



**INNOVATION FOR SUSTAINABILITY:**  
IMPLEMENTATION CHALLENGES

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### IMPLEMENTATION CHALLENGES

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What's stopping businesses from innovating sustainable products and services and how could they do it better?

Two key reasons for their relative inertia are that financial markets are still too closely focused on the short term, and that many of the new partnership models are flawed. Organizations must develop reciprocal, solutions-oriented innovation, and they must share the value that they create with their customers. However, social complexity, resistant mindsets, and the lack of committed leadership mean that making these changes is difficult. This latter point is critical: leaders need particular characteristics to drive this sort of change, including an outward and forward-looking perspective on global trends, the ability to embrace and master complexity, and the ability to engage their people around sustainability.

Other counterproductive factors include the peripheral role played by business in multilateral negotiations on sustainable development, the absence of money and investment in frameworks that foster innovation for sustainability, and system complexity as a whole.

### **Sharing best practice**

System complexity – particularly with respect to size and bureaucracy – plays a big part in making it difficult for firms to share best practice.

But sharing best practice should not be a purely internal activity; many companies are beginning to work with other companies within and outside their industry to share best practice on issues such as how to measure environmental footprint, how to conduct sustainability audits and how to make use of certification schemes to communicate their commitment to sustainability. Some companies are also sharing best practices with selected NGOs and other organizations. It can be an effective way of getting governmental buy-in and, eventually, changing economic frameworks and drivers.

Naturally, this external sharing is not without its challenges. With competitors, for instance, there are limits to what can be shared, since sustainability is becoming part of corporate competitive advantage. This is a good thing since it drives the sustainability agenda better than virtually any other factor. However, it is one to watch since it may become a factor that eventually slows systemic renewal if major players “keep their cards to their chests” too much. In the meantime, it is still possible to share basic research on a pre-competitive level, or to work with non-competitors to adapt ideas and leapfrog to new solutions.

### **Operations and supply chain**

Outsourcing has increased companies' focus on driving down prices when purchasing, as small percentage reductions in cost lead to large increases in profit margins. This also means that procurement is an important business driver.

However, recent events such as the horsemeat substitution scandal have put supplier relationships under pressure and jeopardized corporate brand images. Relentless pressure on margins from buyers has led to many examples of unsustainable and unethical behavior from suppliers. Corporations need to transform their cost-drive approach to values-driven sourcing that ensures that their suppliers contribute to their sustained business success. This will require dramatic changes in governance, and in how procurement managers are rewarded.

Companies must also take a more integrated approach to sustainable sourcing, both internally and externally. Internally, this could mean establishing better linkages between procurement and the sales and marketing department, to make the most of sustainability improvements; finding a common language among managers; emphasizing the need for internal champions as well as corporate leaders in promoting change; introducing new paradigms, such as Toyota's open networked organization; and moving stealthily through the stages of change so that the organization learns to walk before it runs.

Externally, the main focus is likely to be innovating in networks, opening new dialogues, and introducing new paradigms. It might even be possible to eventually institute a “knowledge treasury” – a single structure into which the whole supply chain reports.

### The role of technology

Leading companies such as Tata and Ricoh are taking a long-term view over 30 to 40 years, rather than the more traditional ten-year perspective. This encourages out-of-the-box thinking, rather than focusing simply on the status quo.

These companies have found that managers must be encouraged to move comfortably within a “dare to try” environment – that is, one in which failure is seen as a good learning experience and an opportunity to test the ground for innovation.

Ricoh, for instance, is looking at moving beyond its old core business of printing. Its current focus is making sure that all innovations address impact reduction, as well as contribute to the bottom line; that it implements radical innovations such as products and services beyond printing, as well as more incremental innovations such as sustainable printing; and that it incorporates the idea of reuse as a process rather than reuse as a design hypothesis.

### Emerging markets

Discard any preconceptions that innovation is something that happens in western countries before moving to emerging markets. Many innovations these days are coming from emerging markets, not moving to them. In the hugely dynamic Chinese business environment, there are three factors at play that will lead to an interesting evolution of strategic innovation for sustainability over time.

First, the competitive environment is unlike any other, being the most competitive in the world right now. Competition drives innovation, but not necessarily sustainable innovation. However, the Chinese are increasingly concerned about environmental and social issues – because they are close to the worst effects of unsustainable corporate behavior. Bear in mind, for example, that in China this month, Beijing’s air pollution reached extreme and dangerous toxic levels not once but twice.

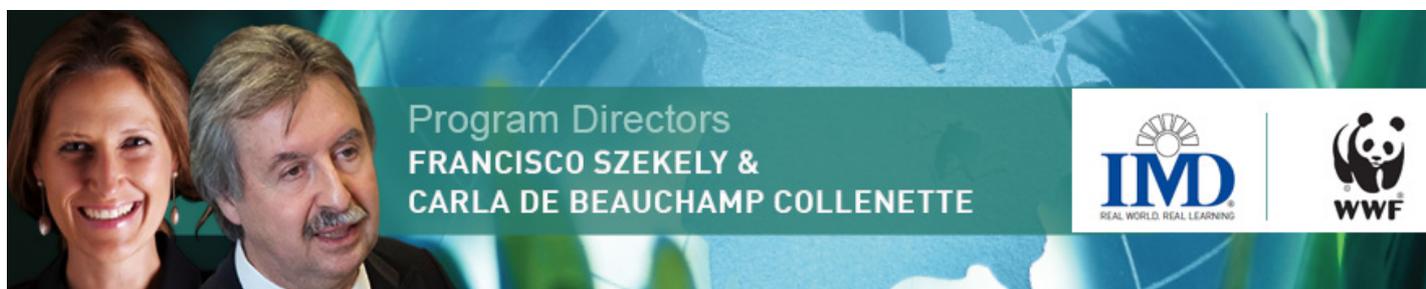
That brings us to the next point: China is experiencing a shortage of talent with the right skills to drive companies through that competitive environment. Companies report that the best talents in China are making their choices based also on sustainability criteria. This will undoubtedly also stir strategic innovation for sustainability. Lastly, whilst there is a great deal of regulatory uncertainty in China, the new Chinese five-year plan is around stirring domestic consumption but also building a sustainable economic sector, including from an environmental point of view. This will also have an effect on drivers for sustainable innovation in companies.

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*IMD’s Global Center for Sustainability Leadership has a primary focus on strategic innovation for sustainability through development of relevant thought leadership, research and learning activities. In particular, its innovative **One Planet Leaders Program** – a collaborative effort with WWF, the environmental organization – is focused on tomorrow’s challenge of living within the limits of one planet.*

*The CSL Learning Platform is holding its next thought leadership Roundtable **on Sustainability Dilemmas and Solutions affecting Natural Resources** on 20/21<sup>st</sup> March.*

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