

**Cambridge Centre for Social Innovation**

Research Report Summary

# CORPORATE SOCIAL INCUBATION: CHALLENGES AND STRATEGIES TO OVERCOME THEM

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MSt, Social Innovation, Cambridge 2018

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June 2019

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"This research has proved invaluable in helping us to reflect on the successes and failures of Ignite and the corporate social incubation model. We have worked closely with Miranda to ensure these learnings have been applied to the Centrica Innovations operating model."

Chris Wiles, Head of Start-up Labs, Centrica Innovations.

## Key findings

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When social incubators are hosted by for-profit corporations, tensions arise: organisations at different stages of development, of different scales, across sectors and, crucially, with different missions must collaborate. Most significantly, aspirations for social impact and commercial growth can be at odds.

This case study of Ignite, now part of Centrica Innovations (CI), revealed five specific challenges which they faced as a corporate social incubator: establishing a new organisational form, reconciling multiple agendas, reputational risk, operational differences and knowledge transfer. This report offers strategies to address each challenge, and examples of how those strategies might be implemented.



## **Background**

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In recent years, many corporate incubators have emerged. We have also witnessed increasing pressure on corporations to deliver and sustain positive social impact. These trends combine in corporate *social* incubators, which support fledgling companies aiming to solve pressing social or environmental issues. As social incubators become more common, it is important to learn from early examples.

The purpose of this research was to help corporations incubate social start-ups more effectively. Through a case study of Ignite - a £10m impact investment fund and incubator established in 2013, backed by Centrica, an energy and services business - this research explores the characteristics of corporate social incubation through interviews with 30 stakeholders. The research directly informed the team at Centrica as they transitioned into 'Centrica Innovations' (CI), a £100m innovation fund and division, established in February 2017. CI has absorbed the Ignite portfolio, and its primary focus is now commercial growth. At the time of the study, the implications of this had not yet fully unfolded. However, whilst the fund's focus has evolved, scalable social impact start-ups tackling big challenges still exist in the portfolio, providing they are strategically aligned.

## **Emerging themes**

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Challenges of corporate social incubation & strategies to overcome them

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### **Establishing and maintaining a new organisational form**

Ignite was seen as 'social impact done out on a limb, not aligned to core business activities' (Centrica Innovations Manager). Centrica lacked experience of social enterprise and incubation, and it took time to build acceptance of Ignite as the core business sought to understand how it was relevant to their operation. Senior management questioned the importance of social impact, and how Ignite supported core business objectives, which led to mission drift towards commercial priorities.

This challenge was partly overcome by storytelling about the purpose of Ignite. This established its identity, clarifying its role and impact as it evolved. This demonstrated the importance of a clear narrative and common language. Consistently communicating how the incubator helps to deliver company purpose can help to establish its legitimacy internally.

Recommendations:

- Gain senior advocates who champion the incubator.
- Set up banners and stands in the company atrium telling the story of the incubator and its social impact. Also share regular company-wide newsletters.
- Find routes to meaningfully engage the wider organisation e.g., through Non-Executive Director (NED) positions and mentoring roles.

- Develop a distinct brand and identity which separates the incubator from the parent.
- Establish a fund size which sits in a sweet spot: large enough to make a difference, but not so large that it is a sizeable outlay that will invite challenge if the fund is not performing.

### **Reconciling multiple agendas**

Ignite's experience illustrates the difficulty of achieving the elusive 'perfect match' between corporations and start-ups (Weiblen and Chesbrough 2015: 66). There were profound tensions between commercial and social interests, and it was hard to reconcile a corporate world view with social impact start-ups.

From Centrica's perspective, social impact start-ups were balancing multiple agendas, and the focus on social impact could at times conflict with sustainable growth. But, for the social entrepreneurs, these decisions were valid as they delivered deeper social impact. Whilst Ignite worked hard to support the best interests of entrepreneurs and to ensure their ventures survived, this could result in lost value for Centrica. Meanwhile, its role as a funder could create a sense of power imbalance amongst some investees who felt their decision-making sovereignty had been compromised.

Later investments in the fund avoided these difficulties by taking a more explicitly growth-oriented agenda, emphasising mutual benefit to Centrica business units: 'I try to tie our work together so that my success, means your success' (Centrica Innovations Manager). It also worked hard to enlist Centrica's support by aligning activity with strategic focus areas and investing in start-ups who were aligned with these<sup>1</sup>: 'if our business units read our strategy, they'd recognize what's important' (Senior Manager). CI is now expected to deliver significant growth and beneficial partnerships, alongside social impact. Whilst this has resolved some tension, it may in future exclude less scalable start-ups with a stronger focus on their social mission.

To reconcile commercial and social agendas, incubators must find common ground, recognising the legitimacy of both sides and finding ways to build deeper relationships between them.

Recommendations:

- Have a clear strategy, widely communicated, that reflects both the corporate ambition as well as the vision and metrics for social impact. When these are aligned, the chance of success is greatest.
- Clarify ambitions on both sides.
- Consider having a diversified portfolio where there is room for a range of investments along a spectrum of social impact and commercial growth. Larger,

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<sup>1</sup> Distributed energy, electrification of transport, and increasing convenience and connectivity.

- more profitable investments may balance start-ups with limited growth potential but deep social impact.

### **Reputational Risk**

The Ignite team were comfortable with the fact that early stage investing comes with a high risk of failure. However, wider Centrica were not always comfortable with this notion, and were fearful of any possible media backlash that could result from a portfolio company failing and then blaming Centrica. There was fear that performance of some investments could leave Centrica exposed, such as when a portfolio company entered administration and the external comms team were briefed to respond if needed. Further risks to Centrica's reputation were created by entering the impact investing space; a nascent market, far removed from their core competency.

Building relationships was crucial for Ignite to build a reputation in impact investing circles and diffuse risk. Within Ignite, the most successful relationships were characterised by clear expectations: the greater the divergence in perspective on economic and social returns, the greater the need for investment in relationship building. Corporate social incubators need to be more effective at dealing with these differences than their commercial counterparts, and this is key to maintaining their reputation.

Recommendations:

- Allow time to build strong collaborative relationships both internally and externally.
- Build partnerships with external experts in start-ups, social enterprise, and impact investing who can lend credibility.

### **Operational differences**

Business pressure affected employee participation in Ignite, as mentors and NEDs, under pressure to deliver targets, struggled to prioritise their commitment. At times, supporters had to invest their personal time which resulted in considerable pressure. There was also a mismatch between the pace and agility of Centrica and start-ups in the Ignite portfolio.

However, Ignite itself had a high-quality, dedicated team that could operate unencumbered by existing corporate processes. This was key to some of its successes. Insulation from the pressure of Centrica's P&L gave the team time to learn: 'It gave us space to make mistakes' (Centrica Innovations Manager). This will fade under CI which has a larger fund and higher expectations for growth.

Recommendations:

- Have a dedicated, empowered team within the incubator to bridge the gap and translate between the start-up and the corporation. Hire team members with both corporate and entrepreneurial experience.
- Offer support and advice within the incubator itself (without having to ask the parent company for additional support).

- Have a 'start-up first' approach.

### **Knowledge Transfer**

Whilst Centrica's functional expertise was valued by portfolio companies, it was not seen as a start-up driven organisation. Lots of advice was given to start-ups from the perspective of a large, funded corporation, meaning that it often lacked applicability. Meanwhile, topics which were important to portfolio companies, such as new business model experimentation, were not necessarily Centrica's strength. It is known that building new knowledge in a nascent internal division can be challenging, as the new organization has to 'struggle against the powerful sources of institutional memory' (Govindarajan & Trimble 2005: 4). The case of Ignite demonstrates that this struggle is pronounced when the gap between knowledge in the parent company and the spinout is wide.

Continuous adaptation was at the crux of many of Ignite's successes, and the team focused on continuously improving. The changing nature of their portfolio demonstrated the ability to pivot in response to business demands. Early signs indicated that this adaptive approach will continue in CI, and the team have already 'improved the process, every step of the way' (Centrica Manager).

Recommendations:

- Regular reviews to embed learnings and make changes.
- Provide tailored support rather than generic trainings.
- Ensure the incubator team has a learning mindset and encourage them to think about how learnings from start-ups can be applied in the parent company.

### **Implications and Future Research**

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Any proposed corporate social incubator can learn from the experiences of Ignite, and it is hoped the strategies outlined here will be useful. However, the viability of social corporate incubation itself is called into question by this research. Ignite was ultimately absorbed into a more commercial model in which serving Centrica's commercial agenda took precedence. This story is likely to be borne out by other corporate social incubators, so long as the conflicting demands of shareholder return and social impact remain at odds. Reconciling these may require systemic change, enabling corporate entities to prioritise both social and economic impact.

Further research could look into the characteristics, challenges and strategies of other corporate social incubators, to see if the experiences of Centrica and Ignite are common. This would allow legitimacy pressures in unfamiliar organisational forms to be studied in more depth. Especially, other examples of the (non)reconciliation of tensions between social and commercial drivers, could provide much needed understanding. A further study on the progress of CI in 1-2 years' time would be valuable, to evaluate progress and the extent to which it has upheld social impact.

## **References**

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## **About the project**

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This research is based on the analysis of Centrica Ignite, an incubator and fund which was part of Centrica PLC and is now named Centrica Innovations. It was carried out with the support of the Centrica Innovations team. Interviews with key stakeholders were collected over the course of 5 months from January to May 2018, alongside participant observation, and an analysis of media sources and internal documents.

This research is carried out by the Cambridge Centre for Social Innovation. It was designed and conducted by graduates of the MSt Social Innovation, with the support of faculty and fellows of the programme. The Centre is committed to ensuring wide access to our research findings. We welcome your feedback and ongoing support. The views of the authors do not represent those of their employers or CJBS. If you wish to discuss this research or access the full report, please contact the Centre at: [socialinnovation@jbs.cam.ac.uk](mailto:socialinnovation@jbs.cam.ac.uk).

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