

CSR: A Source of Opportunity and Innovation

Turning CSR into a Sustainable Business Model

by PROF. DR. ZHENG HAN and CAROLIN HAN

92% of the world's largest 250 companies now publish annual corporate social responsibility (CSR) reports, according to a survey by KPMG. In China, CSR adoption and reporting is also increasingly practiced, driven by the country's integration into the global economic system. The number of CSR reports published annually in China increased from only 32 in 2006 to 1,703 in 2015. These numbers, however, do not reflect the actual implementation or impact of CSR programs.

In fact, how to effectively implement CSR is still a big challenge for companies in China, with the most important reasons being strong competitive pressure, little support from the government and non-governmental organizations and high costs of CSR implementation.

A recent study by CSR Asia revealed low satisfaction with the current state of CSR development among CSR professionals, scholars, and NGO representatives. A common view is that the majority of Chinese companies still look at CSR through a lens of philanthropy, public relations or crisis management. Another survey by Graafland & Zhang involving 890 companies in China supports this view: It was found that most companies equate CSR with charitable activities and see CSR as a "cost" that cuts into profitability.

CSR as a Source of Opportunity and Innovation

We would like to suggest another perspective: "CSR can be much more than a cost, a constraint, or a charitable deed – it can be a source of opportunity, innovation, and competitive advantage" – (Porter & Kramer, 2006. This view refers to the strategic decision of companies to see social needs as opportunities to develop ideas and business technologies and to find and serve new markets, which ultimately should result in shared value creation – or "win-win" outcomes – for both the business and those in need. Companies take on social projects that are more closely connected with their core operations and business mission, and innovation finds a new field of application beyond creating new markets and products. It is called Corporate Social Innovation (CSI).

The Cases of Allianz and Novartis

German insurer Allianz is an excellent example to illustrate the difference between traditional CSR and CSI and how both can co-

exist. As part of its traditional CSR activities, the insurer's corporate giving in form of financial donations and charitable memberships totaled EUR 22.6 million in 2015. In addition, employees invested time and volunteered their financial and business skills to support charity and non-profit organizations.

But Allianz, like an increasing number of other companies, goes further and practices Corporate Social Innovation. In 2003, Allianz AG and Bajaj Finserv in India started offering insurance products to households with incomes between USD 1.25 and USD 4 per day through their Joint Venture Bajaj Allianz. For this customer segment, micro-insurance offers protection against a range of risks, such as agricultural losses and illness. For Allianz, this business model also offers the long-term opportunity to grow its customers from micro-insurance to conventional businesses. Allianz subsidiaries in other developing countries followed this approach and the micro-insurance business soon became profitable. As of June 2015, Allianz had micro-insurance operations in 11 markets, insuring a total of 57.4 million people.

Swiss pharma company Novartis has developed a for-profit health initiative to improve access to medicines for the people living at the bottom of the pyramid in rural India. Novartis not only provides a basket of affordable products that are tailored to the needs of these communities, but at the same time educates patients about diseases and preventive health measures and builds local capacity to ensure long-term market success. The venture has reached 33,000 villages with a population of 42 million people since its launch in 2007 and became profitable in its third year.

Both Allianz and Novartis found new market segments, or "blue oceans," in the underserved low-income communities of developing countries and created shared value by acting as businesses and not as charitable givers.

A Wide Spectrum of CSI Opportunities

While for Allianz and Novartis CSI opened doors to new markets, there are also companies who have found other ways to apply CSI, for example to strengthen supply chains, leverage finance or invest in talent. A recent insight report by the World Economic Forum (2016) titled "Social Innovation – A Guide to Achieving Corporate and Societal Value" features these inspiring examples.

SAP, for instance, shows us how CSI can be used to invest in talent. In 2013, SAP committed to hire 700 people with Autism Spectrum Disorder (ASD) by 2020, equivalent to 1% of the company's workforce. On the one hand, the company expects the unique skill set and different perspective to problem-solving of autistic people will help fulfil the growing demand for IT skills and the need for diverse perspectives to drive innovation. On the other hand, the approach helps adults with ASD, because although many of them have strong academic credentials, experience and skills, the unemployment rate among them is close to 80%. As of the end of 2015, SAP employed more than 100 employees with ASD globally.

Also among the winners of the 2016 "More than a Market" Awards we find a successful example of how CSI can be used to invest in talent. The Inclusion Factory Taicang tapped into talent pools traditionally considered unemployable and is the first institution in China to give meaningful employment to intellectually challenged people under real market conditions. To quote the words of Liz Mohn, vice chairwoman of the Bertelsmann Stiftung: "It is not a charity project, but a real business."

How to Create Social Innovation

An organization wishing to create shared value through CSI should be sure to acknowledge that any innovation initiative depends on its employees. Only if they have the skills, opportunities, and incentives to look at things in new ways, innovation will happen. Firms can invest in different types of employee development practices to stimulate innovative work behavior, and especially ability- and opportunity-enhancing human resource practices are found to bear positive impact potential.

Opportunity-enhancing practices aim at empowering employees to use their skills and motivation to innovate. For example, we know that the urgency of day-to-day business has a detrimental effect on the success of innovation since it limits the opportunities to innovate. Many innovative organizations have recognized this problem and try to address it by encouraging intrapreneurship. Often cited examples include the "innovation time off" practiced by companies such as 3M and Google. Other measures that acknowledge employees as a vital source of innovation are development programs, competitions, awards or intrapreneurship workshops.

Organizations need to identify and empower their "social intrapreneurs": visionary individuals sitting at the intersection of innovation, social good, and entrepreneurship. Social intrapreneurs combine the qualities of innovators and entrepreneurs and are driven by their motivation to incubate business solutions that add value to both society and the bottom line. To make sure these social intrapreneurs come forward, organizations are advised to embed their social innovation agenda into their strategic vision and have a culture in place in which innovation can flourish. Openness to ideas, cross-departmental collaboration, and flat structures with direct communication flows are important components of an innovation-conducive culture.

Turning CSR into a Sustainable Business Model

Linking the concepts of CSR and business modelling does seem flawed at first sight. However, as we have learned, solving pressing social needs and at the same time adding value to the bottom line is not impossible, but critical for the survival of CSR initiatives. By acting

as businesses and not as charitable givers, companies can potentially create more sustainable impact, because they have a stake in the problems and consequently treat the project like they would treat any other project central to business operations.

We would like to encourage organizations to think of opportunities that social or environmental challenges might hold for them and ask questions like:

- Where are business opportunities for us to be more innovative and socially inclusive?
- How can we use existing assets and (spare) capabilities to solve societal challenges?
- Can we collaborate with stakeholders to create greater financial and social value?
- How can we embed the social innovation agenda into the strategic vision?

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