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Multinational corporations (MNCs) increasingly view emerging markets as offering critical growth opportunities. However, many companies struggle to successfully translate their high-income market business models to these new low- and middle-income markets. This paper explores different organizational models for pursuing financially sustainable and strategic approaches to working in emerging markets that also achieve social objectives.

Social business strategies (SBS), which we define as initiatives that leverage a company’s core business assets to provide products or services to underserved, lower-income populations in a financially sustainable manner, offer a compelling approach for MNCs looking to grow their presence in emerging markets. Drawing on a review of the literature and practitioner interviews, this paper explores the approaches of several health sector MNCs to structure and execute SBS within their organization. The paper is organized in two parts. Part I explores emerging organizational models for SBS and provides case study examples from multinational companies in the health sector, including Medtronic, GE, Novartis, and GSK. Part II presents key success factors and practical advice for implementation. While the examples in this paper are focused on health companies, the frameworks and insights are applicable across multiple sectors.

SBS offer clear benefits for MNCs by allowing them to simultaneously access new market segments, build innovation capabilities, and enhance their reputation and reach in developing markets. Depending on the relative importance of each of these benefits, an organization should consider different approaches to structuring SBS initiatives within their company. Our research surfaced two primary considerations for structuring SBS initiatives: 1) the locus of organizational ownership, and 2) the model for resource allocation.

If an organization is focused on driving broad engagement and facilitating spillover of learning across vertical silos, a platform approach to SBS is likely most effective. In the platform approach, a team at the corporate level is accountable for SBS, but does not directly manage the implementation activities. The corporate team engages with business units across the organization, creating a platform for SBS innovation and catalyzing new initiatives. The intent of the platform approach is to encourage and support existing business units to do what they cannot or will not do on their own. Potential disadvantages stem from the constraints of relying on existing business units to execute SBS. Corporate platform teams may face resistance from business unit managers, who are typically focused on short-term business and revenue pressures and rewarded for execution of core business initiatives over innovation.

The platform approach can be implemented with a lean corporate budget but there are two distinct models for resource allocation: the advocate model (ad hoc resource allocation) and the enabler model (dedicated resources).

In the advocate platform model, the corporate team relies on business units to allocate resources. This model can be implemented with limited financial commitment, but may be a slower process, given the need to convince business unit managers to “buy in” to initiatives. Visible CEO commitment plays a critical role in building support for such initiatives. Over time, broad business unit participation may drive more sustainable, large-scale resource commitment.

In the enabler platform model, the corporate platform team has a dedicated pot of resources for investment in SBS proposals, helping to overcome resistance from business units and accelerating the implementation of selected initiatives. However, corporate investment may reduce business unit ownership and commitment to SBS.
If the organization is more interested in fostering radical innovation and rapid execution, the dedicated unit approach may be a better fit. This approach gives a division or business unit complete ownership and accountability for SBS, from conception to execution. One advantage of this approach is SBS are shielded from existing business practices and there is a clear structure and pathway for initiatives that may fall outside of the scope of existing business units. Relative to the platform approach, the dedicated unit can drive more rapid execution, establishing appropriate incentives for managers instead of relying on advocacy and persuasion. The primary disadvantage of the dedicated unit approach is that inherently, this approach limits engagement and cooperation with other business units and can hinder the spillover of learning and innovation throughout the organization.

Within the dedicated unit approach, there are two significant variations: a stand-alone unit, newly created to implement SBS, and an integrated unit, in which an existing unit is reoriented to focus on SBS.

In the stand-alone unit model, a new business unit is established to implement SBS. This model maximizes the advantages of the dedicated unit approach, removing the potential hurdles of existing business practices and coordination across teams to enable more rapid execution and, ultimately, scale. However, creating and staffing a new unit dedicated to SBS is resource-intensive. In addition, there is potential for overlap and conflict with existing business units.

In the integrated unit model, a clear focus on SBS is integrated into an existing unit or division. The transformation of the existing unit includes significant changes to the incentive structure and often the addition of support staff with expertise in SBS. This model is able to harness existing infrastructure and, as a result, is aligned with more rapid large-scale adoption of SBS. However, this model may generate more incremental, rather than step-change, innovation as it relinquishes some of the advantages of insulating SBS teams from existing business practices.

Regardless of the model that a company pursues to promote SBS, there are common best practices that position SBS for success. These include:

1. Developing a clear strategy: Successful SBS focus on broad value creation that focus on the organization’s core competencies. They also involve senior leadership commitment, a long-time horizon, an entrepreneurial mindset, and local market presence.

2. Creating effective incentives and metrics: In the SBS context, non-financial metrics play an important role in resolving the conflict between quarterly profit pressure and uncertain SBS payoffs and help to align incentives for long-term value creation.

3. Forging strong partnerships: Given the fundamental differences between developed and developing markets, local organizations can be valuable sources of innovation emerging from and adapted to the local market ecosystem. Partnerships also represent opportunities to leverage the additional assets, such as local market knowledge, distribution networks, and government relationships rather than developing all of these directly.

Targeting some of the most complex market environments, SBS require a willingness to take risks, in addition to commitment and thoughtful execution. The most appropriate organizational structure for SBS within a given company will depend on the organization’s goals, resources, and limitations. In addition, strong leadership commitment, a willingness to fail and reiterate, and a long time horizon are best practices emerging from the experiences and successes of corporate pioneers in SBS in the healthcare sector.
Historically, multinational corporations (MNCs) have focused on customers in developed markets and the wealthy segments of less-developed countries, while initiatives to expand access to lower-income populations in developing markets have been largely philanthropic or under the umbrella of corporate social responsibility (CSR). While strong CSR programs leverage the core capabilities of the business, they achieve primarily social objectives, rather than financial aims. As MNCs increasingly view emerging markets as a critical growth opportunity, the need for financially sustainable and strategic approaches to working in emerging markets grows.

Over the past decade, leading academics have directly challenged the traditional dichotomy between charitable (or social) and commercial (or economic) aims. In a Harvard Business Review article, Porter and Kramer introduce the concept of “shared value:” the potential to turn social challenges into economic opportunity, creating both social and financial value.

The shared value concept is the basis for social business models wherein underserved markets represent economic (as well as social) opportunities for MNCs. Such markets are often underserved because of persistent challenges to reaching them profitably. But the nature of these challenges is also an opportunity to spur innovation within a company and create a competitive advantage over time.

Strategic initiatives that lie between traditional CSR and commercial strategies, which we label social business strategies (SBS), incorporate a social agenda into the company’s core business strategy. These initiatives are designed to provide products or services to underserved, lower-income populations in a financially sustainable manner. SBS are not traditional CSR, but seek to build demand in specific product categories or markets. Through SBS, companies seek to create social and economic value in a way that is financially sustainable and directly contributes to long-term growth strategies.

While there is growing alignment across sectors on the benefits of SBS, large companies struggle with how to design, structure, and execute SBS effectively. Applying business models designed for developed markets has not worked. However, for many companies, building new business models for the developing world has not worked either. A frameshift of the business model is necessary to be successful in emerging markets and using a social business lens may help.

Drawing on a review of the literature and practitioner interviews, this paper explores the approaches of several health sector MNCs to structure and execute SBS. The paper is organized in two parts. Part I explores emerging organizational models for SBS and provides case study examples from multinational companies in the health sector. Part II presents key success factors and practical advice for implementation. While the examples in this paper are focused on health companies, the frameworks and insights are applicable across multiple sectors.

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1 In this paper, the term “developing markets” and “emerging markets” are used broadly and do not reflect a distinction between developing countries and a subset of more developed, emerging markets.
3 Lower-income populations are defined in greater detail in Part I. For the purposes of this paper, we do not advocate a focus on any specific segment. Healthcare companies have different capacities to reach lower-middle and low-income segments based on alignment between their product and service portfolios and population needs.
Corporate Frameworks for Social Business Strategies

The Strategic Importance of Developing Markets

Globally, companies operating in the health sector face a changing landscape, characterized by regulatory hurdles and reimbursement challenges, patent expirations, the growing prevalence of chronic disease, and an increasingly patient-centric focus on health outcomes. As cost pressures increase and mature markets begin to stagnate, developing markets represent an important avenue for growth opportunities.

In 2002, Prahalad and Hart famously introduced the idea that low-income markets present a significant opportunity to generate profit while serving the world’s poorest, at the base of the economic pyramid (BoP). Developing economies, characterized by increasing per-capita income and population growth, are estimated to constitute a third of the global pharmaceutical market in the next few years, and a rapidly growing proportion of the medical device market. However, the challenges of operating in developing markets belie the notion that they represent a “promised land” of untapped potential. In fact, developing markets include diverse, complex environments in varying stages of development, particularly with respect to healthcare infrastructure.

Key hurdles such as pricing, limited distribution networks, intellectual property threats, and insecure supply chains require substantial adaptation of the business models that have been profitable in developed markets. Furthermore, the heterogeneity of less-developed countries requires bespoke approaches. In a recent survey of pharmaceutical executives about failed developing market strategies, 27% identified insufficiently tailored strategies as the biggest strategic misstep, while 25% criticized a lack of patience and long-term strategy.

Developing markets require not only tailored country strategies, but also close attention to the different socioeconomic segments within countries. Figure 1, below, broadly defines socioeconomic tiers and introduces how targeted, complementary approaches can efficiently allocate resources to meet the needs of underserved populations.

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For example, Rangan et al. conclude that the primary need of the low-income segment is access to products and services that reduce their overall usage cost, presenting the opportunity to sell appropriate and affordable products and services to this segment. In contrast, the greatest need for subsistence populations is additional income. This segment is therefore best engaged as co-producers or distribution agents.\(^9\)

For most companies, expansion into developing markets begins with those markets that have a large “emerging middle” population. Strategies that target the lower-income segments in developing markets may not initially seem feasible, based on the unit economics of the company’s products.

However, targeting lower-income population segments provides valuable benefits for both the near and long term. In addition, emerging best practices for targeting lower-income segments will benefit not only companies seeking to reach lower-income populations, but also those that are focusing first on the global middle class.

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\(^10\) Ibid.
Benefits of Social Business Strategies

Strategic approaches targeting underserved populations in developing markets are most often rooted in innovation, by nature of the challenge of serving these hard-to-reach markets. In addition to being innovative, SBS are designed to be financially sustainable and support the strategic business aims of a company, leveraging the company’s core assets and capabilities.

Given the current healthcare industry landscape, SBS offer clear benefits for MNCs by allowing them to simultaneously access new market segments, build innovation capabilities, and enhance their reputation and reach in developing markets.

SBS can directly fuel economic growth through accessing new market segments, including new target customer populations. By definition, SBS target underserved populations, which constitute a large untapped market. As shown in Figure 1, the low-income segment alone includes 1.4 billion people globally. As articulated by Mark Kramer, co-author of Creating Shared Value, initiatives such as SBS create opportunities to identify markets invisible to conventional business models, directing companies to look in new places. Successful SBS can unlock significant new customer segments from among the billions globally who are currently underserved by the healthcare sector.

SBS can also fuel growth by stimulating innovation in business models. To respond to the changing healthcare industry climate, business model innovation is needed regardless of geographic focus. McKinsey & Company, Ernst and Young, and others identify the need for radical approaches to reinvent business models in order for companies to remain competitive. In developed markets, changing regulatory landscapes and increasing cost pressure are squeezing profits, while new technology, changing health demographics, and an increasingly patient-centric market drive the need for new strategies to create and capture value. In developing markets, low purchasing power, limited accessibility, and weak infrastructure require different approaches to deliver value through business initiatives.

An investment in SBS can lead to adaptations to existing business models that create value in challenging and underserved markets. This, in turn, can enhance corporate capabilities for innovation while also creating opportunities for translating innovations back to developed markets.

Reverse innovation at work: In the early 2000s, GE began to empower “local growth teams” in emerging markets to design products for use in those markets. GE’s strategy has since yielded several products that also found a foothold in developed markets, introduced at radically lower price points. Two of GE’s first healthymagination-certified products are examples of this: a handheld electrocardiogram device designed for rural India and a portable, PC-based ultrasound machine designed for rural China. Both ultimately filled a previously unmet market need in the US.

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Finally, SBS provide an opportunity to establish a strong foundation of relationships and brand recognition in new markets. Local partnerships are a critical element of SBS and provide opportunities to establish corporate credibility with government and other key partners in addition to building positive brand awareness with future customers. Although distinct from CSR activities, SBS offer clear reputational benefits that contribute directly to developing market growth strategies.

A Framework for Social Business Strategies

The emerging models and key success factors for SBS are, in large part, consistent with those of any initiative to foster innovation within a company. However, there are two critical ways in which the social business context is distinct from other innovation endeavors. First, SBS focus on underserved populations, generating both social and economic value. This defines the nature of the challenge, impacts the approach for measuring success, and expands the set of potential partners to include those focused on social impact. Second, SBS call for bespoke business models in response to the highly heterogeneous nature of developing markets. The importance of tailored approaches increases the need for local engagement, with implications for organizational models and partnership strategies.

Recent literature about corporate entrepreneurship and innovation provides insights about strategies for accelerating growth through new business models within an existing company structure. In particular, a framework developed by Wolcott and Lippitz identifies two key features of approaches to foster corporate entrepreneurship: 1) the locus of organizational ownership (diffused across the company or focused within a particular unit), and 2) allocation of resources (ad hoc or dedicated). This framework provides a relevant starting point and, with some modification, can be applied to the unique SBS context.

As introduced above, two primary characteristics differentiate SBS from the broader goals of corporate entrepreneurship: the focus on historically underserved populations, and the importance of localization. The Wolcott and Lippitz framework can be modified to incorporate these characteristics and better fit SBS. While the question of ad hoc versus dedicated resource allocation remains relevant for SBS, the organizational ownership considerations are more nuanced. The importance of localization typically indicates use of a decentralized or diffused organizational model, but the challenge of profitably reaching historically underserved populations indicates the need for focused organizational ownership.

As a result, in structuring SBS organizational models, the key question is not whether to have diffused or focused organizational ownership, but how and where to establish a dedicated team. Two overarching organizational approaches emerged in this research of SBS within health sector MNCs: a platform approach that separates organizational ownership of SBS from implementation of the SBS activities, and a dedicated unit approach, which combines organizational ownership and implementation within a single team.

16 A similar observation is made by Kyle Peterson, Matthew Rehrig, Mike Stamp, and Samuel Kim in “Competing by Saving Lives: How Pharmaceutical and Medical Device Companies Create Shared Value in Global Health,” FSG (2012). The authors note the emergence of two organizational models, described respectively as a “cross-functional team” and a “separate innovation unit that directly manages initiatives.”
The Platform Approach

In the platform approach, a team at the corporate level is accountable for SBS, but does not directly manage the implementation activities. The corporate team engages with business units across the organization, creating a platform for SBS innovation and catalyzing new initiatives. Platform teams typically play a critical advocacy role for new initiatives and provide technical support to business units through the subsequent stages of design and implementation. The intent of the platform approach is to encourage and support existing business units to do what they cannot or will not do on their own.

One advantage of the platform approach is its ability to drive broad engagement across the entire organization, maximizing the potential set of corporate resources applied to SBS. Working across vertical silos, the platform approach can also facilitate spillover of learning, reinvigorating other business unit practices and sparking reverse innovation, the flow of innovative models or products designed for developing markets back to developed markets.

The potential disadvantages of the platform approach stem from the constraints of relying on existing business units to execute SBS. Corporate platform teams may face resistance from business unit managers, who are typically focused on short-term business and revenue pressures and rewarded for execution of core business initiatives over innovation. The platform approach relies on the corporate team’s ability to influence managers and build coalitions, a significant time and coordination burden that is often underestimated.

The platform approach is better aligned with piloting initiatives than with scaling them up. In addition, as a result of working through existing business units, the platform approach tends to facilitate incremental, rather than radical, innovation.

The platform approach can be implemented with a lean corporate budget but the question of how to allocate resources for implementation remains relevant, leading to two distinct models: the advocate model (ad hoc resource allocation) and the enabler model (dedicated resources).17

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17 The terms “advocate” and “enabler” are borrowed from Wolcott and Lippitz (2007), though their use is modified here.
Advocate Platform
In the advocate platform model, the corporate team does not have a dedicated budget to invest in initiatives, but relies on business units to allocate resources. This model can be implemented with limited financial commitment, but the road to results may be slower initially, given the need to convince business unit managers to “buy in” to initiatives. Visible CEO commitment plays a critical role in building support for such initiatives. Over time, broad business unit participation may drive more sustainable, large-scale resource commitment.

Under the advocate model, several key factors will affect whether business units opt-in to SBS. Business units with limited internal growth prospects are typically more open, while those facing any sort of short-term financial crisis are not likely to engage in SBS, creating a selection bias that may not reflect a business unit’s capabilities or the developing-market potential of its products.

Enabler Platform
In the enabler platform model, the corporate platform team has a dedicated pot of resources for investment in SBS proposals. Direct allocation of corporate funds can help to overcome resistance from business units and accelerate the implementation of selected initiatives. As a result, relative to the advocate model, the enabler model may be able to achieve results more rapidly. However, corporate investment may reduce business unit ownership and slow long-term business unit commitment to SBS. Furthermore, with a limited financial commitment from business units, there is a more acute risk that regularly occurring staff turnover will jeopardize business unit commitment to an initiative under the enabler platform model.

In addition, the enabler platform model requires the corporate team to establish transparent criteria for allocation of funding. While these criteria are important in setting a clear strategy and signaling priorities to the business units, the need to set criteria may also inhibit the value of the platform approach, which is to broadly harness and support potential innovation across the company.

The Dedicated Unit Approach
In the dedicated unit approach, a division or business unit has complete ownership and accountability for SBS, from conception to execution. Combining the innovation and implementation teams, the dedicated unit can employ direct management and control. The intent of this approach is also to provide insulation from existing business practices and dynamics that might inhibit disruptive innovation.

One advantage of this approach is that shielding SBS from existing business practices can foster more radical innovation. Another advantage is the clear structure and pathway for initiatives that may fall outside of the scope of existing business units. Relative to the platform approach, the dedicated unit can drive more rapid execution, establishing appropriate incentives for managers instead of relying on advocacy and persuasion. The primary disadvantages of the dedicated unit approach stem from its isolation from other units. Inherently, this approach limits engagement and cooperation with other business units and can hinder the spillover of learning and innovation throughout the organization.

Within the dedicated unit approach, there are two significant variations: a stand-alone unit, newly created to implement SBS, and an integrated unit, in which an existing unit is reoriented to focus on SBS.
**Stand-alone Dedicated Unit**

In the stand-alone model, a new business unit is established to implement SBS. This model maximizes the advantages of the dedicated unit approach, removing the potential hurdles of existing business practices and coordination across teams to enable more rapid execution and, ultimately, scale.

A significant constraint of this model is the resource-intensive nature of creating and staffing a new unit dedicated to SBS. In addition, there is potential for overlap and conflict with existing business units. Careful management is needed to assess the potential impact on existing business units and to determine any relevant transfer pricing so as to retain alignment of incentives for both the traditional business units and the SBS unit.

**Integrated Dedicated Unit**

In the integrated model, a clear focus on SBS is integrated into an existing unit or division. The transformation of the existing unit includes significant changes to the incentive structure and often the addition of support staff with expertise in SBS. A significant advantage of this model is the ability to harness existing infrastructure with the capacity to execute SBS at scale. As a result, this model is aligned with more rapid large-scale adoption of SBS.

However, the integrated unit may generate more incremental, rather than step-change, innovation. While it captures the advantages of integrating SBS responsibility and implementation in a single business unit, it also relinquishes some of the advantages of insulating SBS teams from existing business practices. From a planning perspective, it is important to remember that there is a requisite transition period for an existing unit to adapt to new business practices.

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**Figure 3. Key Characteristics of the Platform and Dedicated Unit Approaches**

<table>
<thead>
<tr>
<th>Platform</th>
<th>Dedicated Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic goal</td>
<td>Broadly spur SBS innovation across organization</td>
</tr>
<tr>
<td>Core function</td>
<td>Advocate for and support SBS across business units</td>
</tr>
<tr>
<td>Advantages</td>
<td>• Potential for broad business unit participation and investment</td>
</tr>
<tr>
<td></td>
<td>• Vehicle for broad transformation of corporate culture</td>
</tr>
<tr>
<td></td>
<td>• Opportunity to pilot range of SBS</td>
</tr>
<tr>
<td>Disadvantages</td>
<td>• Significant advocacy and coordination burden</td>
</tr>
<tr>
<td></td>
<td>• Short-term profit pressures constrain ability to pursue SBS</td>
</tr>
</tbody>
</table>
CASE STUDY: Medtronic
Advocate Platform Model

When Omar Ishrak became CEO of Medtronic in 2011, he announced a new strategic focus on economic value and on global markets. As part of this effort, Medtronic established Global Health Innovations, a social business initiative to promote innovation targeting lower socioeconomic segments globally. Historically focused on premium markets, this new strategic focus represents a significant change for Medtronic.

Model: Global Health Innovations (GHI) is led by a small team within corporate strategy and business development, responsible for engaging with business units to advocate and support social business pilots across the organization. The Platform model aligns with Medtronic’s strategy to fuel business model innovation in anticipation of delivering Medtronic technologies to address unmet healthcare needs in developing and emerging markets. The platform approach promotes engagement across the company, increasing the amount of potential human capital that can be involved in SBS and helping to spark a transformation in company culture toward an economic-value orientation.

Metrics: To date, Medtronic has relied on the GHI team to work with business units to explore and develop new models for SBS, though without establishing specific incentives for SBS at the business unit level. At the platform level, GHI’s primary performance metric is non-financial: the team has a target number for pilot initiatives established. At the initiative level, appropriate financial and impact metrics are established for each project. Medtronic representatives emphasize that strong, visible CEO and Executive Committee commitment has been critical in convincing business unit managers to invest in SBS, but that engaging business units remains difficult in the absence of explicit incentives for SBS investments. Medtronic is evaluating possibilities for shared investment and incentives that ameliorate the impact of SBS investments on short-term profits and margins.

Partnerships: Medtronic recognizes a substantial need for external partnerships, specifically with non-traditional partners, to bring in expertise about product development and business models appropriate for target markets. Medtronic has also focused on establishing partnerships to share project risk and early stage investments.

Lessons learned: A recent project in India illustrates several lessons Medtronic has learned about designing SBS initiatives and establishing partnerships. Following the CEO’s Developing and Emerging Markets Challenge, Medtronic’s Surgical Technologies (ST) business initially examined opportunities through the lens of premium and value segments, but quickly identified the significant burden of disease on underserved populations. The team reviewed existing models and identified the Aravind Eye Hospital in India as a successful example of acute-care disruption in healthcare. With a core competency in ear, nose, and throat (ENT) surgical devices, the team explored the feasibility of establishing a similar initiative that would increase access to diagnosis and treatment of ear infections, which left untreated can cause deafness. The team focused first on the disease state, moving their focus to product development only when the care model was defined.
The management approach within the ST business mirrors the CEO’s engagement with the GHI Platform: the project leader reports directly to ST leadership supportive of the pilot innovative business model to address a costly unmet need in India. Having high-level leadership involved in business model development, not just in review, has been very effective. Keeping the initiative separate from other business activities at the business unit level helps to maintain “white space” for thinking outside of the box. White space has also been important in the approach to project details, targets and milestones. Working in a new market, with new partners, and with a vision for establishing a disruptive business model, it is important to have realistic expectations, to maintain space for adjustments to the project plan, and to allow time for ideas to incubate. The team also highlights the importance of staffing a team that truly embraces an entrepreneurial mindset.
In 2009, GE launched healthymagination, a global strategy to provide better health by improving the quality, access, and affordability of care. Healthymagination includes a $3 billion commitment to research and development for innovative healthcare products that demonstrate a 15% improvement on the dimensions of cost, access, and quality. To date, GE has certified 53 products, making progress toward a target of 100 by 2015. Healthymagination includes an explicit commitment to underserved populations and an emphasis on developing markets.

**Model:** Healthymagination is a large corporate initiative managed by its own CEO, who reports to GE’s Chief Marketing Officer. The platform, which has a dedicated budget, is described as an “innovation engine” focused on investing in and incubating initiatives across the organization. GE’s Chairman is closely involved, and participates in quarterly reviews. GE’s healthymagination platform focuses on empowering local country teams to develop products for their own markets. A Portfolio Action Committee makes go/no-go decisions at various stage-gates throughout the development process.

**Metrics:** At the platform level, healthymagination is guided by the public commitment to develop 100 products that meet the criteria of 15% improvement in cost, access, and quality. Internally, the strategy has evolved toward two primary objectives: helping to shape the health ecosystem, through market and thought leadership; and driving change, through incubation of innovation and venture-style investments. The healthymagination team has targets related to these long-term objectives, including goals for thought leadership, progress toward milestones for pilot programs, and integration with business units (BU). At the product level, GE has made a significant investment to evaluate impact on cost, access, and quality, partnering with independent advisory firm Oxford Analytica to apply cost-effectiveness analysis to healthymagination products.

**Partnerships:** For GE, partnerships have played a moderate but growing role, primarily as external innovation engines and to provide additional insights and introductions in local markets. GE has increased its engagement with local governments to better understand local health system needs and, most recently, initiated a crowd-sourcing strategy for innovation partners through Startup Health and the Open Innovation Challenge.

**Lessons learned:** The healthymagination team highlights several lessons learned related to staffing and governance. First, the time and coordination challenges of a platform approach are not to be underestimated. Even with a dedicated budget and clear support from senior leadership, the team encounters concern from business unit managers who have clear short- and medium-term goals and struggle to balance these against longer-term strategic investments that may be disruptive. Additionally, the team underscores the value of the Portfolio Action Committee. The committee institutionalizes a decision-making mechanism with a long time horizon, protecting projects from the shorter time horizon of a typical business unit manager and regular staff turnover, which can jeopardize an initiative.

**CASE STUDY:** **GE Enabler Platform Model**

In 2009, GE launched healthymagination, a global strategy to provide better health by improving the quality, access, and affordability of care. Healthymagination includes a $3 billion commitment to research and development for innovative healthcare products that demonstrate a 15% improvement on the dimensions of cost, access, and quality. To date, GE has certified 53 products, making progress toward a target of 100 by 2015. Healthymagination includes an explicit commitment to underserved populations and an emphasis on developing markets.

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CASE STUDY: Novartis
Stand-alone Dedicated Unit

Model: In 2007, inspired by CK Pralahad’s introduction of the concept of the “the fortune at the bottom of the pyramid,” Novartis launched a social business initiative in India called Arogya Parivar (“healthy family” in Hindi). The first corporate responsibility initiative at Novartis to have both financial and social goals, Arogya Parivar was established as a stand-alone business unit reporting to Sandoz, the generic pharmaceuticals division of Novartis. Arogya Parivar now operates across 10 states in India, providing health education and improved access to a basket of 80 pharmaceutical products (including generic and over-the-counter products). The initiative attained financial breakeven status in 30 months and has reached more than 10 million people with health education since 2010. Following the success of Arogya Parivar in India, Novartis expanded the program in Vietnam, Kenya, and Indonesia under a newly created Social Business Group (SBG).

Metrics: The SBG has very different metrics relative to other Novartis businesses. At the level of the SBG, performance metrics reflect a combination of the “three S” criteria: sustainability, scale, and social impact. At the program level, metrics reflect a combination of social and commercial performance.

Partnerships: The SBG collaborates extensively with various partners and stakeholders, including local hospitals, doctors, and NGOs, but elected to retain direct operational authority as Arogya Parivar was scaled up across India. The program originally planned to engage NGO partners to implement the health education component, but the fragmented NGO landscape necessitated significant coordination, making this less feasible. Recognizing the need for continued iteration and experimentation, the team decided to retain operational control while fine-tuning the model. The head of the SBG asserts that the next phase will involve many more partners in order to increase the program’s scale and social impact.

Lessons learned: Novartis’ SBG highlights the importance of strong executive commitment, which provided the SBG with resources and autonomy, and a mandate for experimentation that allowed failure. Novartis CEO Joseph Jimenez directly supports the social business team, and provides strategic review of Arogya Parivar and other social business initiatives.

Another lesson learned informs interaction with other Novartis businesses. In the long term, other Novartis businesses will benefit from increased sales volume for their products. However, while the initial investment comes from the corporate level, other Novartis businesses provide distribution and logistics resources on the ground in India. Ultimately, addressing the perception of short-term losses was critical to drive support for the project, because Arogya Parivar required more time from investment to profitability, relative to other Novartis initiatives.

Finally, the Arogya Parivar program is an example of a successful ecosystem approach. Through broad collaboration and experimentation, the team identified critical barriers to health-seeking behavior, and developed a model that delivers a complete healthcare solution, not just access to medicines.
CASE STUDY: GSK
Integrated Unit Model

Model: In 2010, GSK CEO Andrew Witty announced the creation of the Developing Countries and Market Access (DCMA) unit and a bold commitment to increasing sustainable access to vaccines and medicines in developing countries. The DCMA was formed through a reorganization of existing operations, bringing together the GSK country teams in the 51 least developed countries into a single business unit with a radical social business mandate. The social business mandate translates into a focus on volume instead of profit, and several unique commitments, which include pricing capped at 25% of UK list price and a commitment to reinvest 20% of in-country profits to strengthen health infrastructure.

The DCMA is an example of the Integrated Dedicated Unit model. While SBS are exclusively the mandate of the DCMA unit, GSK did not create a new, parallel structure to operate alongside commercial activities in the selected countries. The DCMA integrates all country activities under the social business mandate.

Metrics: Managers in the DCMA are incentivized entirely on volume, which eliminates the immediate profit pressure of a purely profit and loss-based focus. The DCMA team also has key performance indicators for activities related to building awareness of GSK’s role in health system strengthening and infrastructure reinvestment.

Partnerships: Partnerships and collaboration are a dominant part of the DCMA strategy. GSK has engaged a broad range of partners across the value chain. A primary example is GSK’s support of One Family Health (OFH), a primary care franchise in Rwanda that provides training and a franchise business opportunity to nurses through OFH clinics. OFH will, in turn, increase informed demand and distribution of needed products.

In Mozambique, GSK has partnered with Vodafone, a mobile network operator, to pilot a mobile phone based solution that could increase vaccination uptake by up to 10%. A reminder text message is sent to mothers to bring their children in for vaccination and health workers can verify children’s vaccination status on the spot, improving record keeping, and enabling better vaccine stock management.

Lessons learned: An important lesson for GSK has been the learning curve necessary for country managers to adapt to the strategy change. For example, the new strategy requires that managers be much more external-facing and focused on partnerships. GSK discovered that additional time and support was necessary to assist business managers in making this transition.
Launching Social Business Strategies: Key Success Factors

Regardless of the model that a company pursues to promote SBS, there are common best practices that position SBS for success. This section discusses three core areas: strategy and organization, measurement and incentives, and partnership and collaboration.

**Strong Strategy and Organization**

In studying a range of social business models and interviewing the leaders of these initiatives, a set of common success factors emerged around the overall strategy and organization of these efforts. Successful SBS leverage all of these principles, although some models naturally emphasize some elements more than others.

- **Focus on broad value creation**: Successful strategies begin with a broad view of the healthcare value chain and the patient care continuum, and an understanding of how the entire ecosystem needs to change to address current barriers.
- **Entrepreneurial approach**: A mandate to experiment and encourage teams with an entrepreneurial spirit, willing to challenge assumptions and continuously work through barriers, will foster innovation.
- **Senior leadership commitment**: Strong, visible commitment from business executives and a clear call to action helps to engage talent, ensure sufficient resources, and uphold long-term commitments.
- **Long time horizon**: A long time horizon is needed to accommodate the learning and iteration necessary for creating successful SBS.
- **Focus on core competencies**: Within the context of innovation and disruption, maintaining a focus on core competencies and identifying partners whose competencies are complementary will yield the most efficient strategies.
- **Local market presence**: It is critical to understand local markets and to have corporate representation on the ground to develop this knowledge, engage partners effectively, and ensure that strategic approaches are appropriately tailored.

**Effective Measurement and Incentives**

Strong measurement systems and effective incentives are critical to define and communicate plans, align resources with objectives, monitor and evaluate effectiveness, and facilitate learning. In the SBS context, non-financial metrics play an important role in resolving the conflict between quarterly profit pressure and uncertain SBS payoffs and help to align incentives for long-term value creation. In addition, strong SBS draw on best practices for balancing process, output and outcome metrics.16

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Incorporate non-financial metrics into incentives: Short-term profit and margin pressures inhibit managers from exploring SBS, where returns typically have a long time horizon. Two principle approaches have emerged for incorporating non-financial incentives in order to mitigate this barrier.

1. Elevating input and process metrics: Input and process metrics are an important part of any innovation measurement system. A common metric is the number of new initiatives or pilots implemented. Companies adopting the platform approach also track business unit engagement with initiatives under the SBS umbrella.

2. Top-line incentives: A focus on top-line (revenue) growth is aligned with fostering innovation and encouraging new approaches to create and capture value. Volume-based metrics are the primary approach used in practice to reduce profit and margin pressure. Given the reduced incomes of middle- and lower-income classes, companies such as GSK have elected to base social business unit incentives on volumes, reflecting the lower-margin, high-volume, long-term growth strategy.

Assess investment criteria: SBS typically have reduced profit expectations relative to other commercial investments. Some companies specify different investment criteria for social business projects, while others rely on executive support and advocacy to overcome resistance from business units about making low or uncertain net present value (NPV) investments. One adjustment made to business practices is to consider the stage at which a full NPV is feasible. At the stage of concept screening, general targets and guidelines may be more appropriate. Depending on the SBS organizational model, consider an appropriate stage for more traditional NPV analysis.

Hybrid evaluation metrics: Pilot programs are typically evaluated based on a combination of social impact and financial sustainability. Once a project is established, incorporating financial and social metrics is necessary to reflect the full spectrum of value being created. Some companies integrate metrics for a third dimension, scalability.

Talent: Implementing SBS requires a different approach to talent and staffing. Consider the following principles of success.

- When staffing SBS teams, an entrepreneurial mindset is critical. Look for creativity and a willingness to challenge assumptions and work through barriers.
- Consider the value of hybrid backgrounds that include both business and social sector experience.
- There is potential conflict between the long-term commitment needed for SBS and typical two- to three-year promotion cycles; SBS managers may need insulation from profit-based promotions, and projects may need protection against staff turnover.
- Internal rotation and externship programs can help to develop internal capacity for SBS and promote employee understanding of and engagement with SBS.
Successful Partnerships and Collaboration

Given the complexity and heterogeneity of developing markets, partnerships and collaboration are critical to initiatives expanding healthcare for middle- and low-income populations in these markets. Partnerships provide value through two primary mechanisms:

- **Innovation engines**: Given the fundamental differences between developed and developing markets, local organizations can be valuable sources of innovation emerging from and adapted to the local market ecosystem. In addition, collaboration and partnership can foster innovation by bringing together a more diverse team with different perspectives.

- **Cost-effective execution**: Partnerships represent opportunities to leverage the partner’s assets, such as local market knowledge, distribution networks, and government relationships rather than developing all of these directly. Partnerships reduce the initial investment needed to pursue SBS, in addition to leveraging comparative advantages among partners.

The SBS focus on underserved populations introduces the potential for collaboration with a new set of partners focused on social impact, including foundations, NGOs, social enterprises, and local governments. Working with such partners presents new challenges, given the potential for significant differences in organizational culture and objectives. Drawing on experience of the authors and analysis of practitioner interviews, we identified key factors for building successful partnerships:

1. **Know what you want**. Clarify your own strategy and objectives before seeking partners in order to streamline the search process and secure complementary partners.

2. **Build trust-based relationships**. Identify shared priorities as well as areas of potential conflict. A focus on shared aspirations and successes, especially early in the partnership, can help to build a strong foundation for collaboration. In contrast, emphasis on narrowly defined transactions can undermine trust and limit partnerships. Be mindful that it may be necessary to alter business practices, such as negotiation strategies, to suit a smaller organization’s capacity and approach.

3. **Align goals to create a win-win**. Strong partnerships are based on common goals and shared metrics for success, and are organized around mutual benefit for all parties. Having broad strategic alignment also enables partners to maintain some flexibility around milestones, allowing the “white space” needed for innovation.

4. **Get on the ground**. Both direct and senior management need to be engaged to build partner relationships and understand the local context. Workshops and in-person meetings help to develop mutual understanding and trust, and provide a stronger platform for resolving differences.

5. **Be patient**. Both partner capacity and the operating environment in developing markets may be significantly different than what large corporate organizations are accustomed to. It is important to have realistic expectations about timelines and to plan for iteration.
This section offers practical steps to enable corporations to launch (or strengthen) an initiative focused on social as well as economic impact.

1 **Start with strong support for SBS.** It’s critical to have strong executive support and a clear message from the CEO to both the organization and the board that SBS are a priority. This will help to initiate the shift in mindset needed to convince business leaders who may initially see SBS as a distraction. In addition, the launch of all SBS should have a **multi-year resource commitment.** For the most part, SBS are going to take several years to generate an economic return, and there is considerable reputation risk if the program ends prematurely. As a result, it is critical that SBS have a multi-year funding commitment (ideally three to five years) in order to provide a runway sufficient to launch and scale initiatives.

2 **Conduct an internal assessment.** A thorough internal assessment helps to set a clear strategic vision and inform organizational decisions about SBS. Begin with these key questions:
   - What is the strategic goal for SBS? To reinvigorate specific business units? Broad transformation of company culture? Priming target markets?
   - What resources are available at the corporate level?
   - What is the company’s current capacity for SBS? Is there a strong culture of innovation? What is the level of knowledge of developing markets?
   - How much do business and product leaders believe in this? What would it take to increase their buy-in?
   - What are the core competencies of your organization? What is most important for the success of current business strategies? What areas require investment to spur additional innovation?
3 Select the best-fit organizational model. Once a commitment has been made and a clear vision set, the appropriate organizational model can be identified. In addition to mapping the model to the strategic goal, available resources and current capacity for innovation should also be considered. Developing the capabilities for SBS is a dynamic process and most companies move through several iterations of these approaches before identifying the best fit. Some companies have found that a hybrid of these approaches works best.

**Figure 4. Four Models for SBS**

<table>
<thead>
<tr>
<th></th>
<th>Advocate Platform</th>
<th>Enabler Platform</th>
<th>Integrated Dedicated Unit</th>
<th>Stand-Alone Dedicated Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic goal</strong></td>
<td>Broadly spur SBS innovation across organization</td>
<td>Focus on targeted SBS innovation, insulated from other businesses</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Core function</strong></td>
<td>Advocate for and support business units to implement SBS</td>
<td>Dedicated implementation of SBS</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Minimum corporate resources</strong></td>
<td>Low</td>
<td>Medium to high</td>
<td>Medium to high</td>
<td>High</td>
</tr>
<tr>
<td><strong>Critical inputs</strong></td>
<td>Dedicated team with strong advocacy and facilitation skills</td>
<td>Dedicated team with budget and strong facilitation skills</td>
<td>Clear strategy and revised incentive structure</td>
<td>Creation of a new operating unit</td>
</tr>
<tr>
<td><strong>Success factors</strong></td>
<td>• Highly visible CEO support</td>
<td>• Highly visible CEO support</td>
<td>• Clearly communicated new strategy</td>
<td>• Strong executive engagement</td>
</tr>
<tr>
<td></td>
<td>• Team with strong skills in networking and building coalitions</td>
<td>• Clearly communicated selection criteria</td>
<td>• New incentive system aligned with SBS</td>
<td>• Strong incentive system aligned</td>
</tr>
<tr>
<td><strong>Typical challenges</strong></td>
<td>• Convincing business units to “buy in”</td>
<td>• Overcoming resistance from business units</td>
<td>• Overcoming resistance based on old business practices</td>
<td>• Lack of support and engagement with other business units</td>
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<tr>
<td></td>
<td>• Business unit participation based on manager vision and available resources</td>
<td>• Reduced business unit ownership</td>
<td>• Significant transition period</td>
<td>• Defining interaction with existing businesses</td>
</tr>
<tr>
<td></td>
<td>• Slow initial results</td>
<td>• Transferring leadership to business units</td>
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</table>

Source: IPIHD analysis, includes content from Wolcott and Lippitz (2007).
4 **Review the key success factors.** After selecting the model that best fits the strategic goals, available resources, and current capacity of the organization, a review of the key success factors and best practices is needed to maximize the likelihood of success:

- **Strong strategy and organization:** What are the most important design factors for the specific model? Where is new talent needed to build out capabilities? What is the localization strategy?

- **Effective measurement and incentives:** What key input and process metrics are needed to establish a strong foundation for SBS? What is critical to be able to learn? How can impact be measured?

- **Successful partnerships and collaboration:** What additional capabilities does the organization need to be successful? What does the SBS initiative need from partnerships and collaborations? What other mechanisms are available for identifying strong partners?

5 **Avoid common mistakes.** There will be pitfalls along the way as the organization launches and grows new SBS. A few common pitfalls and tips for avoiding them are noted here.

- **Scaling up too rapidly:** A common temptation when new SBS are successful is to rapidly scale-up. However, it is important to handle the issue of scale carefully. It is better to thoroughly evaluate that the new initiative works at the pilot level and that the organization can support the initiative at scale before expanding.

- **Underestimating local nuances:** It is easy to underestimate the heterogeneity of developing markets. Each replication of successful SBS into a new country should be treated as the launch of a new initiative, with a comprehensive landscape assessment to ensure appropriate tailoring.

- **Nonstrategic communication:** It is important to continue communicating effectively about SBS, both internally and externally. With internal stakeholders, SBS should be positioned as a platform for future growth. Externally, communication should focus on the social impact and the expected medium- and long-term economic impact. Exercise caution with external announcements about initiatives in the early stage. Making strong commitments publicly can limit subsequent flexibility to adapt and evolve initiatives as needed.
Conclusion

The role of SBS in the healthcare industry is growing in importance. Not only do SBS enable more sustainable provision of healthcare to underserved populations, they can also fuel innovation, enabling companies to access new market segments and lay the groundwork for success in markets that will drive economic growth in the long term.

While the benefits are clear, launching and implementing SBS can be challenging. Targeting some of the most complex market environments, SBS require a willingness to take risks, in addition to commitment and thoughtful execution. The most appropriate organizational structure for SBS within a given company will depend on the organization's goals, resources, and limitations. In addition, strong leadership commitment, a willingness to fail and reiterate, and a long time horizon are best practices emerging from the experiences and successes of corporate pioneers in SBS in the healthcare sector.

Increased adoption of SBS has the potential to substantially increase access to health products and services for billions of people around the world. By enabling previously underserved populations to live healthier, more productive lives, SBS will contribute to accelerating economic development, converting underserved populations into customers and enabling them to move up the economic pyramid.
References


About IPIHD

The International Partnership for Innovative Healthcare Delivery (IPIHD) is an impact-driven non-profit dedicated to increasing access to cost-effective and high-quality healthcare around the world. IPIHD supports a diverse and global network of healthcare innovators, industry leaders, funders, and governments. Founded in 2011 by the World Economic Forum, McKinsey & Company, and Duke University, and supported by corporations, foundations, and governments, IPIHD works directly with organizations bringing to market transformative innovations that increase access to affordable high-quality care.

IPIHD provides targeted programming, connections, and resources to help these innovators scale and replicate their models. The knowledge that IPIHD gains from research and working directly with the innovators is translated into insights and reports used to increase understanding of the potential of innovations to transform health systems globally. The IPIHD network includes more than 40 innovators and 15 corporate and foundation supporters.

Learn more at www.ipihd.org, find us on facebook at www.facebook.com/ipihd, and follow us on twitter @ipihd.
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