
To Solve Problems, Take a Fresh View at Opportunity

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2.1 Bye-Bye, CSR

“Sustainability” is a powerful idea that is leading to new opportunities, challenges and innovations across all sectors to develop a more prosperous future. In 2010, despite the then-recent economic downturn, an overwhelming majority of corporate CEOs in Accenture’s research study on corporate sustainability—93 %—responded that sustainability will be critical to the future success of their companies. What’s more, they believed that a tipping point could be reached that fully meshes sustainability with core business within a decade—fundamentally transforming core business capabilities, processes, and systems throughout global supply chains and subsidiaries [1].¹

However, the actual response has been far more timid. The problem is that when companies are asked to care, their responses are usually formulated as part of the paradigm of a firm’s corporate social responsibility (CSR). There are inherent limitations to current CSR practices that prevent businesses to respond in scale and fully capture the opportunities of the trends outlined above. Seen that an immediate complete overhaul of the CSR paradigm in large-scale and often politicized organizations would be unrealistic, this begs the question for the way forward. We need a clearer picture and a deeper understanding of current and future innovations, as well as a much more efficient way to source and rollout the business innovations needed. As we are entering a new phase of the market economy, the upside is to reconcile opportunity with responsibility. This creates both value and reduces risk. If more efficient and enlightened business practices can provide products and services to run with the trends discussed earlier, we can create both social and financial value on a scale not yet seen.

¹Not all businesses operate globally or respond to such surveys. Many business entities serve local markets. However, global sustainability drivers such as resource scarcity or energy costs will similarly affect their ability to create value. In advanced economies and developing countries alike, the transformation of business currently underway will not be limited to just the cohort of large-scale global companies.

To do this, we need to move beyond the old way of doing CSR and, instead, marry investments and business innovation with impact. To provide the context for where the supertankers of the global economy could be headed next, let us first look at established forms of CSR. The continuum of approaches to CSR often includes an initial focus on compliance, with an adherence to particular legal requirements. Such compliance actions are usually costly. They are not integrated into the core activities of a company. Firms have therefore typically limited activities to doing only the strict minimum required by law to reduce these costs as much as possible.

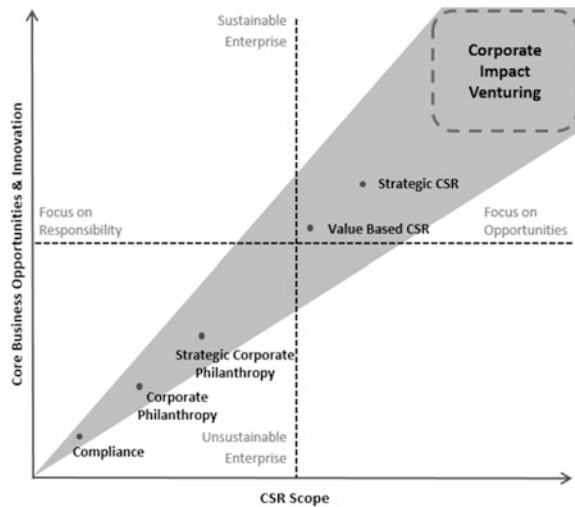
Closely related is corporate philanthropy, whereby companies “give back” a small proportion of their profit to society, sometimes through corporate foundations. A more business-minded approach is strategic corporate philanthropy, whereby firms select charitable activities aligned with business objectives so that they can add value to causes in addition to cash, albeit generally being at a net cost to the firms. Here too the scope of CSR is bound by internal limits on the amount of additional costs deemed affordable and the intrinsic volatility of profits over the business cycle.

Given the secular trend to rising transparency and lower cost of information, paired with an increasing public focus on the long-term effects of consumption and production practices, these forms of CSR no longer work as well in producing consumer and regulator goodwill, nor in NGO acquiescence. There are good reasons for this: the combination of criticisms that these more image-focused CSR approaches are merely “green-washing” strategies; the associated costs of CSR programs; and regulatory as well as activist investor requirements. Together, they have led managers to incrementally instill environmental, social, and governance (ESG) principles within corporate value creation systems. Yet this “value-based CSR” focus still misses major opportunities to drive both disruptive business innovation and value creation for stakeholders. Strategic CSR, which addresses new or untapped market needs, also remains embedded in the logic of corporate responsibility. There is a full and frequently confusing spectrum of CSR practices (Fig. 2.1).

Firms do have deep responsibilities towards the people affected by their operations. Thus there will always be a role for CSR. But the exciting new idea is to shift from the approach of solely responsibility-driven CSR to a mindset that also recognizes corporate social opportunities where there is a business benefit to doing things differently, which better captures self-interest.

True transcendence of CSR practices requires fusion of sustainable value creation and core business. This comes when external factors like consumer demand begin to have more influence on sustainability practices, product, and service design, and the resulting policies and practices start to have a positive financial return. This requires an investment and opportunity mindset. Firms that are more sensitive to the environment in which they operate have realized that socially and environmentally friendly practices are key drivers for sustainable growth and profitability.

Fig. 2.1 CSR: From compliance to CIV
(source author) [2, p. 14]



Addressing the limitations of current practice by linking what has become known as “shared value” to business innovation and impact investing is a promising pathway. “Shared value,” as described by Michael Porter and Mark Kramer, is the idea that one can create economic value in a way that also creates value for society by addressing its needs and challenges [3]. Many traditional family businesses have been operating in the logic of creating both value for themselves and for their stakeholders for centuries. Yet, conceptualizing it is an important step forward. What if we build on “shared value” but shift the focus from prioritizing internal firm-based activities to (1) analyzing external trends as a source of new value creation, and (2) use an investment logic to get to disruptive new products and services to make headway with innovations that can become new business segments? [4].

CIV builds on new sources of value-added partnerships and development clusters through new products and services, value chain redesign, and production clusters that systematically produce shareholder and stakeholder value. This leads to engagement in activities such as sustainable supply chains, engagement with social entrepreneurs to generate disruptive value creation opportunities at the grassroots level, or investing in new sustainable business lines.

2.2 Play at a Higher Standard, but Compete

Some barriers stand in the way of a complete transition to a sustainable value creation strategy that fully integrates CIV to drive innovation. Businesses are highly constrained in the pursuit of corporate responsibility. The standard paradigm for business is still to be culturally and legally “hardwired” to pursue (primarily) a single bottom line of profit maximization, to be complemented by CSR

considerations when convenient. This means that products and services, pricing, and production processes are still chiefly determined by their role in creating profits, rather than other societal or environmental outcomes.

Today, the notion still persists that ESG activities involve a net cost to enterprises, at least in the short term, with only a few leading companies having been capable of embracing the business opportunities that an investment logic can bring about. Make no mistake though: sustainable value creation is becoming more important and starting to get attention at the senior leadership level because of changing framework requirements, such as evolving consumer needs and total resource productivity. The four megatrends described earlier are creating opportunities also for companies in advanced economies. These trends can provide an entry point to product and service innovation that ensures long-term competitiveness in high-cost locations and enables expansion into new and adjacent markets.

Take the example of companies located in German-speaking countries. There is pressure to adapt, but there are also assets that can help. From an investor's point of view, the skills of the workforce and the social climate are part of the key competitive advantages of a country such as Germany. The situation is similar in Austria and Switzerland. Generally high ethical, environmental, and social standards are part of the social contract that protects social peace and high productivity in the region. However, this also means extra costs for companies. Some foreign companies that do not operate according to similar standards, and in industries where margins are low, have a significant short-term cost advantage. This raises the fundamental question of how to succeed in the face of international competition, while also maintaining high standards.

The relentless pressure on costs in advanced economy industries underpins that to date the magic formula how to achieve this has not yet been found. Amid the tension between short-term gains and long-term success, "soft" success factors are important and can be included in the representation of the value and performance of a company. Certain companies already carry out lifecycle assessments and prepare social balance sheets to measure social capital, which has been a requirement in France since 1977 [5]. A stable social climate confers direct advantages in international competition, and anchors long-term sustainability in the business. Lack of social peace entails considerable costs [6].

Another competitiveness factor is education. New ideas must first emerge before one can act upon them. The pride of German-speaking Europe is its dual education system [7].² In Germany, 60 % of all young people receive their vocational training in the dual system. Businesses and vocational schools are partners, training professionals from industry, crafts and professions of tomorrow in about 350 occupations. Anyone who has earned a diploma can easily compete with graduates in other countries. "The combination of theoretical courses and practical application in

²For example, the U.S. is testing the proven dual education system to reduce the shortage of skilled workers: German automobile manufacturer Volkswagen has invested USD 40 million in a new Training Academy in Chattanooga, Tennessee. The German Ministry of Economics certifies graduates of the program.

operations has made professional training into a model of success of the German education system,” said the former German Education Minister Schavan [8]. Some EU countries are trying out the practical German education system in the fight against high youth unemployment. At Seat, a car manufacturer based in Spain, apprentices are learning their craft in this new way [9].

Businesses and corporate foundations are also involved directly in education as part of their corporate responsibility activities. The German Haniel Group, for example, invests heavily in promoting the field of education (e.g. schools and scholarships), the training and education of employees, and provides voluntary social benefits for employees [10]. In other words, Haniel is actively engaged in creating exactly the credentialed environment that investors value in Germany. In times of rapid change, the challenge is to translate high levels of education and technical capability into propensity for entrepreneurial value creation, rather than status quo bias.

A quality operating environment provides an excellent context for the execution of fresh entrepreneurial ideas that distil value from the megatrends discussed earlier. To be able to compete in the long term, empowering entrepreneurs who come up with new value propositions is nevertheless critical. There is a lot to learn from the buzzing entrepreneurial energy in emerging markets. There, social and environmental issues are so much “in people’s face” that it seems natural to come up with business models that create both financial and social value—imagine the powerful product and service innovations that could emerge on a broad front from corporations adopting an investment and opportunity mindset to create sustainable value.

2.3 Translate Opportunity into Business Transformation

To illustrate the business transformation potential of CIV in the retail industry, consider the case of IKEA, the world’s largest furniture retailer, and a pioneer of what we can term “fast furniture.”

In its French business—the third largest market after Germany and the US—IKEA was facing massive reputational issues in 2013. There had been public outrage that the firm had been spying on employees and customers—this in a country that considered privacy extremely important [11]. According to The New York Times, IKEA’s “investigations were conducted for various reasons, including the vetting of job applicants, efforts to build cases against employees accused of wrongdoing, and even attempts to undermine the arguments of consumers bringing complaints against the company. The going rate charged by the private investigators was 80 to 180 euros, or \$110 to \$247, per inquiry, court documents show. Between 2002 and 2012, the finance department of Ikea France approved more than €475,000 in invoices from investigators” [12].

Compared to that Big Brother type episode, IKEA has adopted a very different strategy to engage with its customers and employees. By 2020, IKEA plans to operate 500 stores, employ 200,000 people, welcome 1.5 billion shoppers annually

and generate EUR 45-50 billion in turnover (up from 27 billion in 2012). Growing consumer demand, rising raw material prices, and ecological footprint considerations resulting from growth and changing consumer expectations are collectively motivating the company to update its business model [13].

IKEA aims to transform its business in a way that is both profitable and responsible. The company hopes to become the “leader in sustainable, affordable life at home.” It has committed itself to a series of corresponding goals, including to enhance sustainable living among its employees and consumers alike, introduce new technologies, inspire new thinking by partnering with local communities, and advocate for appropriate government policies [13, pp 7–8]. According to IKEA’s strategy, sustainable value creation shall become a natural part of the daily work of at least 95 % of IKEA employees by August 31, 2015. IKEA is implementing personal and incentive schemes, knowledge, training and best practice sharing to drive progress towards reaching this goal.

The company is also actively seeking recognition and is striving to position itself as a firm that takes social and environmental responsibility seriously with respect to at least 95 % of its employees and suppliers, and 70 % of its consumers. Some may consider this greenwashing, but IKEA’s 2020 strategy includes hard retail stretch goals: all home furnishing materials, including packaging, are to be made from renewable, recyclable or recycled material, and all cotton used in production shall become compliant with the Better Cotton Standard [14]. Environmental commitments by August 2015 include, for instance, recycling 50 % of the non-renewable materials used in home furnishing products, and reducing carbon emissions from IKEA’s operations by 50 % and those of its suppliers by 20 %. Further, IKEA plans all leather and wood used in production to be fully traceable and produced in accordance with forest and animal welfare protection guidelines and standards by the end of 2017. To achieve all of this, IKEA is encouraging its suppliers to move from compliance-driven to shared value-based social and environmental performance [15].

IKEA is a resource-hungry fast furniture retailer. Yet the IKEA sustainability strategy for 2020 is remarkable in that it covers all aspects of the business and its value chains, and sets ambitious targets. In practice, this strategy would be difficult to fully achieve by only using existing resources and business innovation mechanisms. The company will have to engage in venturing on a variety of fronts to onboard the expertise needed to make the transformation happen. To illustrate just one tiny part of that strategy, consider the company’s corporate venture IKEA GreenTech AB, which has invested in six green technology companies that help IKEA “go renewable” in its core activities, encompassing energy, materials, water and waste issues [16]. Among these companies is the flax fiber producer CRAiLAR, which is also an investee of adidas’ venture activities mentioned below (Spotlight 5). In 2012, IKEA invested over USD 2.8 million in the installation of equipment to support and expand CRAiLAR’s European production facility and to provide working capital for IKEA orders [17].

The ambition level communicated publicly by IKEA highlights the extent to which a cohort of frontrunner companies in a number of industries sees sustainable value creation as a necessity to compete. The approach aligns well with the line of argument advanced by a number of players concerning the potential of the circular economy mentioned earlier [18]. Corresponding opportunities are all around us. Four materials categories are often cited as promising candidates for testing viability. They include: [18, p 11] (1) ‘Golden Oldies’ or well-established, high-volume recyclates such as paper and cardboard that still suffer from quality loss. (2) ‘High Potentials,’ defined as materials used in high volumes that currently lack systematic reuse solutions such as polymers. (3) ‘Rough Diamonds,’ consisting of large-volume by-products of many manufacturing processes, such as carbon dioxide and food waste. And (4) ‘Future Blockbusters,’ defined as innovative materials with breakthrough potential in terms of improving materials productivity such as 3D printing or pre-designed, fully restorative usage cycles of inputs such as bio-based materials that are returned to the biosphere [18].

For innovation on this scale to succeed in practice, efficient mechanisms to identify and nurture opportunities are key. The next chapter discusses the potential of CIV and outlines how to get started building a corporate impact program that can make good on the ambition to do more than provide the musical performance on the Titanic. Scale, speed and quality are key. To achieve business transformation at this mega scale, compared to investments made so far, we can expect that impact venturing capital allocated to finance the transformation will have to be much larger than the investment already made in a firm such as CRAiLAR. If we conservatively assume that investments of at least five percent of current turnover are the minimum threshold to set off the transformation process, it follows that investments of EUR 1.35 billion, or more than 480 times the CRAiLAR investment, are needed.

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