pressure of the core business. In several cases it also allowed companies to bring together different industry players in a non-competitive environment; they were invited to discuss and create industry standards that would bring a whole industry towards a more sustainable way of operating and would facilitate innovation within an entire sector.

The following case could be considered a successful example of a strategically aligned corporate foundation and as such it may offer insight into fruitful cooperation between corporations and VPOs.

Case study Syngenta Foundation⁵⁵

Quick facts about the Syngenta Foundation	
Start date	Established in 1982, relaunched in 2001 as 'The Syngenta Foundation for Sustainable Agriculture' after Novartis and AstraZeneca merge their agribusinesses to form Syngenta
Location (HQ)	Basel, Switzerland
Geographical focus	A dozen countries across Latin America, Africa and Asia
Thematic focus	Innovation in sustainable agriculture and the activation of value chains; improving the productivity and inclusion of smallholder farmers
Type of investment	Grants, debt, equity, professional expertise

The Syngenta Foundation for Sustainable Agriculture (SFSA) is a corporate charitable foundation founded by Syngenta AG under Swiss law but legally independent from the company. Syngenta AG is a global Swiss-based agribusiness that markets seeds and agrochemicals and is involved in biotechnology and genomic research. The Foundation's mandate and strategic focus is improving the livelihoods of low-income, rural communities through promoting sustainable agriculture using innovations that increase crop production and food security, and access to markets. Kilimo Salama (KS), translated as 'safe agriculture' in Swahili was launched as a project of SFSA in 2009 to develop innovative agricultural insurance products targeting smallholder farmers in East Africa. In almost all African countries agriculture is a key part of the economy, employing a majority of the population and contributing a large proportion of Gross Domestic Product. Changing weather conditions are increasingly affecting agriculture, for example with delayed rains and more frequent incidence of drought. These risks seriously threaten the livelihoods of smallholders, who usually form the majority of farmers. The project, the first of its kind in East Africa, stemmed from SFSA's vision to provide farmers in developing countries with affordable and appropriate protection. Reducing the burden of risk should encourage smallholders to invest

55. Source: **Raya Papp**, Co-Head Asia Pacific, LGT Venture Philanthropy, **Diana Rodríguez-Wong**, Consultant, Acre Africa and **Paul Castle**, Communications Manager, Syngenta Foundation.

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in key technologies to improve farm productivity, such as improved seed and fertilizer. Kilimo Salama exceeded expectations. From an initial pilot of 185 Kenyan maize farmers insured under a partnership with UAP, a local insurance firm in 2009, KS has grown almost ten-fold in just under five years. In the 2013 agricultural season, the company registered over 187,000 farmers in Kenya and Rwanda, insured total sums worth \$25.6 million and facilitated \$356,700 in insurance claims payouts as a result of droughts that affected some of these farmers. KS is currently the single largest initiative offering agricultural weather-index insurance to smallholder farmers across Sub-Saharan Africa.

Transition to ACRE Ltd. (Acre Africa)

In June 2014, Kilimo Salama began its transition from a private project funded by SFSA to a social business registered in Kenya. The new company is called Agriculture and Climate Risk Enterprise Ltd. and operates as Acre Africa. The company would be headquartered in Nairobi, Kenya which would also serve as the centre for developing and testing new insurance products.

Over the past four years, Kilimo Salama was funded with significant amounts in grants from SFSA and the IFC's Global Index Insurance Facility (GIIF)⁵⁶, as well as from other strategic donors. The project also generates revenues from fees it levies on the premiums collected by its insurance partners.

SFSA has committed equity funding towards capitalizing Acre Africa, while the IFC / GIIF has committed follow-on grant funding to be used to finance new country expansion including feasibility studies, setting up weather stations and paying staff salaries and to support new products and new market entry. A key pre-disbursement condition for the IFC grants required that Acre Africa secure equity funding from an external investor to support scaling of its existing country operations. That was the time when SFSA reached out to several VPOs and offered a co-investment opportunity. After months of due diligence and intensive discussions three VPOs decided to co-invest with SFSA. Two of them, Grameen Crédit-Agricole and LGT Venture Philanthropy, were not only investing in the social enterprise, but were also bringing the extensive experience of their local teams and networks to the effort. The external equity investments are expected to help Acre Africa grow its business, and eventually expand to other African countries.

Transition from a non-profit project to a for-profit entity is a delicate process requiring a shift in the organisational mind-set and goals. SFSA, LGT VP and the other investors are determined to make Acre Africa a successful company and are committing significant resources and senior management time to this end. Acre Africa is bolstering its senior team; the Board, composed mainly of investor representatives, provides strategic guidance.

Acre Africa is an intermediary or an agent between insurance companies and potential clients. Acre Africa undertakes risk assessment, product development and risk monitoring. In addition, it reaches out to potential clients and facilitates the distribution of the index-based products. Acre Africa engages aggregators or organisations such as MFIs, agro-input companies and farmer co-operatives working with large groups of farmers to take up agricultural insurance. Acre Africa has a formal partnership with UAP Insurance in Kenya and SORAS Insurance in Rwanda to

56. GIIF is a multi-donor fund managed by the IFC that supports innovation around index-based insurance across developing countries. The facility provides grant funding to pilot and scale related initiatives and technologies.

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provide agricultural micro-insurance. In both cases Swiss RE Corporate Solutions⁵⁷ is the main international reinsurer and assists Acre Africa design and pricing its products.

In order to potentially open up a new customer segment for Syngenta in emerging markets in the long run (20 years perspective) it was necessary to come up with an innovative insurance solution, which was not at all the core business of the company. It was, however, a very interesting area for the corporate foundation. Were it not for the foundation, the development of this innovative product would have never obtained the seed finance needed.

As the case of Acre Africa shows it is often a combination of the successful work of a number of social enterprises/NGOs, a corporate foundation (SFSA), venture philanthropy organisations (Grameen Crédit-Agricole and LGT Venture Philanthropy), companies and development agencies and other partners to create innovative, high-impact solutions at scale, which have the potential to be interesting growth areas for traditional large companies.

Case study C&A Foundation⁵⁸

Quick facts about C&A Foundation	
Start date	2011 (for the Swiss entity), 1992 (Instituto C&A in Brazil), 1996 (Fundación C&A Mexico)
Location (HQ)	Switzerland
Geographical focus	C&A sourcing countries (with a heavy emphasis on Bangladesh, India and China) as well as C&A retail countries (focusing primarily on Brazil, Mexico and China, as well as European countries)
Thematic focus	The transformation of the textile industry, social and economic development
Type of investment	Grant

C&A is a private family owned company founded in 1841 that provides affordable fashion to families. Headquartered in Belgium and Germany, C&A has nearly 2,000 stores in 24 countries and 60,000 employees. In 2013, C&A united its multiple philanthropic entities under a global C&A Foundation, whose aspiration is a fair and sustainable apparel industry, in which everyone can thrive.⁵⁹

Executive Director of the C&A Foundation, Leslie Johnston, explains: ‘We are determined to help to transform the way the apparel industry works. At its core, a fairer apparel industry core rests on more sustainable business models which respect the rights of workers, improve livelihoods, and conserve the environment. These business models stretch across the entire apparel value chain, empowering farmers as much as they inspire customers. We work in collaboration and partnership with other key stakeholders – including governments, NGOs, international organisations, and other brands- to identify agents and ambassadors of change and deliver results and long term impact.’

57. Swiss RE Corporate Solutions is part of global reinsurer Swiss RE. The division works to provide insurance solutions to clients in developing markets; and weather insurance is a major undertaking. In 2013, up to 175’000 farmers were insured through its various partnerships across Africa.

58. Source: interview with **Leslie Johnston**, Executive Director, C&A Foundation.

59. Source: <http://www.candafoundation.org/>

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C&A Foundation could be seen as a strong advocate of the strategically aligned corporate foundation approach. After an in-depth review of their approach to sustainability, C&A launched a new global framework on which to build an ambitious and deliverable strategy. As Leslie Johnston told us: 'Our activities are anchored on the same three pillars: sustainable product, sustainable supply and sustainable lives. The activities of C&A Foundation are very closely aligned with the sustainability framework of C&A. Within each, we support a number of activities that aim to make the apparel sector more responsible and transparent. Our primary focus lies in countries in which C&A is active either through its retail presence or sourcing relations.'⁶⁰

The Foundation's three strategic pillars (see Figure 4) are the same as the company's and their initiatives are geographically overlapping with the Company's retail presence or sourcing relations. Two examples show the business value created by corporate social impact strategies through C&A Foundation: funding safety overhauls of factories through the **Building & Fire Safety Programme (B&FSP)** and improving factories through the increase of productivity and worker conditions in the **Sustainable Supplier Programme (SSP)**.

Sustainable Product	Sustainable Supply	Sustainable Lives
<ul style="list-style-type: none"> Improving organic cotton farmer livelihoods Exploring alternative fibres Enabling fibre reuse and recycling 	<ul style="list-style-type: none"> Increasing supply chain transparency Improving the environmental impact of the apparel industry Securing safe water supplies for communities 	<ul style="list-style-type: none"> Improving the working conditions for apparel workers Inspiring C&A employees to help their communities Assisting communities to recover from disaster Supporting early-childhood initiatives in Brazil

Figure 4:
C&A Foundation Strategy⁶¹

After the Bangladesh factory tragedies, C&A Foundation launched the Building & Fire Safety Programme. As part of this, C&A Foundation was the convening sponsor of the first Building and Fire Safety Exposition in Bangladesh in February 2014. During the event, companies from around the world shared the latest solutions in fire, building and electricity safety with factory owners in Bangladesh. The event also linked stakeholders from the industry, government, and finance together in smaller sessions to share progress and identify solutions. A second event in December 2014 focused on the best practices in remediation.

The foundation also funded a pilot programme to assess building and fire safety in over 200 factories in Bangladesh. Key results of the programme are that factories now are safer and the staff are better equipped to deal with emergencies if they should occur. Factory owners are also now more aware of the Bangladesh National Building Code and the need to comply with the law. In addition, managerial, cultural and awareness gaps were identified.⁶²

C&A Foundation also funded The Sustainable Supplier Programme (SSP), which tested a concept to help 18 apparel factories in India, Bangladesh, Cambodia, Indonesia and China to improve conditions for workers through better productivity in the factories. The work was carried out

60. Interview with **Leslie Johnston**, Executive Director, C&A Foundation.

61. Source: <http://www.candafoundation.org/>

62. Source: <http://candafoundation.org/results-learning/beneficiary-stories/bangladesh>

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by Germany's Gesellschaft für Internationale Zusammenarbeit (GIZ) and TBM Consulting. They helped participating factories implement the most efficient lean manufacturing techniques and introduced managers to motivational skills and tools that also benefit workers, such as change management committees (bringing managers and employees together), team-based productivity bonus schemes, skills matrix payment systems, and absenteeism bonuses.

The SSP programme brought important benefits to factory owners and employees, as well as to C&A. For example, a factory belonging to the Sumber Bintang Rejeki Company in Indonesia saw efficiency rise from 58% of full capacity to almost 80% and the percentage of defects fall from 4% to 2%. Absenteeism also dropped, from about 5% to less than 2%. In the wake of such improvements, the owners chose to pay full price to implement similar changes in their other facilities.

One of the many workers who benefited was Taslima Akther Shumi, a sewing machine operator at Vintage Denim Limited in Dhaka. After joining the newly established employees' committee and getting additional training, her motivation increased and her performance improvements merited an 11% pay-rise to well above the minimum wage.

While C&A Foundation funded the initial programme, they found the expense and duration of the programme a challenge to scale. These and other insights drawn from the first SSP are informing a shorter, accelerated version to be tested next, with the aim to see if it could still achieve at least 80% of the gains. If the next version is successful, it could be scaled up to improve the productivity of hundreds of suppliers globally.⁶³

The sustainable product pillar includes a significant programme launched in 2013 to boost organic cotton production in supplier countries by working with small farmers, providing appropriate seed varieties, conducting research into the potential of organic cotton worldwide and the environmental (water usage and pollution) implications of growing cotton.

By working in partnership with this global business, C&A Foundation is able to leverage resources, networks and partnerships to address opportunities in the apparel sector. The Foundation Board includes senior C&A leaders who provide thought leadership and guidance to ensure that the Foundation's approach is aligned with C&A's corporate sustainability objectives. In addition to the two initiatives above, the Foundation also partners with the business in the Partnership for Cleaner Textile in Bangladesh and the Better Mill Initiative in China.

C&A Foundation is an ideal vehicle for C&A to test ideas and implement measures and models. The Foundation can work with local partners, such as non-profit organisations or individuals, it can provide different forms of financing to its small-scale partners, it can have a long-term time horizon and be a patient investor, and it can have a broad vision and eco-system approach. C&A's toolkit also reflects an evolution of corporate foundations to increasingly incorporate an engaged venture philanthropy approach, and to consider other actors in the eco-system as partners. This approach presents great opportunities for collaboration with the VP/SI sector, which the C&A Foundation is also a member of.

63. Source: http://www.ssireview.org/blog/entry/only_the_humble_improve

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3.4. Governance structures of Corporate Social Impact Initiatives

During the interviews it also became clear that even though governance structures are important for success – or reversely poor governance structures can complicate and slow down and deteriorate the quality of decision processes – the governance structures of the different corporate social impact initiatives are hardly a ‘one-size-fits-all’ solution. Companies are still exploring different ways of organising this area and/or are still left with legacy structures based on how things have historically grown in their respective organisations.

It would seem logical that the level of integration of the Corporate Social Impact Strategy would be reflected in the governance structure of that strategy and its relation to the mother company. Governance could be considered as a tool, which if in sync with the investment philosophy, could facilitate the success of the investment.

Starting from the lower right hand box of our framework, we can say that inclusive business strategies all follow more or less the same model: high level of integration into the business and therefore part of the governance structure of the company. As mentioned in the cases earlier, inclusive business models are often managed and led by the core business entity; therefore we can say that the corporate social impact strategy is housed in whatever structure the corporation has. A good case in point is Lafarge, where the Affordable Housing Programme is integrated in the marketing & sales department of the local subsidiaries, being responsible for the last mile distribution of Lafarge’s products and services as well as the performance of the programme. The search for and production of their innovative soil bricks is also fully integrated in the respective functional departments of the company, R&D and Operations.

The middle box of our framework, where we placed Corporate Impact Venturing, contains examples with varying governance models, all of which, however, show a bit more distance from the mother company than in the case of inclusive businesses. Corporate Impact Funds are often set up as separate entities, sometimes jointly with co-investors, which would require an independent organisation. Renault’s Mobiliz Invest or the Livelihood Fund are separate legal entities with their own management teams and reduced influence of their mother companies.

Although it is a separate legal entity, the Danone Ecosystem Fund has strong links to Danone through its governance and decision making process (see Figure 5). The Fund currently reports to the General Manager of Procurement (‘Danone Trade’). The president of the Fund is the Head of the Water Business Division to make sure that there is a sponsor at the Executive Committee level. The Social Innovation Committee examines proposals from local subsidiaries and makes recommendations on investment approval, investment size, and milestones/conditions for investment. It is comprised 50% from the General Managers

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of Danone’s worldwide business units and 50% from relevant corporate functions such as Communications and Procurement. The committee meets four times a year. Such high involvement from the business units ensures continued buy-in and support from Danone and appropriate level of resources, when necessary.

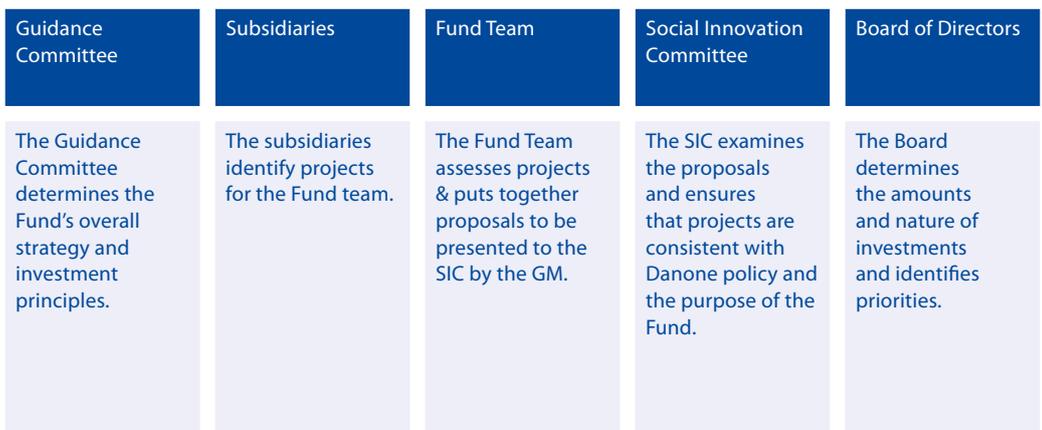


Figure 5: Governance structure of the Danone Ecosystem Fund⁶⁴

These independent entities, however, all try to leverage the experience of their mother companies by integrating top managers into their boards or governing bodies to help identify potential synergies and ensure the right people are talking to each other.

And finally, less integrated structures like corporate foundations, e.g. the C&A Foundation or the Shell Foundation are very much separate from the mother company, often not having links other than reporting to the CEO or the Executive Committee and company representatives sitting on the foundation’s board. This distance gives them significant flexibility and freedom, however, it may make it difficult for them to raise awareness about their work and recruit people from within the company, unless they have maximum support of the top management.

C&A Foundation is a separate legal entity from the C&A retail business, yet senior business leaders participate in its governance to ensure complementarity with C&A’s corporate sustainability objectives. At the same time, the C&A Foundation leadership sits on the global sustainability board of C&A. C&A Foundation staff closely align their work with the C&A corporate communications team, the sustainable business development team, as well as the sustainable supply chain team, and external stakeholder relations.

C&A Europe’s Sustainability Committee is chaired by selected members of the European Executive Board (EEB) and comprises representatives from key functions across the company. The Sustainability Committee is scheduled to meet quarterly to review performance of the sustainability programme and prepare relevant recommendations to the EEB.

64. Source: <http://ecosysteme.danone.com/danone-ecosystem-fund/decision-making-process/>

PART 4.

Cooperation between corporations and venture philanthropy organisations

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4.1. What makes corporates with social impact ambitions and VPOs natural partners?

Although the case studies and examples of the previous sections of the study have not showcased a lot of examples of cooperation, experience of VPOs suggests that there are a few successful cases, which can highlight potential areas of collaboration that could result in win-win situations. There is a history of collaboration between venture philanthropy organisations and corporations in all geographies, social issue areas and models. Collaboration occurred and still occurs along a wide spectrum of corporate approaches and motivations ranging from corporate philanthropy and CSR to different corporate social impact strategies, such as Corporate Impact Venturing.

Corporations are very interesting partners for VPOs, as they increasingly provide significant amounts and a wide variety of resources, including funding, in-kind support, technical and business support, skill-based volunteering as pro-bono mentors or advisors, networks and contacts, marketing and (co-)branding opportunities. Corporations also receive an increasing range of benefits from collaboration, including increased visibility and reputation, new and innovative professional development opportunities and an improved value proposition to their employees and innovative ideas and projects.

The interviews conducted for our research confirmed that although collaboration between corporates and venture philanthropy organisations in corporate social impact strategies is not widespread yet, there is a clear willingness and a strong need on both sides. There is increasing agreement that corporates and VPOs could be more natural partners than it seems at first glance. Interviewees voiced the need for more examples of success stories as well as lessons learnt. Corporates and VPOs share several key traits and interests, which can form a good basis for partnership. Interviews on both sides have repeatedly emphasized the following commonalities:

- Long term perspective
- Strive for societal impact
- Strategic approach
- Ability and willingness to engage, using skills and expertise
- Interest in innovation and new business models

Many of these are ingredients of the venture philanthropy model, which explains the affinity. Corporate investors are not in for short term financial gain; they are similar to venture philanthropists in their offer of patient capital, because they know that innovation and piloting new models can take a long time. They are unlikely to remain invested for 30 years, but a 7–10 year time horizon is not out of the ordinary.

The offer of patient capital is an indication of the focus on social impact and strategic gain, so similarly to many VPOs, corporates are willing to forego some of the short term financial

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gain in order to increase social impact, if it contributes to the achievement of their long term strategic goals. Renault's Mobiliz programme and Mobiliz Invest is a good case in point, where the company's focus is not the highest return on investment, but the sustainable solutions and innovations to the mobility issue.

As the Social Business Trust case below also illustrates, companies have their altruistic as well as selfish reasons to engage with social purpose organisations (SPO), and their willingness fits with the engagement approach of the VPO. The technical and business skills that companies can offer complement very well the specific issue-related knowledge and experience that the SPO has in their field. The venture philanthropy partner, having done due diligence and possibly business planning work with the SPO, is in the best position to select the most appropriate and useful skills from the company's offer.

VPOs are willing to take risks for higher social returns. This willingness to accept risk means incubating novel, innovative business models and social outcome models, when other financiers are not yet ready to invest in them. Corporations are also interested in innovation and new models, because they want to learn from social and technological pioneers early on and integrate their solutions into the sustainability and growth strategies of their own business. They are often able to engage in such experimentation more flexibly in external investments, rather than in-house on their own.

4.2. Models of collaboration between corporations and VPOs

While collaboration under the Corporate Social Responsibility umbrella of a corporation is fairly common, there are only very few examples of companies pro-actively partnering with VPOs to realize their social impact strategy. In most cases this lack of examples is because the companies still have limited knowledge of what is happening in the Venture Philanthropy space and vice versa. Corporates and VPOs have so far been making investments in relative isolation from each other. Only over the last few years did corporate CSR/philanthropy circles, inclusive businesses, Corporate Impact Venturing Funds and corporate foundations start to interact more with the venture philanthropy and social impact investment field.

On the one hand, the venture philanthropy and social impact investing industry only grew to a meaningful size over the last 5 years and only started to organise themselves in more visible ways to the outside world over the last few years thanks to industry associations like EVPA or sector networks like the GIIN (Global Impact Investing Network)⁶⁵ and ANDE (Aspen Network of Development Entrepreneurs)⁶⁶. On the other hand, it is only over the last 10 years that more corporate CSR departments have moved beyond nice PR initiatives and corporate foundations started to think and work more strategically, applying more business principles. With the establishment of Corporate Impact Venture Funds over the last 5 years, the overlap in terms of tools, processes and mind-sets applied has become

65. <http://www.thegiin.org/cgi-bin/iowa/home/index.html>

66. <http://www.aspeninstitute.org/policy-work/aspen-network-development-entrepreneurs>

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greater, and there are more efforts to create new partnerships and win-win situations. The form of collaboration is first of all defined by a given corporation's chosen corporate social impact strategy, but can also be influenced by other factors, such as

- Existence, predisposition and capacity of other actors, e.g. VPOs
- Market and societal context
- Social needs and issue areas and their alignment with the corporation's focus
- Resource needs and their availability on the corporate side

Our interviews identified 4 main types of collaboration (see Figure 6):

1. The VPO is an **intermediary** for the corporate investment
2. The VPO is a **co-investor** alongside the corporation
3. The corporation as an **exit strategy** for the VPO
4. The **corporate foundation** is a VPO itself



Figure 6:
Models of collaboration
with examples

VPO as an intermediary

Corporations need intermediaries in order to reduce risk or overcome the barriers they encounter in social impact projects or investments. As the interviews with **Impetus-PEF** or **Social Business Trust** show, the 'go-between' role of the VPO addresses mostly the language and communication or the skill deficit issue on the side of the investee. VPOs are very familiar with the needs and skill gaps of the social purpose organisations and try to find the appropriate resource on the corporate side to fill the gaps. It is the local, on the ground knowledge that makes VPOs very desirable partners for corporates.

From the corporate's point of view collaborating with the VPO can be instrumental to help integrate the venture philanthropy approach into corporate strategy, learning from a partner, practicing VP with safe and vetted investees and sharing the risk for the social impact and business success/failure of the investee.

Corporate foundations can have very specific ways of using VPOs as intermediaries: **Outsourcing** large parts of the sourcing, due diligence, deal negotiation and portfolio management work to a VPO can be highly beneficial for both sides. **Swiss Re Foundation**

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for example is making such use of the significant experience of one of the leading VPOs, **LGT Venture Philanthropy**. In the end this collaboration helps Swiss Re Foundation reduce the transaction costs of their engagements, as they can draw upon the strong local networks and teams of LGT VP in Asia, Africa and Latin America. LGT VP teams can identify the right targets, select them in a highly professional manner and can be the local partner who spends significant amounts of time with the portfolio organisations. This arrangement will ensure that during the portfolio management phase of 5–10 years the portfolio company is supported in the right way. Such cooperation helps the VPOs leverage their experience and Corporate Foundations benefit in many different ways, for example, learning from the VPOs and using their resources efficiently to create maximum social impact.

Quick facts about LGT Venture Philanthropy (LGT VP) ⁶⁷	
Start date	2007
Location (HQ)	Switzerland
Geographical focus	Latin America, Africa, China, India, Southeast Asia, Europe
Thematic focus	Education, Health and Sanitation, Renewable Energies, Agriculture and Forestry, Information and Communication Technologies
Type of investment	Loan, convertible loan, equity, grant
Average investment size	\$200,000 to 10 million
Capital committed	\$113.1 million (as of January 2015)
Size of UK fund	\$60 million

Another interesting case to illustrate the benefits corporates and VPOs can offer is that of the Social Business Trust. Instead of launching their own corporate impact investment funds or partnering with a VPO, seven businesses, under the stewardship of private equity boss Damon Buffini and social entrepreneur Adele Blakebrough, came together to create a partnership and an independent trust. SBT adopted the venture philanthropy approach and is thus able to utilize the toolkit of VP and, at the same time, access all the benefits offered by each of the participating businesses.

67. EVPA VP Directory 2013, <http://evpa.eu.com/membership/directory-of-members/> and LGT VP <http://www.lgtvp.com>

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Case study Social Business Trust:

The Mighty Seven – a corporate partnership for investing in social enterprises.

Quick facts Social Business Trust ⁶⁸	
Start date	2010
Location (HQ)	UK
Geographical focus	UK
Thematic focus	No set criteria
Type of investment	Grant
Average investment size	€500,000

The story of the Social Business Trust (SBT) is that of seven businesses who formed a partnership to provide capital support and expertise to help select a portfolio of social enterprises scale their impact. This venture philanthropy organisation was set up in late 2010, with the founding businesses committing a total of £15 million over an initial period of 3–5 years. One of them is a private equity fund, while many of them work with the private equity industry, so they realised that they wanted to go beyond writing cheques.

SBT evaluates social enterprises, assesses the obstacles to growth they face and comes with the best possible support from its partners: Bain & Co, British Gas, Clifford Chance, Credit Suisse, EY, Permira and Thomson Reuters. SBT will then manage the investment and relationship between the social enterprise and the business partner. Financial support is provided in the form of grants, because the founding partners wanted to make clear that they are not expecting a return. Nevertheless, the model resembles a private equity fund model, where each funding decision is based on rigorous due diligence and is made by the Investment Committee, composed of the managing partners or CEOs of the seven business partners, who must agree unanimously on any investment. Engagement can be ensured at the highest levels this way and right from the beginning of the relationship with the investee.

In SBT's case the business partners chose to set up their own VPO rather than find one to cooperate with. One reason was that they wanted to keep due diligence and selection of investees in house. The other reason was that they wanted to provide a strong focus on, and mechanism for corporate skill-based volunteering. As David Seddon, Portfolio Director of SBT, explains: 'It is increasingly important to employees to be able to give something back to their community as part of their job. The idea that they are able to use their everyday business skills to make a difference to others' lives, and also for this to be recognised and integrated into their professional development, is incredibly powerful'.⁶⁹

While companies SBT works with inherently realise the value of the volunteer opportunities for their employees, they don't always have a pre-existing mechanism to measure or monitor the end results. This is something that SBT recognises as being critical to the success of their model, as their Portfolio Director explains: 'We spent a lot of time collecting, reviewing and quantifying the impact volunteering assignments have had on the development of individual staff members,

68. Ibid.

69. David Seddon, Portfolio Director, Social Business Trust.

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and then feeding this into the company's formal talent review processes. For companies to see the real value of skills based volunteering, feedback needs to be much more than just conversations around the water cooler'. VPOs have an important role to play in making corporate decision makers more conscious of the contribution of such volunteer work in leadership development of their employees.

When looking at the VPO's intermediary role from the corporate perspective, we find that those companies, which mainly apply inclusive business strategies like Novartis and Lafarge often cooperate with VPOs to understand and improve the eco-system for their inclusive business models. In their affordable housing efforts **Lafarge**, for example, did not only provide technical assistance in different countries, but their teams worked intensively with local micro-finance institutions (MFI) to enable financing solutions for their future clients. To identify and coordinate the work with the MFIs Lafarge cooperated with experienced VPOs who had invested in MFIs.

When **Novartis** started to set-up social enterprises, they worked intensively with VPOs to understand the eco-system, the industry and the needs of rural Indians. In the Arogya Parivar example they cooperated with a number of Indian VPOs and NGOs to create a successful social enterprise and integrated them in different parts of the model as cooperation partners.

VPO as a co-investor

Companies that set up Corporate Impact Venturing Funds still very often make their investments without considering to **co-invest** with a VPO or draw upon their extensive experience in due diligence, deal negotiation, portfolio management and social impact management best practice. Nevertheless, there are successful examples of such cooperation: Mahindra Finance co-invested with the 'profit-for-purpose investor' **Leapfrog**, a very experienced investor in micro-insurance solutions around the world. For Leapfrog it was an interesting experience that a company would pro-actively reach out to them to do a co-investment based on the track record of Leapfrog in the micro-insurance space. In what follows, we use the case of PhiTrust inviting Schneider Electric to co-invest in La Varappe to illustrate how a VPO/corporate co-investment can be a win-win situation.

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Case study PhiTrust/La Varappe⁷⁰

Quick facts about PhiTrust ⁷¹	
Start date	2005
Location (HQ)	France
Geographical focus	France, Italy, Germany, Belgium, Cameroon, Senegal
Thematic focus	No set criteria
Type of investment	Loan, subordinated loan, convertible loan, equity, grant
Average investment size	€300,000
Fund size	€10 million (PhiTrust Partenaires) €0,5 million (ISF Solidaire)

La Varappe is a successful example of co-investment with corporations. In their case the VPO, PhiTrust Partenaires, played the role of intermediary as well as co-investor alongside with a major corporation. The La Varappe Group is a group of companies in Marseille with an annual turnover of EUR 15 million, that focus on social integration through employment. Through the provision of training, mentoring and employment opportunities, the company enables marginalised people to return to long term employment. La Varappe operates in diversified sectors such as construction, waste management, outdoor maintenance, and renewable energy, and with the help of the VPO, PhiTrust, now works closely with major corporations in those industries.

La Varappe discovered PhiTrust in 2008 when they were looking for financial partners to help them scale, realising that they reached an impasse in their ability to successfully bid in major tenders. Faced with an out-of-date business model, the company needed an innovative way to continue to grow its social mission. PhiTrust invested financial capital and in addition provided access to its network of experts to offer strategic and legal assistance in the development and implementation of a strategic overhaul towards La Varappe's present for-profit business. Poised to expand as a potential strategic partner with a shared social mission, subsequent to which the Group's social impact, PhiTrust introduced La Varappe Group to one of the companies of the Schneider Electric's Venturing Fund in 2010. Energy Access Funds acquired 20% of La Varappe Group and Schneider provided expertise to La Varappe in creating a new range of services related to energy efficient buildings, including building insulation or installation of heat pump systems and solar panels. This way Schneider Electric gained access to a new talent pool, which reduced its recruiting and turnover costs. Subsequent to this investment, Schneider also developed an offer for its own employees: they can invest in a Social Savings Plan or volunteer to share their expertise with La Varappe to gain personal gratification from helping others. As a result of the investment, La Varappe has created 15 full-time jobs, opened a second agency in Montpellier, and placed 600 unemployed people into permanent positions within other companies; an 80% placement rate for those taking part in La Varappe's training program for unemployed persons.

As a co-investor in several corporate impact investment deals, PhiTrust Partenaires made an interesting observation about the return expectation of their corporate and impact investor partners. Corporations care about financial return, but are even more interested in social and strategic return and capacity of acceleration. They pursue a very long-term approach. At the

70. Interview with **Olivier De Guerre**, Chairman, PhiTrust.

71. EVPA Directory 2013
<http://evpa.eu.com/member/phitrust/>
 and http://evpa.eu.com/wp-content/uploads/2015/04/EVPA_Directory_2013_single_pages.pdf complemented with data from PhiTrust.

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same time, social impact investors are still very driven by financial return, knowing that they want to exit in 5–7 years. So motivations and return expectations end up being the opposite of what we would normally expect. Luckily, ‘social investors and corporates, when they invest, are both entering at low prices, choosing not to pay Goodwill, so there is a shared risk’, concluded Olivier de Guerre, founder and Chairman of PhiTrust.

Corporation as an exit strategy for VPOs

As we have seen in some of the corporate case studies earlier (e.g. Renault or C&A Foundation) corporations can play a crucial role in scaling social innovation thanks to their infrastructure, resources and processes. In those cases the inclusive business or the corporate foundation made sure the innovation was incubated and ready to scale before taken over by the corporate mother. Exiting proven business models to corporations, however, can be a highly desirable and a potential route for VPO investments well. As of today there are only a few examples of VPOs successfully exiting their investment to a corporation, but PhiTrust offers a recent one, where its shares in the fair-trade and organic food company **AlterEco**, were sold to a large food distribution company in 2013, with the strategic objective of helping the investee achieve scale.⁷²

Case study PhiTrust/AlterEco⁷³

AlterEco is a French company that imports a variety of products from small producers in developing countries, paying them above-market rates for their work, including 30–50% upfront, and distributing their products through large retailers in developed countries. Products are packaged under a well-known brand-name that is integrated in the market economy and recognized for its high-quality fair-trade products.

PhiTrust became involved with AlterEco via a pure equity investment of €528,000 (€442,000 in 2006, 5.6% share, and €86,000 in 2009, an additional 1.8% share), with a member of PhiTrust’s Investment Committee actively participating in – and indeed Chairing, during the exit process – the company’s Executive Board.

In 2012 AlterEco was meeting its sales goals and social return expectations, but PhiTrust felt that the company’s financial growth and overall development were not progressing as quickly as they had hoped, in large part due to a stagnant fair trade market in France. In addition, several equity investors in AlterEco besides PhiTrust were reaching fund maturity and needed to sell their shares soon. So it became increasingly clear that new investors were needed to provide the capital necessary to open up new markets for the company. Thus began a two-year process of discussions with potential follow-on investors. PhiTrust met with several potential buyers, who were interested in gaining access to new markets and expansion into the fair trade business through the AlterEco deal.

In late May 2013, subsequent to several rounds of negotiations with potential follow-on investors, PhiTrust’s shares (and indeed all shares of AlterEco) were sold to Wessanen Distriborg, a Dutch company, European leader in the sale of organic food products. Those who exited felt

72. Based on the AlterEco case study in **Boiardi, P. and Hehenberger, L.** (2014) “A practical guide to planning and executing an impactful exit”, EVPA, and an interview in November 2014 with **Olivier de Guerre**, Chairman of Phi Trust.

73. Interview with **Olivier De Guerre**, Chairman, PhiTrust.

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strongly that this additional support was necessary to enable AlterEco to continue developing in an increasingly difficult fair trade and organic food market. The buyer offered to maintain the existing business model (allowing small producers in developing countries to access Western European customers) in addition to providing access to other European markets, particularly in Northern Europe. AlterEco could also benefit from significant cost reduction by becoming part of a larger organisation and become part of a product innovation process. The Dutch company was selected out of three competitive bids and exclusive negotiations.

To PhiTrust, it was crucial that the follow-on investor would ensure the continued growth of the company, both from a financial and impact perspective. For this reason, it prioritised the sale of its shares to a company that would maintain the existing business model, rather than one which would have prioritised a financial strategy but potentially re-oriented the company's social activities towards more commercially-beneficial operations.

The key lessons that PhiTrust learnt from this case were the following:

- finding a follow-on investor in certain industries/sectors who will maintain the socially-oriented objectives of a company proved more difficult than expected, despite the healthy financial nature of AlterEco and the high quality of their products;
- thoroughly understanding the priorities of the follow-on investor was key. In hindsight, the negotiation and exit process took much longer than expected but in the end, PhiTrust chose a 'classical' company because their distribution channels were well structured, and PhiTrust was confident that Wessanen Distriborg would continue to implement the same socially-oriented strategy.

What was the interest of the corporate partner in this deal?

Wessanen Distriborg saw a good opportunity to expand in the fair trade business and to new European countries through the AlterEco brand. They also expected the new product line to produce higher margins than their existing products, and to motivate their sales team by offering exciting new items.

Although the company was interested in new ways of working, it was not particularly socially motivated, so a key challenge for them was to maintain the social mission of the business and make it profitable at the same time. Working with social enterprise and maintaining the link with the small farmers proved to be equally challenging, even if PhiTrust remained involved as a mediator initially. Wessanen Distriborg eventually addressed these challenges by restructuring AlterEco. They separated the work with small producers from the distribution business and outsourced the former to a UK company Twin.org⁷⁴, whose core business is to work with small producers, making them an ideal partner to maintain the social element of the business at a reduced cost. At the same time, Wessanen Distriborg continues to manage the distribution of the fair trade products supplied by the small farmers under the brand name AlterEco.

74. <http://twin.org.uk/>

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This case is a clear example of how win-win situations can result from the cooperation between corporations and VPOs, in which all partners contribute their strengths. PhiTrust and its co-investors had incubated AlterEco to a stage where it was ready to scale and became attractive to a corporate partner, and continued supporting AlterEco through the purchase and merger process. AlterEco and PhiTrust both remained committed to the social mission of the enterprises, which Wessanen Distriborg also embraced. Importantly, the company contributed its specific business and scaling know-how, and was ready to redesign business processes and structures to ensure the enterprise remained financially successful.

Corporate foundation as a VPO

The following case study of Shell Foundation summarises many of the concepts and key points made in the previous sections. This independent corporate foundation acts as a patient incubator (for pioneering social entrepreneurs), a co-investor and market builder at the same time. Established as an independent charity, with a governance structure and financial model to enshrine this, Shell Foundation does not contribute to the core business strategy of its parent company. However, its existence does provide invaluable indirect benefits to the company such as retaining top talent, informing sustainability initiatives and positive brand association.

Case study Shell Foundation⁷⁵

Quick facts about Shell Foundation ⁷⁶	
Start date	2000
Location (HQ)	UK
Geographical focus	Asia, Africa, Latin America, Middle East
Thematic focus	Access to energy, sustainable mobility, sustainable job creation, sustainable supply chains
Type of investment	Grant focus, but also convertible grant, guarantee, programme related investment, equity

Shell Foundation was established in the year 2000 with a \$250 million endowment from the Shell Group. The Foundation believes in supporting entrepreneurial thinking and building social enterprises that can offer viable and sustainable solutions to social and environmental problems that affect nearly 3 billion people today, who are forced to survive on less than \$2.50 per day⁷⁷. Shell Foundation began to deploy a venture philanthropy approach in 2003, following the failure of their initial conventional grant-giving model (supporting a multitude of short term projects through existing NGOs) through which only 20% of efforts proved effective. The enterprise-based model the Foundation uses now focuses on four thematic areas (access to energy, sustainable mobility, sustainable job creation, sustainable supply chains) and a limited number of partners (20–25) – deploying patient, flexible grants & extensive business support to disruptive entrepreneurs and market intermediaries with the potential to deliver large-scale impact. Working in this way, the Foundation calculates that 75–80% of its efforts are now progressing to scale and financial sustainability.

75. Case studied mainly based on interview with **Chris West**, former Director, Shell Foundation and **Richard Gomes**, Head of Policy and Advocacy, Shell Foundation., November 2014, as well as secondary sources referenced throughout the case study.

76. West C. and Woodcraft C., (2010), "Enterprise Solutions to Scale – Lessons learned in catalysing sustainable solutions to global development challenges", Shell Foundation.

http://www.shellfoundation.org/ShellFoundation.org_new/media/Shell-Foundation-Reports/shell_foundation_enterprise_solutions_to_scale_2010.pdf

77. Source: <http://www.shellfoundation.org/our-approach.aspx>

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The Foundation gives mostly grants, but manages them as investments, being engaged and hands-on with their grantees. Grants were chosen deliberately as a market gap where the team could add value, seeking to solve the “valley of death” between the incubation phase of new ideas and the scaling phase funded by impact investors who expect financial return. Shell Foundation wants to bridge the gap and fund early-stage high risk social enterprises and link the successful ones into the capital market. A very successful example of this is the Foundation’s SME support programme, which targets small and medium size enterprises that are too small for investors but too large for microfinance (needing between \$50,000 and 1.5 million). Shell Foundation co-founded Grofin, a specialist SME developer and financier in Africa. Since 2004 Grofin has become the world’s largest SME financier, with \$320 million under management across 12 countries in Africa and the Middle East. To-date they have supported over 450 businesses to create and sustain over 16,000 jobs, provided skills support to 6,000 entrepreneurs and delivered \$1.67 billion of economic value into struggling economies⁷⁸.

‘We draw huge additional support from our links to a corporate’, said former Executive Director, Chris West⁷⁹, ‘enabling us to greatly enhance our charitable impact.’ Shell Foundation maintains close relationships with the different business lines and functions within the Group in order to better leverage their business skills, business tools and in-country networks which can benefit its social enterprise partners. Shell Foundation functions as a small business (16 staff). It is linked to the top management of the corporation some of whom sit on the Foundation’s board (alongside development sector experts). It can recruit talent from within Shell, who are then able to return to the company and apply what they learnt working in the development sector.

Over time, Shell Foundation’s understanding on how “enterprise-based” approaches can deliver greater development impact has helped Shell to tailor its own CSR initiatives, such as new ways to support job creation and the growth of BOP energy markets in developing countries. For example, when the Foundation combined with UN Foundation to create the Global Alliance for Clean Cookstoves⁸⁰ in 2010, a market-building initiative to accelerate the adoption of clean cookstoves and fuels by 100 million households over a ten year period, the Group was able to provide further support and technical expertise through its sustainable development programme to catalyse corporate investment from others.

Shell Foundation works in three areas: 1) taking early-stage risk to support breakthrough innovators with the potential to deliver large-scale impact, 2) providing a blend of patient and flexible support to help pioneers to achieve scale and financial independence in order to prove the viability of new inclusive markets and 3) co-creating specialist supply chain, finance or institutional intermediaries to accelerate market growth. The Foundation provides an appropriate mix of financing and support to its partners to transition them to harder forms of finance. They deploy new instruments such as convertible grant or equity in order to unlock social investment.

They work with a range of corporates to strengthen value chains and improve the brand recognition of social enterprises with BOP consumers, particularly in rural areas; and with governments to research and validate the development value of new markets. They believe that

78. Source: <http://www.shellfoundation.org/Our-Focus/Sustainable-Job-Creation>

79. Source: interview with **Chris West** and **Richard Gomes**, Shell, November 2014.

80. Source: <http://cleancookstoves.org/>

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being able to work across these public and private boundaries puts corporate foundations with the right model, structure and skillset in a pivotal and relatively unique position to form more effective long-term partnerships to catalyse sustainable and inclusive markets, and enhance collective impact⁸¹.

81. Source: interview **Chris West** and **Richard Gomes**, Shell Foundation.

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4.3. Benefits and challenges of collaboration between VPOs and corporates

VPOs can help corporates overcome many of the challenges they face in the social impact investment space. Interviewees recognized that corporates and VPOs are natural partners because they can build on each other's strengths to create mutually beneficial partnerships. They can offer each other benefits that will help the other party achieve the social and financial goals of their investments. Figure 7 outlines the main benefits that each can gain access to by collaborating.

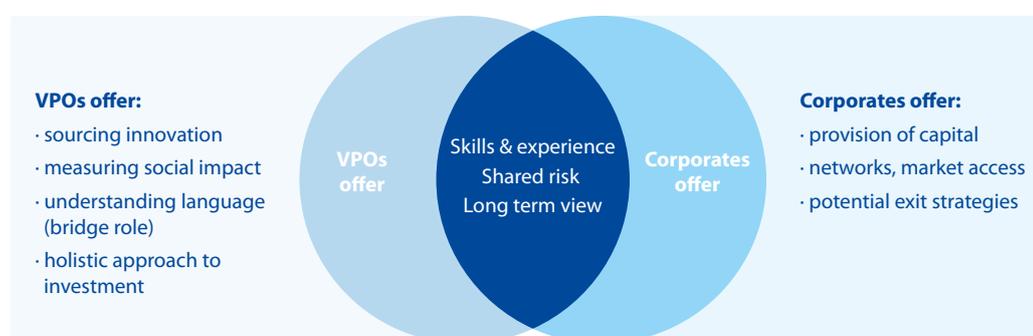


Figure 7:
What can corporates and VPOs offer each other?

4.3.1 Benefits of collaboration from the corporate⁸² perspective:

1. Sourcing innovation:

Due to their organisational set-up and focus on their traditional core businesses it is everything but easy for large companies to source innovations in general, but even more difficult to source social innovations. Very often they neither have the networks or the resources and time to be active in the relevant spaces to get access to or develop such social innovations. Many corporate interviewees told us that these innovations are created outside of their normal circles and they often have a hard time identifying in an efficient way what is really relevant for them. In turn, exposure to social innovation is one of the core assets of venture philanthropy organisations. They can offer corporates their know-how as well as their knowledge of the charity and social sector and its key actors. VPOs are on the ground, immersed in the context and its latest developments. They can successfully spot social innovations and their networks allow them to tap into the relevant circles in an efficient way, but more importantly they can build trust thanks to their engaged approach. This way VPOs are able to get to the really interesting small companies with outstanding social innovations. They are able to offer tested and proven business models for scaling from their own portfolio after successful incubation, or refer early stage investees to corporates with greater risk appetite. The rigorous due diligence VPOs perform on their potential investees can ensure that corporates meet a pre-selected pipeline of social impact investments. Sourcing of social innovation is clearly an aspect in which large companies can benefit tremendously from cooperating with VPOs.

⁸². This section was informed by interviews with the following corporates: Allianz, Audi, Bayer, Credit Suisse, Danone, Maersk, Novartis, Renault, Swiss Re and Unilever and from the following corporate foundations: Auridis, BMW Foundation, C&A Foundation, ERM Foundation-LCEF, Hilti Foundation, Shell Foundation, Siemens Foundation, Swiss Re Foundation and Vodafone Foundation.

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PhiTrust offers a perfect example of different forms of cooperation with a number of corporations, among them Schneider Electric, Danone and Lafarge, who all sought PhiTrust expertise and experience in social investment. PhiTrust guided them in developing collaborative programmes with social entrepreneurs, establishing corporate social impact objectives, sourcing investees and structuring deals. In some instances PhiTrust eventually brought them co-investment opportunities. ‘They (the corporates) realise that because we are small and have experience in dealing with small companies we may be a resource for them to find expertise that they don’t have internally. In particular, as social impact investors we are integrally involved in the investment process and are well aware of the associated risks’ said Olivier de Guerre of PhiTrust.

2. Experience in measuring social impact

Companies have become better in measuring environmental impact over the last decades, but they still struggle to measure the social impact of their investments. Most VPOs are more advanced in this area, as social impact is their core business and they have had a responsibility to report on social impact to their shareholders or funders from the beginning. This is a field where companies do not have to reinvent the wheel, but can learn a lot from the best practice of VPOs. Recent efforts are trying to link sustainability reporting, such as the GRI Guidelines – well developed in the corporate sector, with indicators developed for the impact investing industry (see for example the recent initiative to link GRI and IRIS⁸³).

3. Understanding the language:

Another challenge corporates are often struggling with is the difference in language used by themselves and social enterprises and the distinct organisational cultures and sizes. VPOs, who are used to working with social enterprises and social purpose organisations, often act as very good translators for these different worlds. Small business and charity sector lingo can be very specialised and difficult for corporates to understand. In turn, business and investment language including performance oriented requirements could also be intimidating and difficult for the SPOs. Venture philanthropy organisations, which often have staff from both backgrounds can successfully bridge the communication gap and act as ‘interpreters’. In many instances it is not only the translation capabilities, but more so the bridge function that matters, thus avoiding that discussions start with a prejudice on both sides, and can instead be focused on the impact that can be achieved together.

Another issue why VPOs are welcome as a ‘bridge’ is the fact that most of the investment opportunities are small and the transaction costs are high. It takes a long-term commitment to work with a social enterprise to enable it to scale the social innovations with the support of the resources of corporations. Corporates who started to work with VPOs appreciated their role as a bridge, and experienced how much more efficient the process was with their support.

83. Source: <https://iris.thegiin.org/gri-metrics>

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It may also be quite difficult to identify the partner in the other organisation: for social entrepreneurs and organisations with small staff it might be hard to understand the hierarchy or large corporates and impossible to find the appropriate person to talk to. VPO intervention can come in handy in those cases.

4. Holistic approach

Very often managers in corporations have been trained so well over years to be extremely focused that they struggle to provide the holistic, interdisciplinary support that most social enterprises need to grow their social innovations successfully. VPOs have the generalist teams and experience to provide this support in an effective way. Venture philanthropy organisations go deep: they work with their investees in all aspects of their business and organisation in order to ensure a sustainable future of their investment and a resulting social impact. This holistic approach leads to a profound understanding and trust between the investee and the VPO. It's a special relationship that is resource intensive and long-term in nature, which in turn reduces the risk of failure. The holistic approach of VPOs can be very attractive to a corporate that does not possess the know-how or the flexibility to practice it, but is happy to back someone who does.

4.3.2. Benefits of collaboration from the VPO⁸⁴ perspective:

Interviews with VPOs coincided in many of the benefits that had been identified by the corporate interviewees and emphasised the following benefits of collaboration from their perspective:

1. Provision of capital

Corporations are very well resourced organisations and can offer significant amounts of additional capital to invest in VPO portfolios. There seems to be consensus about the vast potential of untapped corporate funds, which VPOs would like to gain access to. According to the Volans report⁸⁵ global corporate venture capital investment amounted to \$19.6 billion in 2013 placed in 1068 deals. Engaging the companies in ways mentioned above could help unlock their financial resources and provide the confidence they need to invest in deals with reasonable risk levels along with a trusted VPO.

2. Networks and market access

Large corporations with national or multinational operations have extensive networks of partners, suppliers, financiers, experts and markets that could be really important for the VPO and their investees in exploring growth and scaling opportunities. The social capital at the fingertips of corporations is often more valuable than their financial contribution. The AlterEco case study provides a good example for this, where Wessanen Distriborg's distribution network and market access in other European countries was the most desirable aspect of the deal.

84. This section was informed by interviews with the following VPOs: Big Society Capital, Ferd SE, Impetus PEF, Oltre Venture, PhiTrust, Social Business Trust and Voxtra.

85. Feldman, A., Love, C. and Afanasieva, S. (2014) "Investing in Breakthrough, Corporate Venture Capital". Volans Ventures Ltd. <http://volans.com/project/investing-in-breakthrough-corporate-venture-capital/>

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3. Potential exit strategies

Thanks to their vast infrastructure and resource network, corporates are increasingly seen as the best option for scaling the social impact of the VPOs investment or completely taking it over, when the VPO wishes to exit. Becoming potential exit routes would turn corporates into essential actors on the next level of the social investment value chain. In the current ecosystem exit options are still limited, therefore VPOs are often forced to stay with their investment for longer than desired, while they find the appropriate way of exit that will at least preserve the social impact already achieved.

4.4. What can corporates and VPOs offer each other?

There are several overlaps between the strengths of VPOs and corporates; skills and experience, willingness to take risk and a long-term approach can all be mutually offered to complement the strengths of the other party.

Skills and experience: VPOs have social enterprise, social investment and business development skills, experience in working with small firms and individual entrepreneurs. At the same time, corporates have a huge pool of specialised technical skills that are expensive and hardly affordable to VPOs or their investees in great quantities. The two skill sets can be employed in combination in order to develop and scale social businesses and their social impact successfully.

PhiTrust's Olivier de Guerre confirmed in the interview that 'when corporates invest, they bring technical expertise that is very helpful for projects and social entrepreneurs. They accelerate the process of achieving scale and facilitate the next stage of development for the enterprise, as well as for the management skills of the entrepreneurs. Social impact investors are more skilled with regard to a strategy/human resources issues. Corporates are much more technical and operational.'

Daniela Barone Soares of Impetus-PEF distinguishes 3 levels in the contribution a corporation and a VPO could provide to a social enterprise investee in term of skills and expertise: 1. transactional, i.e. technical expertise, which is a strength of corporations; 2. organisational/strategic, where both corporations and VPOs can add value and 3. impact measurement, where only the VPO can offer expertise currently.⁸⁶

With regards to collaboration between VPOs and corporations, Olivier de Guerre confirmed his belief that there would always be a need for both, as projects (investment targets) will remain small to medium size and will need funding as well as technical expertise. Corporations that are active in corporate social impact strategies will need to team up with social impact investors or venture philanthropy organisations, so that they can share the risks and the high transaction costs, and contribute their varied forms of expertise.

⁸⁶. Source: interview with **Daniela Barone Soares**, Impetus-PEF, November 2014.

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Shared risk: corporations that engage in corporate impact investment do it for a strategic reason and are willing to take higher risks for higher gains. They offer to share the financial risk with VPOs. At the same time, involving VPOs can significantly reduce the risk thanks to their expertise, investment and due diligence experience working with social purpose organisations. VPOs can use their reputation in the social investment space that can benefit companies through successful joint investments in worthy causes. This could be the pioneer's success or the introduction, consolidation and scaling of a proven business model with significant additional social impact. It is important to note that the reputational risk is shared: gains or losses can happen to both parties, therefore it is in the interest of both to make the investment a success.

Long-term view: Not surprisingly a lot of our interview partners mentioned the tensions between the short-term, profit-maximization orientation mind-set of companies in their core business and the rather long-term approach in innovation and strategic development, which has to be taken to manage social innovations to succeed at scale. Long term view is a common feature of both the venture philanthropy and the corporate social impact strategies. This can have a very positive effect on joint investments, as there is likely a better alignment of time horizons and objectives of the investing parties. There won't be unnecessary investor pressure on the SPO or the co-investor to exit pre-maturely, so new models and innovations can be tested and incubated with the resources they need.

4.5. Barriers to collaboration:

Overall we learned through the interviews that there are many areas where companies could benefit more than is the case today from the experiences of the VPOs, but the understanding of the VP/SI space is still very limited on the corporate side. Often the venture philanthropy/social investment industry is still very non-transparent, or even un-known for them.

Other observations regarding barriers came mostly from VPOs, who would like to have more interaction with corporate partners and make recommendations how to overcome existing barriers.

1. Different structures and decision making processes:

VPOs usually have small and flexible structures whereas corporates are large and often bureaucratic. This structural difference can be a hindrance from the start, prohibiting VPOs and corporates from entering into partnership. It can also slow down and hinder progress after the joint investment has already been made. It is therefore very important to define roles, decision making processes and clarify expectations of both parties at the beginning, so that operational efficiency and effective intervention can be provided to the investee.

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2. Fear of reputational damage:

Big Society Capital observed that while corporates welcome the involvement of the more experienced venture philanthropy partner with good reputation and can benefit from it, they are also very cautious about their own reputation. They want to work with trusted partners and co-invest with someone who has credibility in the field. EVPA can play a crucial role in raising the profile and credibility of its members and of venture philanthropy in general. Inviting more corporations to join EVPA or to attend VP events can help build more trust between the two sectors.

3. Corporate mind-set:

An important barrier to collaboration with VPOs is a certain corporate mind-set that sees corporate engagement in social projects and social investment only as a cost to the business. This means that there is no real long-term buy-in on the corporate's side and they see their contribution to solving a social problem purely as a must in their CSR programme, rather than an opportunity to learn or get to know new markets. This mind-set is often reflected in the corporate structure as well, which places social impact projects in the communication or marketing departments, where they have a limited role both in time and significance, and don't become integrated with the company's business strategy. Big Society Capital, Social Business Trust and Oltre Venture all emphasized in their interviews that if corporate social impact strategies are to become successful, they need to be core to the company's business and have the commitment of the business managers. In our framework, this shift would require more companies moving from risk mitigation to value creation, as discussed in previous sections.

4. Lack of spaces for introduction and interaction

This barrier was pointed out by Voxtra, which is a VPO that has not collaborated with corporate partners in their investments so far. They would welcome the opportunity to find out more about the potential that such collaboration could offer and would be happy to participate in spaces where facilitated interaction between VPOs and corporates can take place. Such spaces could be provided by EVPA in a formal or more informal fashion, for larger gatherings as well as smaller groups. The workshops organised for the purpose of discussion of this research are excellent examples of such collaborative spaces.

Some interviewees thought that intervention to create spaces of interaction and collaboration would be welcome at eco-system level too in order to encourage corporations to engage more in social impact strategies.

5. Lack of understanding of corporate world by VPOs

In several interviews with corporations, there was a clear feeling that VPOs and corporations are two worlds-apart; corporates not knowing the VPO space, but also many VPOs not understanding the corporate world. Many VPOs have limited understanding of the dynamics within a company: the different roles of the different departments, the decision making processes, the global structure and how incentives, market pressure, reporting,

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budgeting cycles and other elements determine decisions. More importantly, VPOs know little of how companies deal with innovation from research to incubation, scaling and deployment. This barrier could be considered a problem similar to what corporations face not understanding small, flexible, 'flat' organisations that most VPOs are.

Case study Big Society Capital⁸⁷ – Business Impact Challenge: encouraging corporates to enter the social investment ecosystem in the UK

Quick Fact Big Society Capital ⁸⁸	
Start date	2012
Location (HQ)	UK
Geographical focus	UK
Thematic focus	No set criteria; wholesale social investor
Type of investment	Guarantee, senior/subordinated/convertible loan, loan, mezzanine finance, equity

Big Society Capital (BSC) is an independent financial institution with a social mission, set up to help grow the social investment market in the UK. It was set up by the UK Cabinet Office in 2012 and will use £600 million made available from dormant bank accounts and investments from four high street banks. BSC is a wholesale distributor of funds, so it invests in social finance intermediaries, which in turn provide finance and support to social sector organisations.

BSC decided to challenge corporations and encourage them to enter the social investment space. They will announce a social investment prize competition called Business Impact Challenge,⁸⁹ for companies in all industries, challenging them to propose a social investment of £15 million, which BSC would match 1:1. Proposals will be assessed and ranked based on the social impact they can potentially achieve, the viability of the business model and the ability to deliver.

This is a bold and unique example of how a key player in the existing social investment ecosystem can incentivise other, perhaps more undecided players by offering additional resources and thus reducing the perceived risk. Such a competition can also encourage cooperation with other investors and/or charities and social enterprises, and eliminate another important barrier: lack of experience and risk of reputational damage. Interestingly, BSC's experience is that the reputational concern exists on both sides (corporate and VPO side) and can work in two ways: seeing reputation both as a potential benefit as well as a credibility issue. On the other hand, given that £15 million is a significant amount to request, that should ensure that the applicant companies are fully committed and consider social investment as an essential part of their corporate strategy.

BSC sees the need to reach out to corporates and include them in the social investment market to broaden the types of organisations active in that market and to facilitate scaling the social impact that corporates could create, if they used resources at their reach. It is better to have increasingly diverse players in the market who can bring new resources to the table: corporates can offer skills and resources and potentially exit opportunities for VPO investment. BSC has not

87. Source: interview with **Travis Hollingsworth**, Market Development Director, Big Society Capital, October 2014.

88. EVPA Directory 2013, <http://evpa.eu.com/membership/directory-of-members/> and Big Society Capital <http://www.bigsocietycapital.com>

89. <http://www.businessimpactchallenge.com/>

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seen many examples of companies involved in scaling social impact through social investment, as in the UK a more typical corporate involvement would be to include social enterprises in the company's supply chain. The latter is a great source of value: a market access opportunity for social enterprises, as it is significant in volume and sustainable over time.

One of the key challenges BSC sees is the current corporate mind-set, which finds it hard to accept that some social outcomes can have a positive effect on the business. This is where cooperation with VPOs, competitions, showcase examples, etc. can have tremendous educational value to shift the mind-set of top decision makers on the business side of corporates. Alongside other interviewed VPOs, BSC is convinced that it is the business side of corporations that needs to be on board, not only the CSR departments; both for strategic and resource reasons. BSC's experience is that even if a corporate has a foundation, which can facilitate and support engagement in social investment, social investment needs to be core to the business in order to become significant and remain part of the company's strategy on the long run. Most corporates approach their involvement with the social sector through a grant-giving or volunteering approach, but a few pioneers have used social investment to create innovative business models or scale up important social interventions.

Conclusions

CONCLUSIONS

Smart businesses innovate and grow through corporate social impact strategies today

We live in a very interesting period of time where an increasing number of companies/CEOs understand that it is no longer accepted by large parts of society that companies maximise profits while producing negative externalities at the expense of the social fabric and the environmental basis for life on Earth. They also understand that there are tremendous opportunities to align profitable business growth with solving social and environmental problems at the same time. During our research we learnt that companies, which pro-actively push social impact strategies, benefit by identifying innovative growth opportunities. These are often within new client segments and in emerging markets to start with, but innovations they implement there could then be 'reverse engineered' into their traditional markets, and provide significant differentiation potential there as well. Companies are often surprised by how much the engagement in corporate social impact strategies helps increase the value of their brand, reduces risks, builds additional important relationships and retains motivated employees, as well as attracts young top talent. There seem to be enough reasons for CEOs to start or continue moving on their social impact journey for the sake of doing smart business.

Most companies use different corporate social impact strategies in parallel.

Corporates tend to be at the stage of exploring different ways of implementing social impact strategies, still using CSR and traditional corporate philanthropy approaches too as part of their mix.

Leading companies have reached the next level and are approaching their responsibility to society with a different mind-set. Instead of fixing wrong-doing, they think ahead of time, they consider how to execute their core businesses in a way that aligns business success and societal impact generation. Some of these leading companies are implementing social impact strategies completely in-house using inclusive business strategies, while some are tapping into the markets to source innovative ideas, products, services and business models from outside through Corporate Impact Venture Funds. Once the investments of these funds have reached a certain size they may be reintegrated into the core business. A third group tries to innovate through Strategically Aligned Corporate Foundations. As these foundations normally operate with a long-term mind-set and are allowed to take more risk than the for-profit business, it is easier to incubate innovations there and build the necessary supporting eco-systems around, before exposing the solutions to the core business thinking.

These leading companies have recognized the potential of corporate social impact strategies and are pushing to grow these areas as they see them of high strategic relevance for a successful future.

CONCLUSIONS

Currently corporations do not leverage the experience of VPOs enough, so there is plenty of untapped potential in the cooperation

What became clear through the research is the fact that corporations currently do not know a great deal about the Venture Philanthropy and Impact Investing players, which have been doing successful impact investments over the last 10 years and can provide significant learnings. Currently companies do not use the sourcing, due diligence, deal negotiation, portfolio management and impact management experiences and resources of VPOs, and therefore tend to run into similar issues that VPOs faced 10 years ago.

Even though there might be a number of hurdles to overcome, none of them is significant enough not to be optimistic that more cooperation could accelerate and grow the corporate social impact space significantly. Even more so if the first success stories of cooperation are published. Awareness-building is an area of improvement that requires initiative mostly from the VPO side, but also an interest from the corporate side in engaging with the VP/SI sector. We hope that this study is a first step to provide more clarity of the current situation, and a heightened awareness of cooperation opportunities will lead to more and better corporate social impact strategies, increased scaling and exit options for VPOs – and ultimately more social impact, innovation and business growth.

EVPA as a catalyst to spur interest, build bridges and enable collaboration between corporates and VPOs

EVPA aims to be the natural home as well as the highest value catalytic network of European Social Investors committed to using venture philanthropy and social investment tools and targeting societal impact. Ever since EVPA was set up in 2004, it has worked to bring together what we call a ‘broad church’ of actors from diverse sectors with a common objective; to enable social purpose organisations to generate greater and more sustainable societal impact. The first set of actors to join the movement were the private equity and venture capital firms who saw VP as a way of applying venture capital practices to the social sector. The second set of actors were grant making foundations who considered VP an interesting tool to add to their toolbox, and in some cases a new strategic approach altogether. Banks and financial institutions have joined the EVPA community to learn how to better serve their clients by offering them VP as an investment opportunity, or as part of their philanthropy advisory services. Since 2004, there has also been an increasing number of independent funds and foundations that have taken a VP approach from the start. Each actor has a role to play in the eco-system of VP, with complementary resources, skills, knowledge, networks and assets. The diversity of the sector is part of its strength as it ensures continuous innovation, but it also makes it more difficult to explain to an external audience what VP really is and where to draw the boundaries.

CONCLUSIONS

EVPA has identified corporates as a key stakeholder group to engage with for market development purposes. It is clear from this report why – corporates can contribute complementary resources to the VP sector that can enable existing VPOs to work better and have greater impact, and corporates can benefit from the collaboration to move their social impact work from risk mitigation to value creation. What are the next steps for EVPA following the release of this report?

EVPA already has a number of prominent corporate foundations within its membership, including Shell Foundation, BMW Foundation, Vodafone Foundation, C&A Foundation, Siemens Foundation and Auridis (all interviewed for this study). Many of these foundations (as outlined in a number of case studies) are already working as ‘strategically aligned’ foundations. EVPA intends to further showcase the work of these foundations and thus encourage more corporate foundations to move from a more detached, pure charity approach, to an engaged VP model, while aligning the mission of the foundation with the corporate strategy.

Furthermore, and as a longer term strategy, EVPA aims to engage the corporate sector at large to move from risk mitigation to value creation, using corporate social impact strategies as outlined in this report. Examples of successful collaborations between corporates and VPOs need to be further highlighted and explained and further such collaborations enabled. Reaching out to and developing partnerships with corporate platforms would be concrete first steps for EVPA to catalyse such collaborations.

Finally, EVPA envisages influencing institutional investors by building awareness of the successful use of VP tools to generate strategic, financial and social return for corporates, considering that institutional investors are the main shareholder group in big corporations – and thereby are in a position of great influence, and responsibility.

This report shows that collaboration between the VP and the corporate sectors is already happening with very positive results, but much more can be done. A long term objective is for corporates to use social impact strategies so naturally that they – as many foundations now do – see VP as a necessary tool in their strategic toolbox. Working together we can make it happen.

Appendix

APPENDIX

Glossary of terms

Aspen Network of Development Entrepreneurs, ANDE:

a global network of organisations that propel entrepreneurship in emerging markets. ANDE members provide critical financial, educational, and business support services to small and growing businesses.

Bottom of the pyramid, BOP:

a socio-economic concept that allows us to group that vast segment – in excess of about four billion – of the world's poorest citizens constituting an invisible and unserved market blocked by challenging barriers that prevent them from realising their human potential for their own benefit, those of their families, and that of society's at large.

Technically, a member of the BOP is part of the largest but poorest groups of the world's population, who live on less than \$2.50 a day and are excluded from the modernity of our globalised civilised societies, including consumption and choice as well as access to organised financial services. Some estimates based on the broadest segment of the BOP put its demand as consumers at about \$5 trillion in Purchasing Power Parity terms, making it a desirable objective for creative and leading visionary businesses throughout the world. One of the undeniable successes in this process is the explosion of the Microfinance industry witnessed in many parts of the world.

The first person to really focus on BOP was C.K. Prahalad (1941–2010): [http://lexicon.ft.com/Term?term=bottom-of-the-pyramid-\(BOP\)](http://lexicon.ft.com/Term?term=bottom-of-the-pyramid-(BOP))

Corporate Impact Venturing, CIV:

was recently defined as 'the practice of companies engaging in venturing through impact investing' in a paper published by Impact Economy in March 2014. It gave a detailed description of CIV examples and practices from various parts of the world and analysed future trends and expectation about the changing face of corporate social engagement. http://www.impacteconomy.com/en/primer3_details.php

Corporate Social Impact Strategies, CSIS:

a range of investment strategies and approaches that corporations use to build and invest in sustainable value creating models that generate social (or environmental) as well as strategic return.

Corporate Social Responsibility, CSR:

according to the European Commission's definition CSR refers to companies taking responsibility for their impact on society.

European Venture Philanthropy Association, EVPA:

the professional association of European venture philanthropy organisations, set up to promote the venture philanthropy approach in investment with the purpose of increasing the social impact of investees.

Global Impact Investing Network, GIIN:

a not-for-profit organisation dedicated to increasing the scale and effectiveness of impact investing.

Impact investing:

impact investments are investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return.

Inclusive business:

according to the IFC 'inclusive business models' are commercially viable and replicable business models that include low-income consumers, retailers, suppliers, or distributors in core operations. (http://www.ifc.org/wps/wcm/connect/AS_EXT_Content/What+We+Do/Inclusive+Business)

Microfinance institution, MFI:

a licensed financial institution that provides banking services to low income groups or individuals. These services include loans, bank accounts and other transaction services that are usually small in size and are not offered by mainstream financial institutions.

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NGO, non-governmental organisation:

any non-profit, voluntary citizens' group which is organised on a local, national or international level.

ROI:

return on investment.

Shared Value:

a management strategy focused on companies creating measurable business value by identifying and addressing social problems that intersect with their business. The shared value framework creates new opportunities for companies, civil society organisations, and governments to leverage the power of market-based competition in addressing social problems. The concept was defined in the *Harvard Business Review* article 'Creating Shared Value' (January/February 2011), by Professor Michael E. Porter and Mark R. Kramer. Shared value is a management strategy focused on companies creating measurable business value by identifying and addressing social problems that intersect with their business. The shared value framework creates new opportunities for companies, civil society organisations, and governments to leverage the power of market-based competition in addressing social problems. <http://sharedvalue.org/about-shared-value>

Social Enterprise:

a business created to further a social purpose in a financially sustainable way. They generate revenue by selling products or services, but reinvest the profits back into the business or the local community.

Social Investment, SI:

the use of repayable finance to achieve a social as well as a financial return.

Social Purpose Organisation, SPO:

an non-governmental organisation whose mission and activities are aimed at solving social or environmental problems.

Venture Philanthropy, VP:

an investment approach that works to build stronger investee organisations with a societal purpose (SPOs) by providing them with both financial and non-financial support in order to increase their societal impact. The venture philanthropy approach includes the use of the entire spectrum of financing instruments (grants, equity, debt, etc.), and pays particular attention to the ultimate objective of achieving societal impact. The key characteristics of venture philanthropy include high engagement support of few organisations, organisational capacity-building, tailored financing, non-financial support, involvement of networks, multi-year support and impact measurement.

Venture Philanthropy Organisation, VPO:

an organisation, fund or foundation that uses the venture philanthropy approach.

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APPENDIX

List of interviewees (alphabetical order):

- **Michael Anthony**, Head of Emerging Market Development, *Allianz*.
- **Schaap Atze**, Global Dairy Development Program Coordinator, *Royal Friesland Campina*.
- **Luciano Balbo**, President, *Oltre Ventures*.
- **Daniela Barone Soares**, CEO, *Impetus-PEF*.
- **Paul Castle**, Communications Manager, *Syngenta Foundation*.
- **Pål Dale**, Managing Director, *Voxtra*.
- **Zahra Darvishi**, Corporate Citizenship Switzerland, *Credit Suisse*.
- **Samantha Duncan**, Associate Director of Impact, *Leapfrog*.
- **Amanda Feldman**, Director, Impact & Innovation, *Volans*.
- **Michael Fuerst**, Senior Manager CR Strategy & Innovation, *Novartis*.
- **Richard Gomes**, Head of Policy and Advocacy, *Shell Foundation*.
- **Katinka Greve Leiner**, Director, *FERD SE*.
- **Olivier De Guerre**, Chairman, *PhiTrust*.
- **Marcus Hipp**, Executive Director, *BMW Foundation*.
- **Travis Hollingsworth**, Market Development Director, *Big Society Capital*.
- **Rolf Huber**, Managing Director, *Siemens Foundation*.
- **Leslie Johnston**, Executive Director, *C&A Foundation*.
- **Marlene Kaufmann**, Product Development, *Audi*.
- **Stefan Koch**, Management of Financial Sustainability Relations, *Bayer*.
- **Jean Christophe Laugee**, Ecosystem Fund Director, *Danone*.
- **Angela Marti**, Head, *Swiss Re Foundation*.
- **Dorje Mundle**, former Head of CR Management, currently Head of the Healthcare Practice at BSR, *Novartis*.
- **Mette Olsen**, *Maersk*.
- **Laura Palmeiro**, CSR Director, *Danone*.
- **Raya Papp**, Co-Head Asia-Pacific, *LGT VP*.
- **François Perrot**, Director Affordable Housing, *Lafarge*.
- **Jean-Luc Perron**, Managing Director Microfinance Foundation, *Grameen Crédit Agricole*.
- **Liesbet Peeters**, Partner, *D Capital*.
- **Mark Pfitzer**, Managing Director, *FSG*.
- **Diana Rodríguez-Wong**, Consultant, *Acre Africa*.
- **Francois Rouvier**, Sustainable Mobility Director, *Renault*.
- **David Seddon**, CEO, *Social Business Trust*.
- **David Sher**, Investment Director, *ERM Foundation – LCEF*.
- **Lisa Smith**, Investment Director Unilever Ventures, *Unilever*.
- **Laetitia Soulerot**, Head of Mobiliz Invest, *Renault*.
- **Mark Speich**, Managing Director, *Vodafone Foundation*.
- **Fabian Suwanprateep**, Project Manager, *Beyond Philanthropy invest impact GmbH*.
- **Christina Ulardic**, Head Market Development Africa; Director of Corporate Solutions, *Swiss Re*.
- **Frank Van Ooijen**, Sustainability Director, *Royal Friesland Campina*.
- **Gilles Vermot-Desroches**, Senior VP Sustainability, *Schneider Electric*.
- **Marc Von Krosigk**, Managing Director, *Auridis Foundation*.
- **Bruno Walt**, Managing Director, *HILTI Foundation*.
- **Chris West**, Director, *Shell Foundation*.
- **Elaine Yew**, Head of Singapore Office & Global Development, *Egon Zender*.

APPENDIX

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The European Venture Philanthropy Association (EVPA)

Established in 2004, EVPA aims to be the natural home as well as the highest-value catalytic network of European Social Investors committed to using venture philanthropy and social investment tools and targeting societal impact.

EVPA's membership covers the full range of venture philanthropy and social investment activities and includes venture philanthropy funds, social investors, grant-making foundations, impact investing funds, private equity firms and professional service firms, philanthropy advisors, banks and business schools. EVPA members work together across sectors in order to promote and shape the future of venture philanthropy and social investment in Europe and beyond. Currently the association has over 190 members from 25 countries, mainly based in Europe, but also outside Europe showing the sector is rapidly evolving across borders.

EVPA is committed to support its members in their work by providing networking opportunities and facilitating learning. Furthermore, we aim to strengthen our role as a thought leader in order to build a deeper understanding of the sector, promote the appropriate use of venture philanthropy and social investment and inspire guidelines and regulations.

<http://www.evpa.eu.com>

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