

# Mastering the art of social and financial innovation:

## *Balancing risk, return and impact*

### Laboratory proposal

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### Course Description

We are at an important inflection point in the evolution of the private sector's role to stimulate social innovation. While the field of social innovation has shown tremendous growth over the past decade, many actors within the spectrum of capital (see graph on the Spectrum of Capital below) are still sitting on the sidelines – interested in impact, but not yet allocating enough resources or investments. The ability to find the balance of risk-return-impact that meets organizational preferences is one of the most important catalysts to increase the scale of social innovation moving forward.

Social innovation and the impact economy embody new ways of thinking about business that position planet and people on the same level as shareholders. Although these dynamic approaches have gained traction as an effective means to tackle pressing global social and environmental challenges while delivering competitive financial performance, mastering the art of social and financial innovation is no simple task!

**Social innovation** is the process of applying new market solutions to global social and environmental problems, by creating or improving products, services, business models, and markets. Financing social innovation requires the intentional inclusion of impact in the risk-return decision making process while responding to unmet needs. **Impact investment** and **Sustainable Finance** are strategies that generate financial return while intentionally accounting for the social and environmental impacts of the investments.

In this laboratory, we will see innovative impactful solutions that mobilize private sector capital in new, more efficient and scalable ways to solve social, economic, and environmental problems globally.

This lab will focus on how social entrepreneurs, impact investors and large corporates define purpose to foster social and financial innovations that respond to social and environmental problems.

### Course Objectives

Upon completion of the lab, students will be able to:

- Understand corporate approaches to solving social and environmental problems.
- Identify and understand complex social and environmental issues and how material they are for different industries (or businesses).
- Understand what constitutes sustainable finance and how it can drive change in corporate behavior.
- Explore how purposeful ESG integration can drive change.
- Explore how impact investment can foster social innovation.
- Demonstrate knowledge of different levers of change and the role of social innovation in solving social problems
- Apply a variety of tools including theory of change to define social problems and propose solutions and critically evaluate social innovation and entrepreneurship practices.
- Effectively demonstrate improved competencies in communication, generating insights and identifying social problems and assessing the efficacy of solutions.

## Methodology & Lab Structure

The course will include lectures, speakers, readings, group work including an experiential exercise, and asynchronous forum discussions and will require a high degree of student participation.

The course is composed of synchronous live course sessions and asynchronous forum discussions. Student participation is not only encouraged but also expected.

I will explain in more detail the course dynamics in our first session. You will be able to ask all the questions you need.

### Lab Structure

- Session 1: 3 hours (Introduction & Roadmap)
- Session 2: 3 hours (Lake Simulation)
- Session 3: 2 hours (Pitching a Social Enterprise)
- Session 4: 2 hours (Theory of Change)
- Session 5: 2 hours (Financial Modelling for Social Enterprise)
- Session 6: 2 hours (Impact Investing Due Diligence)
- Session 7: 2 hours (Corporate Social Innovation)
- Session 8: 2 hours (Introduction to ESG Investing Integration and Materiality)
- Session 9: 2 hours (ESG Investing: Exclude or Engage?)

## Outline of sessions

### Session 1: Introduction to social and financial innovation: A roadmap

#### Topics:

- The impact economy and social finance spectrum
- Supply and demand of social innovation: main players
- The Agenda 2030 and the Sustainable Development Goals
- The course roadmap

#### Readings:

- “Business Reality Reshaped: The Big Three Trends’, Chapter 1 of *Embedded Sustainability: The Next Big Competitive Advantage* by Chris Laszlo and Nadya Zhexembayeva, Stanford Business Books, 2011.
- Social innovation map, WEF Dynamic Briefing co-curated by Vanina Farber and Patrick Reichert, IMD.
- Phillips, J.A., Deiglmeir, K. & Miller, D.T. (2008). Rediscovering Social Innovation. *Stanford Social Innovation Review*, (Fall): 34-43.
- Gartenberg, C., Prat, A., and Serafeim, G. (2019). Corporate purpose and financial performance, *Organization Science*, 30(1), 1-18.

#### Individual Assignment:

- Students prepare an Ignite template (to be provided – 10 slides, 20 seconds per slide) to introduce themselves to their peers. High-level using images - The point is merely for us to get to know each other better and uncover common interests.

### Session 2: Lake Simulation: An interactive learning exercise

#### Topic: Collective action and profit incentives

This real-time simulation places the student before an ethical dilemma in the business world.

The objective is for students to analyze the decisions made in this type of situation and look for successful strategies to manage them.

In this game, students have to manage a common natural resource: the water of a lake around which eight factories are located. At the forefront of the decisions of these factories are the students organized in groups, and they must achieve high profits in addition to conserving the quality of the lake water on which the production of their factories depends.

Learning objectives:

- Introduce students to the concepts of collective action problems through an active learning experience
- Understand how profit motives can drive perverse effects in social enterprises

Readings: None

Pre-class Assignments: None

### Session 3: Pitching a social enterprise: Aligning the business and impact case

Topic: Social Enterprise

Social enterprises are businesses created from inception to purposefully solve a social or environmental problem. Social enterprises can be non-profit, for-profit or hybrid entrepreneurial organizations that innovate to solve problems and produce benefits that blend both social impact and financial returns. They provide innovative solutions to societal problems in a financially self-sufficient way by using market mechanisms. They negotiate resources for impact. We will focus on for-profit social businesses.

Case Assignment 1: Pitching a social enterprise

Multimedia Case: Angaza Design (<https://cases.imd.org/IMD-7-2063-open/>)

Readings:

- Primer on investing for impact and the role of philanthropic impact investing (Farber, Wuffli and Reichert, IMD)  
<https://www.imd.org/contentassets/8e570184e04940db8f5de0a4cb209fc2/impact-investing-and-philanthropy.pdf>
- Social innovation map, WEF Dynamic Briefing co-curated by Vanina Farber, IMD

### Session 4: Developing a theory of change: From what you do to the impact you create

Topic: Theory of Change & International Development

Theory of Change is essentially a comprehensive description and illustration of how and why a desired change is expected to happen in a particular context. It is focused in particular on mapping out or “filling in” what has been described as the “missing middle” between what a program or change initiative does (its activities or interventions) and how these lead to desired goals being achieved. It does this by first identifying the desired long-term goals and then works back from these to identify all the conditions (outcomes) that must be in place (and how these related to one another causally) for the goals to occur.

Readings:

- Stein, D., & Valters, C. (2012). Understanding theory of change in international development.
- Raimi, L., Dodo, F., & Sule, R. (2022). Comparative discourse of social enterprises in the developed and developing countries using theory of change framework: a qualitative analysis. In *Social Entrepreneurs* (Vol. 18, pp. 29-54). Emerald Publishing Limited.

Individual Assignment 2: Developing a theory of change

### Session 5: Financial modeling for social enterprise

Topic: Social Enterprise & Financial Modeling

Through an interactive case, this session Introduces the pay-as-you-go (PAYG) business model and builds the business and financial model for a PAYG company together with students. The case builds

on the previous session by first developing a Theory of Change for the PAYG company and explores the challenges of PAYG. Students also learn about how to identify and measure social and financial indicators.

Readings: None.

Assignments: Interactive in-class workshop on computers

## Session 6: Impact investing decision: Understanding the due diligence process

### Topic: Impact Investing

Impact investing is defined as investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investors also target a range of financial returns from below market to market rate, depending on their strategic goals. Critical to the definition is the intentionality and the measurability of achieving social and environmental benefits. Participants will have a practical introduction on how to value a social enterprise, perform due diligence, structuring deals and measuring impact. Venture philanthropy aims to create impact by supporting social enterprises building viable organizations and unlocking sustainable social innovations. Efforts to help new ventures navigate from the stage of proven start-up to early growth involves professional and personal commitments of key individuals and substantial investments of time and money. Due to the high degree of uncertainty during the early stage of enterprise development, combined with a lack of experience and resources, these commitments carry a high-risk profile. You will be supporting the elea Foundation for Ethics and Globalization team (<https://www.elea-foundation.org/en/home-en>) to make an investment decision.

Readings:

- Philanthropic impact investing tools, Patrick Reichert, IMD (Course Package)
- Preliminary investment recommendations for Yum Chocolate and Direct Coffee Company from the elea Foundation.

Case Assignment 2: Performing a due diligence for a venture philanthropist  
IMD Case: YumYum Chocolate and CoffeeCo. (See Template I)

## Session 7: Corporate social innovation: Materiality and beyond

### Topic: Corporate Social Innovation

The focus of this session is how the core business activities of private sector firms can create and scale innovative and systemic solutions to the relevant problems of poor and low-income people and large-scale environmental problems. We will focus on innovations that solve material social and environmental problems. Unlike traditional corporate social responsibility initiatives, corporate social innovation is embedded within corporate strategy, R&D, employee development, and partnerships. Rather than one-off projects, the focus is on sustainable, social change through business innovation. These companies develop long term strategies to leverage core business strengths to address societal problems.

Case Assignment 3: Can a Tobacco Company be sustainable?

Case IMD-7-2233: <https://www.imd.org/research-knowledge/case-studies/case-studies/pmis-vision-of-a-smoke-free-future-can-a-tobacco-company-be-sustainable/>

## Session 8: Introduction to ESG Investing: Investment strategies with a focus on materiality

### Topic: ESG Investing

Finance can be a powerful engine of systemic change when channeled to fund projects and innovations that can improve lives. Participants will learn how financial institutions (asset managers) can facilitate financial flows to support sustainability goals, while obtaining returns and reducing risk. ESG issues will likely lead to more complete investment analyses and better-informed investment decisions that inspire

financial innovations. Given the corporate approaches learned the previous week, what should investors look for? We will practically assess how to integrate ESG by narrowing sustainability criteria down to a set of issues that are most relevant and material for specific sectors/businesses.

#### Readings:

- A Primer on ESG Investing by Vanina Farber and Patrick Reichert, eia Center for Social Innovation, IMD (Course Package)
- Phadke, H., and DeMates L., "Investing with the Sustainable Development Goals. How to apply the SASB Framework on Insight360™ to track company progress on the SDGs." TruValue Labs.
- Robert Eccles and Svetlana Klimenko. (2019). "The Investor Revolution: Shareholders are Getting Serious About Sustainability." Harvard Business Review, May-June issue. <https://hbr.org/2019/05/the-investor-revolution>
- Khan, Mozaffar, Serafeim, and Yoon, "Corporate Sustainability: First evidence on Materiality" Accounting Review 91, #6, November 2016. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2575912](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2575912)

## Session 9: ESG Investing: Exclude or Engage?)

### Topic: Impact Investing

Negative screens that filter investments based on environmental, social and governance criteria remain critical to many investors. Widely used broader definitions put the share of excluded investments closer to one-fifth of all professionally managed assets. Exclusions remain the most popular ESG strategy. Negative screening is only one aspect of sustainable investment, and serves a different purpose to activities such as integration and engagement. Integrated analysis for active stock-picking includes analysing how ESG issues can affect an estimation of a company's fundamental value. When deciding whether to invest and/or engage firms on controversial ESG issues, fund managers need to have a clear goal in mind. They must be able to articulate how their efforts will not only drive change, but also add value in protecting and enhancing capital for shareholders.

#### Readings:

- Serafeim, George, Public Sentiment and the Price of Corporate Sustainability (2018). Harvard Business School Accounting & Management Unit Working Paper No. 19-044.
- Clark and Lalit, "ESG Improvers: an alpha enhancing factor," September 29, 2020.
- Kristin Hull, Open Letter to Elon Musk. <https://kristinhull.medium.com/an-open-letter-to-elon-musk-7c566528122d>

Case Assignment 4: Your group will be assigned a company to analyze. See Template II

## Assignments

### Individual Assignments

#### Pre-course individual Assignment 1: Ignite presentation.

Students to prepare an Ignite presentation (template to be provided) discussing their background, how you came to this course, and (briefly) your career aspirations. Note that you have 10 slides, with 20 seconds for each slide, so I suggest making this high-level and using images. The goal is not a formal presentation, but something more personal. Also note that the template will advance automatically; please don't alter this aspect of it. The point is merely for us to get to know each other better and uncover common interests. Please do not remove the timer from the template.

#### Individual Assignment 2: Theory of change

Students to develop a theory of change on the organization of their choice through an individual paper due at the end of the laboratory. The paper will have to:

- Develop a theory of change for the organization presented during class (you can alternatively find a new organization if you prefer – in case of questions please get in touch directly)
- Identify and discuss an ethical challenge/issue/situation related to the business model/theory of change OR

- Identify/develop the social indicators that can help prove that the organizations theory of change is robust and credible.
- Make practical recommendations to the managers or stakeholders of the organization.

The scientific approach to the problem, as well as the relevance and the realism of the recommendations are of critical importance. The paper is also evaluated on the quality and clarity of the writing.

The maximum length of the paper (bibliography excluded) is 4 pages in Arial font, size 12, 1.5-spaced, with numbered pages

## Group Assignments

### Case Assignment 1: Corporate approaches to solving social and environmental problems.

How would you pitch Angaza Design to a venture philanthropist, impact investor or tech VC?

1. Pitch Angela to:
  - a. Tech Venture Capitalist
  - b. Finance first (commercial) Impact investor
  - c. Philanthropic impact investor
2. Prepare a 5-minute pitch to do in class. Reflect on a clear value proposition that you feel will attract the investor. What are the salient features of Angaza's business model that you want to point out? Remember who you are pitching to. Traditional venture capitalists, in general, seek to achieve a high-return exit. You will need to have your pitch ready for the session but will not be asked to upload it beforehand.

### Case Assignment 2: elea methodology for philanthropic impact investment.

Compare and contrast the commercial potential and the impact of two social ventures. Think as a philanthropic investor and identify the pros and cons of investment in each proposal. Which one would you recommend for approval to the Board of Directors? The team will be responsible for identifying, analyzing and presenting an investment decision and business and impact case one of the alternatives.

1. Analyze the two cases based on their business models, impact, financials and founders.
2. Build a strong rationale for why elea should invest in one, both or neither of these cases, using the Checklist in the appendix of the case as a guide for what we are looking for.
3. Think about the investment terms for your investment recommendation (how much to invest, using what instrument, with what conditions, etc.).
4. Prepare a 5 min group presentation to support your decision in class. Complete the due diligence report (to be sent beforehand).

### Case Assignment 3: Can a tobacco company be sustainable?

1. Role play of a stakeholder engagement meeting. You will be given a specific stakeholder to research
2. You will build a materiality matrix based on the results of the role play.

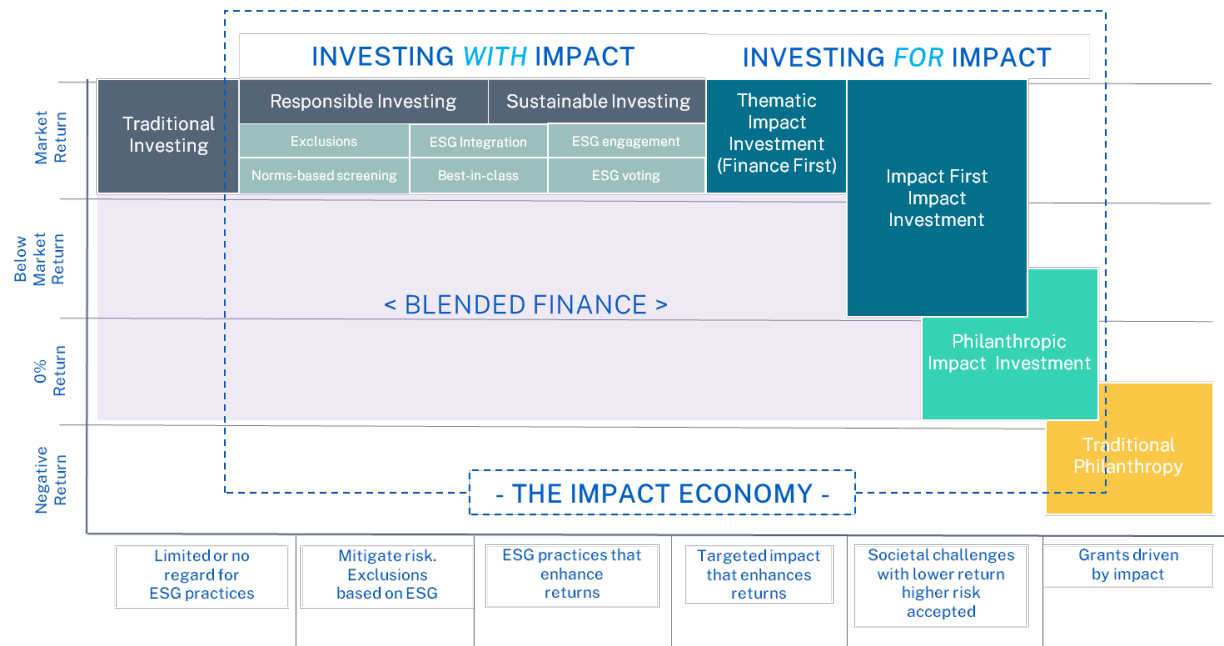
### Case Assignment 4: elea methodology for philanthropic impact investment.

1. Depending on the company you have been asked to work on, write two paragraphs summarizing their value proposition. Prepare a 1-minute pitch to present in class.
2. Please carefully evaluate this company in light of the ESG criteria, identify any ESG controversial issues found on the Internet, as well as this company's positive impact on people and planet.
3. Write a paragraph summarizing this company valuation based on market multiples
4. Make a decision and document it on the decision framework PowerPoint slide:
  - a. Would you recommend Triodos to include this company in its investment universe? Yes, without reservations? Why?
  - b. Yes, but engaging with this company about the controversial issues? Which ones? Why?
  - c. No, I would exclude it from Triodos investment universe.

## Grading:

Pre-course group assignment	5%
Forum group assignments	30%
Individual participation	15%
Final individual Theory of Change paper	50%

## Graph: Social Finance Spectrum



## Assignment Templates

### Session 6 Assignment: Impact investment decision (Template I)

<b>Profile description</b>
<b>General information:</b>
Sector:
Stage:
Enablers for scale:
Main social/environmental focus:
<b>Business model description</b>
<b>Market potential description</b>
<b>Financials</b>
<b>Founder(s) and team</b>
<b>Social impact</b>
<b>Critical issues and key questions</b>



## Session 9 Assignment: To exclude or engage (Triodos decision framework, Template II)

Impact Themes						
Sustainable food and agriculture	Sustainable mobility and infrastructure	Renewable Resources	Circular Economy	Innovation and Sustainability	Properous and Healthy People	Social Inclusion and Empowerment
Investment Narrative: identifying the value proposition						
Three positive reasons to own			Three investment risks			
Investment Recommendation						
Topics for engagement (if any)						

ESG Analysis	
Company purpose/ mission	Impact
Triodos Minimum Standards	Environmental (E)
	Social (S)
	Governance (G)
Most material ESG issues	
Exit Triggers	