



WHEN EMERGING MARKETS LEAD THE WAY – PART 2

HOW LOCAL CONTEXTS AND INNOVATION DRIVE CORPORATE SUSTAINABILITY

By IMD Professor Francisco Szekely and Victoria Kemanian – June 2014

IMD
Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.org
www.imd.org

The current global discussion on corporate sustainability is increasingly being shaped by ideas and trends from some of the least developed parts of the world. Despite the developed world having a few decades' more experience in corporate sustainability, and its firms tending to allocate far greater resources to this area—in relative terms—than their emerging-market peers, most of the fresh, innovative thinking is coming from emerging markets. Thus, the underlying question is: what drives sustainability innovation in these geographies? As new research by the IMD Global Center for Sustainability Leadership shows, two factors strongly contribute: local relevance and an experimental approach.

The first article in this three-part series showed how emerging-market companies regard sustainability as a building block of their entire business purpose and corporate strategy. In this article, we argue that emerging-market firms' fresh approach to corporate sustainability focuses on relevance and thus reflects their unique local contexts and a different attitude toward innovation.

Thinking local drives relevance

Many emerging-market companies operate in complex local contexts that pose massive economic, environmental and social challenges. The nature of those constraints is central not only to how companies view sustainability, but more importantly, to how they shape their business models and activities across the value chain, from sourcing to distribution. Being able to operate amid political instability, economic uncertainty or resource scarcity is an intrinsic characteristic and competence of many emerging-market firms. This encourages them to adopt a creative problem-solving mindset, and to identify radical but systemic responses to sustainability issues.

The Mexican group Bimbo turned constraint into advantage by reducing its environmental footprint and shifting to green energy. One of the largest global bakery groups, Bimbo wanted to find a sustainable solution to meet the energy demand of a number of its production plants and facilities in Mexico. So the company embarked on a joint project with a Spanish firm to build a wind farm in the area of Oaxaca. In the long term, this farm will produce enough electricity to power all of Bimbo's operations in the country.

Many other emerging-market firms in our research have engaged local communities and resources in their business models. The Brazilian cosmetics group Natura, for example, relies on local resources from the Amazon while providing a sustainable source of living for a number of communities living in the rainforest.

As Natura's CEO explains, "Fifteen years ago we realized that we could not compete with the big players in the cosmetic industry by trying to find the right molecule in a lab."¹ The company therefore tapped into the Amazon's biodiversity to identify natural sources for its ingredients, and continued to develop new ideas to lessen the environmental impact and increase the economic impact. Under its 2020 Amazon Program, Natura plans through local sourcing to involve 12,000 small producers from the Amazon and 1,000 local researchers on the Amazon's biodiversity by 2020.

Innovation: an experimental, patient approach

Another major force behind emerging-market firms' sustainability activities is their experimental, long-term approach to innovation. A majority of the firms in our study see value creation from sustainability as a long-term aspiration and as a result, do not expect a short-term payback. Our research shows that this approach has a positive impact on companies' ability to innovate. Instead of merely realizing efficiencies and generating growth from disconnected initiatives, firms are exploring and leveraging their sustainability capabilities as a potential lever for competitive advantage.

We have observed two common elements in this emerging-market perspective on innovation. First, investments related to sustainability are patient and focus on building capabilities. This notion is critical to better allocate resources, pace efforts and maintain momentum. While companies have found low-hanging fruits on their journeys, their long-term approach has enabled and welcomed extensive experimentation and along the way, has developed their ability to adjust and improve.

Second, some companies in our study expressed that the ability to create sustainability-driven breakthrough innovation is directly related to their willingness to take risks and look at issues in new ways. To that end, these firms foster an entrepreneurial mindset that enables creativity and risk-taking and creates specific opportunities for new ideas to arise.

The Mahindra group, an Indian holding company with interests across several sectors and particularly in farming and utility vehicles, launched in 2011 a program called “Spark the Rise.” This is an online platform for entrepreneurs across India to submit projects on which they get feedback and support, while creating the opportunity to obtain a grant from the company to help implement the project. By late 2013, about 1,950 “Sparks” had been approved and 238 projects funded.²

These examples show how, in some of the most challenging environments, firms adopted a creative problem-solving approach to innovation driven by their sustainability purpose, and ultimately, were able to turn challenges into opportunities.

In the last article in this series, we will explore a critical area of emerging-market firms’ approach to corporate sustainability: transformation and impact through collaboration and scale.

Francisco Szekely is the Sandoz Family Foundation Professor of Leadership and Sustainability and Director of the Global Center for Sustainability Leadership (CSL) at IMD. He directs the Sustainability Leadership in Action (SLA) program, which was previously known as One Planet Leaders.

Victoria Kemanian is Director of Latitude, a Lausanne-based consulting firm, and an affiliate of the Global Center for Sustainability Leadership at IMD.

References

¹ Balch, O. (2013, March 18). Natura commits to sourcing sustainably from Amazon. *The Guardian Sustainable Business*, retrieved on May 23rd, 2013

² www.sparktherise.com, accessed on October 14th, 2013

Related Programs



ORCHESTRATING WINNING PERFORMANCE - <http://www.imd.org/owp>

The global business program for individuals and teams

Program Directors Michael Wade, Bettina Büchel, Dominique Turpin

- Get exposed to the latest management thinking and to practical and innovative solutions for your business
- Anticipate global business trends
- Boost your performance, broaden your perspectives and expand your global network
- Design the program that suits you and your team
- Become a complete executive through activities that develop your mental, physical, and emotional health



SUSTAINABILITY LEADERSHIP IN ACTION - <http://www.imd.org/sla>

Integrating sustainability at the heart of your business strategy

Program Directors Francisco Szekely

- Gain a clear understanding of which sustainability issues are relevant and a priority for your business
- Develop and implement new sustainable business models
- Improve your ability to successfully lead change
- Acquire sustainability concepts and methodologies to create and measure sustainable performance
- Learn how to successfully engage with different stakeholders