

**Council on Foundations – 2010 Annual Conference – Mini Plenary
“Social Innovation: What it is and what it means for philanthropy”
Sunday, April 25, 2010 – 1:00 to 3:30pm
Denver, Colorado**

Good afternoon.

Thank you, Katherine, for your kind introduction.

And thank you, Andrew, for your insightful perspective.

I think we can all agree that philanthropy is in a period of significant transition – the consequence of sweeping social, political, and economic transformations.

These changes are equal in significance to those that occurred a decade into the last century, when Andrew Carnegie and John D. Rockefeller first married America’s singular legacy of charity with the business insights and outlook of its Gilded Age.

Looking back at our foundation’s inception, what most strikes me is *how* Rockefeller and his advisors assessed and addressed the most pressing challenges of their time.

They saw conditions that needed to change. They invested in cutting-edge research. They called on experts and put many on payroll.

When a young Albert Einstein sent a request for \$500 to Rockefeller’s top lieutenant, Rockefeller instructed his prototype program officer, “Let’s give him \$1,000. He may be onto something.”

They tested and experimented. They adapted based on what they learned.

John D. and his colleagues didn’t use the word social innovation then; they called it “scientific philanthropy.”

But social innovation – applying innovation to solve pressing social, economic, health, and then, later, environmental challenges – was their game.

A moment ago, Andrew eloquently described the methods and madness of Thomas Edison, a contemporary of Carnegie and Rockefeller’s.

While our predecessors were arguably the first modern philanthropists, Edison was arguably the first modern innovator.

In addition to fostering a culture of innovation in his lab, Edison was a systems thinker – a visionary – who recognized that how you innovate is as important as what you invent.

Tim Brown, CEO and President of the design firm IDEO, put it well in the *Harvard Business Review*:

Brown wrote, “Edison’s genius,” “lay in his ability to conceive a fully developed marketplace, not simply a discrete device.

Edison understood that the light bulb was little more than a parlor-trick without a system of electric power generation and transmission to make it truly useful.

So, he created that too.”

Today, in philanthropy, innovation is more important than ever.

To be sure, our work hinges on the same two questions it always has:

“How will we gonna make a difference?” And “how will we pay for it?”

But because the world has changed so dramatically, our answers must change in turn.

We must act on the insight that how we work is equally important as what we do.

Fortunately –

...thanks to the thinking and teaching of scholars like Andrew, Katherine Fulton, Gabriel Kasper, and their colleague Larry Keeley...

...thanks to the early work of our colleagues at the Lumina, Lemelson, Kellogg, Packard, Kaufman, and Hewlett foundations...

– philanthropy can now benefit from the emerging field of innovation studies.

Today, we know what does – and doesn’t – work not only by trial and error, but also by light of learning, knowledge, and literature.

We know that innovation is more than a right-brain activity; it’s a left-brain skill.

We know that innovation doesn’t only materialize from the gut-up or cortex-down.

It’s an achievement of methodical discipline, not just “aha!” inspiration.

In fact, there are at least four categories of innovation with potential to shape philanthropy’s second century:

- product innovations,
- market innovations,
- organizational innovations,
- and process innovations.

I'm grateful for this opportunity to discuss each briefly before we dive into our broader discussion.

Product innovations are closest to what most people traditionally characterize as innovation: breakthrough ideas or interventions.

In the private sector, this means the iPad or BlackBerry; Facebook or Twitter.

In our business, it means a vaccine or cure for the scourges of Africa's poor...

...a new technique that helps children master their studies...

...or a creative triumph that inspires a community to see itself differently or take action.

During the last decade, especially, philanthropy has excelled at funding work that seeks such innovations – and we must continue to do so.

Because while governments can frame smarter policies...

...and while businesses can open distribution channels that enable change to disseminate...

...we in philanthropy must keep experimenting with new solutions, using old ones in new ways, and equipping organizations and communities with the tools and techniques to deliver sustainable impact.

The second category is market innovation, including innovation in developing new markets for the resources needed for our work.

Because, even when philanthropy finds new ideas...

Even when we help disseminate them in innovative new ways...

...the world doesn't necessarily have sufficient foundation or even government resources to pay for their widespread adoption.

Think, for a moment, about our "social balance sheet" for a global agenda.

On one side of the ledger, we have:

- Liabilities between \$4 and \$10 trillion to provide decent housing and basic sanitation to the world's billion slum dwellers.
- Liabilities of another \$1 trillion-plus to capitalize a green revolution for smallholder farmers in sub-Saharan Africa.
- Liabilities of hundreds of billions of dollars to provide basic health services in countries that currently spend only tens of dollars per capita on health services per year.
- Liabilities of millions more for the hundreds of millions of children who can't find a classroom seat – let alone read modern textbooks or learn from qualified teachers.
- Just to highlight a few

What assets do we have to cover these trillions in “social liabilities?”

Total development aid from governments hovers around \$140 billion a year.

Foundation aid is also not sufficient.

In the United States, where total giving totaled more than \$300 billion in 2008.

Of that, only \$45 billion – 15 cents of every dollar – came from private foundations.

But while there *is not* enough money in foundation and government coffers to solve a large swath of defining tests of our time, there *is* enough money.

It's just locked in private investments which represent more than \$100 trillion in for-profit capital markets.

So we need not ask ourselves “why isn't there enough money to solve social problems?”

Instead, we should ask: “How can we tap into these enormous private capital flows to create both financial profit and social return?”

Enter a new market innovation: The field of impact investing – a field in which some of you already participate through your endowment and program-related investment portfolios.

It's grounded in a simple recognition: for-profit investing can work in concert with philanthropy to provide capital and solve social, health, economic, and environmental challenges at scale.

Our Rockefeller colleagues and Katherine's team at the Monitor Institute provided a helpful framework for thinking about three categories of impact investments:

- One -- impact-first investments, which seek to optimize social or environmental return, but expect some financial return.
- Two -- financial-first investments, which seek to optimize financial return, but require some social and environmental impact.
- Three -- blended investments that bring impact-first and social-first investors together.

And there's a lot of territory among the gaps – another new frontier for philanthropic innovation.

Consider just a few snapshots:

In rural Uganda, an NGO called TechnoServe helped thousands of low-income farmers access entrepreneurship training, organize themselves into a network and, as a consequence, earn 30 percent more when they sold their crops.

The farmers quickly realized they could make even greater profit if they reinvested in better seeds, fertilizers, and irrigation methods.

But to do this, they needed loans, and no bank would lend.

So we struck a deal with the Centenary Rural Development Bank, which provided a partial guarantee for loans to these farmers.

Now backed by this guarantee, the bank has lent millions of dollars – and the farmers are growing their way from poverty to prosperity.

This was an impact-first investment and we even made a small return on the investment. Moreover it works to amplify the impact of our initial traditional grant to TechnoServe.

Another:

In New York City's poorest borough, the Bronx, low-income families are moving into safe, dignified affordable housing.

Their refurbished homes were capitalized by the for-profit, JP Morgan Urban Renaissance Property Fund.

This \$165 million fund targets America's poorest urban communities – and it earns market-rate returns of 15 percent for its investors.

This financial-first investment makes a tremendous impact.

Or a third snapshot:

In the slums of Hyderabad, India, thousands of children learn from qualified teachers in modern classrooms as the result of an Indian School Finance Company loan.

The Indian School Finance Company – a non-banking finance company that extends medium term loans at market rates to private schools – was capitalized by Gray Ghost Ventures, a social venture capital fund, in partnership with the Rockdale Foundation.

This is a blended approach.

It opens classroom doors to children who would otherwise be on the outside looking in.

It draws from high-risk social capital. It tests an innovative investment model.

And it even turns a modest profit – about 9 percent – for the India School Finance Company.

These are just three illustrations among a broad array.

And each holds enormous potential as a market innovation that could literally reconfigure the social balance sheet – rendering our social liabilities and financial assets a little more equal.

This links with the third major category of innovation: organizational innovation.

One subset of organizational innovation keys on how we work internally.

As the Kellogg Foundation's excellent report elevates, the best results often emerge when we:

- engage our colleagues in collaborative, integrated work,
- promote creative time,
- encourage speed, volume, and iteration,
- and have the courage – and conviction – to embrace and talk about our failures.

This is a terrific goal for how to run our foundations.

A second subset of organizational innovation keys on how we work with our grantees and partners.

Because we're in the business of modeling strategies that can make a difference in peoples' lives, we must be committed to finding the best organizational structures for sharing

innovations with stakeholders, spinning them off, and finding partners who can bring them to scale.

A third subset of organizational innovation corresponds with what Andrew described: Networks that bring people and institutions with diverse perspectives together across disciplines, and then facilitate their learning from and with one another.

For one example, in early 2009, we launched the Asian Cities Climate Change Resilience Network to forge an alliance of local governments, NGOs, scientific experts, urban planners, and disaster management specialists.

It tests new approaches for cities and citizens to prepare for and recover from the impacts of climate change.

It creates relationships and systems to help diverse partners and policymakers learn from best-practices.

And it brings attention, resources, and successful ideas to scale in vulnerable cities around the world.

Or, to take another example, we worked with partners to launch two impact investing networks to accelerate the development of this industry.

One, the Global Impact Investing Network, focuses on the supply side, the investors.

It helps these investors identify and analyze barriers that hinder the impact investing industry's efficiency and effectiveness...

...learn, together, what works and what doesn't...

...and pool expertise to solve common challenges.

The other, the Aspen Network of Development Entrepreneurs, focuses on the demand side, the grantees.

By working to build a global network of more than 80 entrepreneurial organizations in emerging markets – ANDE, as it is called, is helping to bring capital, capacity building and technical assistance to small and growing businesses that create economic, environmental and social benefits for developing countries.

So, as a community of foundations, we're working on exciting new products.

We're making a difference 'on the ground' with a new marketplace for financial resources.

And we're developing reimagined organizations and networks.

What about process innovation, the fourth category?

Since the 1980s, many private companies, design firms, and scientific research entities have developed and deployed innovation processes that consistently produce new – and sometimes breakthrough – ideas and technologies.

This reflects the awareness I described earlier that innovation is not only an exercise in creativity, but also a process with an established methodology.

Until recently, however, social problem solvers had not attempted systematically to adapt these processes and apply them to address economic, health, and environmental challenges.

At Rockefeller, we have been experimenting with several of them, including crowd-sourcing, user-driven innovation, and design for social impact.

First, we partnered with InnoCentive, a spin-off of the Eli Lilly Company, to test the feasibility of crowd-sourcing searches for social innovation.

InnoCentive was initially created as a resource for pharmaceutical companies to expand R&D from an in-house only activity to a world-wide virtual laboratory.

Many discoveries emerged at very low cost.

Scientists competed for prize money to solve difficult challenges the way some of us do crossword puzzles.

Through InnoCentive's online network of 200,000 engineers, scientists, and entrepreneurs – dubbed "the world's first open innovation marketplace" – we offered prize money in exchange for successful ideas that had confounded experts working in only one place to solve social health and environmental problems.

New tools like a solar-powered, mosquito-repellent, anti-malarial device emerged as a result.

So did seven other exciting solutions for NGO's who participated ranging from a dry-based bio latrine to the design of a plant oil stove.

We learned, as one of our partners put it, "if you want an answer, ask everyone."

Building on this early success, we've now funded a partnership between InnoCentive and GlobalGiving, which as many of you know works as an online intermediary between nonprofits and individual, low-dollar donors around the world.

With our support, they posted five new challenges to launch their collaboration – all related to water:

- The Edge Project is seeking an easy-to-use water purification method for use around Lake Victoria;
- the Fundación SODIS wants to develop an indicator that shows when a quantity of water has been disinfected by ultraviolet- or sun-light;
- Rainwater for Humanity is soliciting ideas for of a low-cost, rainwater-harvesting storage tank for use in India's wetlands;
- Green Empowerment is searching for expert assistance in developing a small-scale river turbine that can bring electricity to Peruvian villages, schools, and medical centers;
- and the Intermediate Technology Development Group wants help fashioning a water tank that uses titanium oxide nano-particles to sterilize drinking water.

We've also partnered with Ashoka's Changemakers to expand another type of open innovation platform.

Changemakers, like InnoCentive, posts social challenges online and invites competing applicants to submit potential solutions.

In their model, however, proposed solutions are published transparently and remain unlocked for revision.

This new concept, called "collaborative competition," facilitates two areas of learning – and we think holds great potential to network groups of individuals virtually.

First, it identifies clusters and blank spots of ideas.

Problem solvers can see where their counterparts are focusing and where there may be space to propose alternatives.

Second, it promotes collaborative revision and iteration.

The sooner applicants submit their proposals, the earlier they can see others' work, and the further they can sharpen their own thinking.

For example, the Global Water Challenge, a coalition of 22 leading organizations, sought a new approach to help low-income communities in emerging nations, access sanitation and drinking water at low costs.

Competing applicants from 54 countries put forward more than 240 ideas.

Since every suggestion was visible to every entrant, competitors collaborated spontaneously.

The final winner included online contributions from countries as diverse as India, Malawi, Kenya, South Africa, and the United States.

With \$1 million from a private donor, the solution was tested in the field and taken to scale.

Hundreds of people, who never met each other, pooled expertise to solve a common problem.

Another kind of innovation process has been a rich source of experimentation for us: It's what is called user-driven innovation.

This is based on the idea that if people impacted by innovations aren't involved in their creation, then the innovations will neither address their needs nor be as widely adopted.

Many of us believe that social sector problem solving could achieve tremendous impact if the individuals and communities with the problems are included in the process of developing the solutions.

To apply a new innovation process in this domain, we funded a group called Positive Deviance.

They identify the key behaviors that enable outliers or "positive deviants" to succeed and then work with others within the community to adopt these same behaviors.

For example, Positive Deviance initially cast its eyes on malnutrition in Southeast Asia.

Researchers visited a low-income Vietnamese village and immediately noticed that children in a scattering of families were in exceptionally good health.

Upon closer examination, they discovered that, in these households, providers did not wash away shrimp and crabs found in rice paddies.

Instead, they cooked the crustaceans along with their rice – adding protein to a carbohydrate-based diet.

This technique was then embraced in villages across the country. It was a small, user-generated innovation that made a big impact.

User-driven innovation is also associated with design for social impact – an idea first and best understood by private designers like IDEO, which conceived Apple’s first computer mouse and thousands of best-selling consumer products since.

Innovation tends to be especially effective when innovators engage consumers in the design, instead of designing products in a lab and then testing consumer preferences afterward.

Take the challenge of spreading adoption of hearing aids in rural India.

Conversion Sound, a social enterprise group, designed a protocol to fit poor people with hearing aids in rural India.

They found that since authority commands such respect in some parts of country, hearing aid technicians would be more effective if they wore uniforms.

It was a simple design fix that made a profound difference in thousands of lives.

Each of these examples shows that in the 21st century, innovators need neither laboratory access nor library cards.

The laboratory is everywhere, and everywhere is the laboratory.

What’s more, innovation practices aren’t only transferable from the private to the social sectors, but also the other way around.

When Mohamed Yunis created microfinance to help the world’s poorest communities, he never imagined that most commercial banks would eventually deploy it as a business model.

Or think of another example:

Through kiva.org, a person-to-person, micro-lending Website, individual donors pool their resources. By combining their contributions, almost 700,000 lenders have contributed more than \$125 million, usually \$25 at a time.

Lenders with only a little to give connect with micro-entrepreneurs for whom it makes a huge difference.

Now, we can see a similar technique maturing in the private sector. It’s called “crowd funding.”

Customers can invest online in the latest music group or clothing designer – a dollar, pound, frank, or yen at a time – and earn a cut of the profits in proportion to their seed support.

It’s a new model of shareholding.

At the Oscars last month ago, American Express announced a similar initiative that supplements top-down corporate giving, where corporate relations officers decide which charities deserve funding...

...with a comprehensive web-based platform for social action, which lets people sign-on and vote for the charities they believe most deserve funding.

It's called takepart.com.

It may be a wave of the future for corporate social responsibility activities.

So, what's my message this afternoon.

That philanthropy has a variety of new arrows in our quiver – innovation tools and practices that enable us to be even more intentional and systematic about our work.

We can foster and foment innovation in organizations, markets, and processes, not only products.

Many of you are already doing so.

The Frieda C. Fox Foundation in Studio City, California, is developing a “virtual site visit” program that allows funders from all over the country to visit a grantee without traveling.

The Packard Foundation developed a “Network Effectiveness” program. This ensures it supports grantees that work together and leverage each other.

We're working with the Gates, Carnegie, Hewlett, and other foundations – along with a group called TechSoup – to launch NGOsource, which will make it easier for U.S.-based grant-makers to meet regulatory requirements that too-often hamper our giving around the world.

And we're working with Katherine and the Monitor Institute on an innovative strategy and outcomes mapping tool that will allow us to explore how the philanthropic sector can turn innovation on itself and enhance our capabilities and impact.

In philanthropy's best tradition of testing, experimenting, and adapting based on what we learn, perhaps it's also time for us to create a shared innovation Web site.

Let me close with this:

A decade into the 21st century, we have an enormous new tool-box at our disposal.

It comprises tools that revolutionize how knowledge is produced and shared -- tools that equip more people in more places to join in building a more productive and resilient future.

A century ago, when Alexander Graham Bell – another contemporary of Carnegie, Edison, and Rockefeller – told his investors that his innovation would allow someone in Chicago to speak with someone in New York, one venture capitalist reacted by asking:

“But what, in God’s name, would anyone in Chicago possibly say to someone in New York?”

What, indeed?

Like the invention of other tools

– the telephone, the electrical grid, modern philanthropy –

the evolution of innovation in products, organizations, markets, and processes helps people:

- connect and communicate,
- compete and collaborate,
- see and solve problems in fundamentally new ways.

These advances emerge not a moment too soon.

Innovation in our sector has never been more urgent – nor its possibilities more profound.

I look forward to our discussion.

Thank you.

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