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CAN COMPANIES BECOME SUSTAINABLE?

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Prof. Dr Erik G. Hansen is Head of the Institute for Integrated Quality Design at Johannes Kepler University Linz, Austria. He researches sustainability-oriented innovation, new business model development and life-cycle-oriented product and quality design. In recent work[1], he has looked at the need for companies to move beyond sustainability as an add-on, and

instead to fundamentally re-examine their business models in the context of environmental and social challenges, as part of their strategic planning.

Is there any current company that can truly be said to be sustainable?

Erik Hansen: Sustainability is a goal and also a direction to achieve this goal. It is a normative direction and, against this background, a sustainability-orientated business model is a model that significantly differs from more established business models and that reduces fundamentally the negative environmental externalities and the other weakness of conventional business models. I don't think we can say any company is 100% sustainable, but it is a direction of travel.

To have a "sustainable company," is it necessary to completely rethink the concept of a company and ideas of profit and shareholder returns?

Erik Hansen: I certainly agree that companies aiming at more sustainable business models have to fundamentally rethink the way they create value. It is not just a case of optimising current operations: becoming a bit greener, a bit more energy efficient. It is rather about developing completely new products and services and related value propositions, and sometimes also about entering entirely new markets, redeveloping the value chains, and reconsidering revenue streams (for example, product sales versus leasing), so that in many

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aspects, the business model radically changes. These are strategic investments that need proper resource allocation by top management. But the basic concept of the company – to make profits – can remain.

Do you think established companies can manage this reinvention of themselves, or is it better to focus on new companies with built-in new ideas?

Erik Hansen: We have done research in this area looking at new ventures in various industries with radical, more sustainable value propositions. A good example is Fairphone (http://ec.europa.eu/environment/ecoap/about-eco-innovation/business-fundings/small-companies-blaze-trail-modular-design-and-longer-gadget_en) [*which has created an "ethical" smartphone*[2]], but there are also more conventional small and medium-sized companies that want to go in a more sustainable direction, for example by diversifying into green technologies. What we see is that there are possibilities for both types of firm.

A start-up, of course, has the advantage that it has no history and it can start from scratch. But they often lack financial resources or personnel. Established companies have the resources, but they have the disadvantage that they have a history, they have existing products and services that often conflict with a more sustainable approach. There can even be some cannibalisation of the new business by the old business.

But we can see that if established firms want to do it, and invest significant resources as a strategic investment, and establish the right organisational design, they can do it – even SMEs. For resource-rich big companies, there is no reason at all to refrain from pursuing this path, but of course it is still a major management challenge. In the case of BMW's electric vehicles, the i3 and the i8, they were developed in a completely separate organisation where people could think freely and even contradict the established business. They have to accept that there are trade-offs and paradoxes between the established business and the more sustainable business models in the new markets in which they develop new business.

Such reinvention also very much depends on the industry and specific countries and individual cases. In some industries, the biggest players do not significantly invest in more sustainable business models. The big energy utilities in Germany, being predominantly focused on fossil energy are a good example of stagnation; as a consequence, they have lost competitive edge. Comparably, the automotive industry in Germany has been very slow to adapt to the era of electric mobility, although BMW is an exception.

Meanwhile, if new players with a more sustainable business model enter an industry, established companies can find themselves under pressure. Examples are Fairphone in the mobile phone industry and Tesla in the automotive industry. It is an evolutionary process in which start-ups come up with radically new ideas and rapidly introduce them, and put established companies under pressure to change. By taking up this challenge, the big companies can play a crucial role because they have the scale to introduce new more sustainable ideas quickly into the mass market. On the contrary, by shielding their business models, established companies often fail in the mid to long term.

Do you think, broadly speaking, that American companies are more capable than European companies of radical change? Google, for example, invests its cash pile from one business in quite different experimental ideas.

Erik Hansen: What makes companies like Google, and also Tesla in the automotive industry, so successful is that they think very quickly on a global scale. In introducing electric vehicles, Tesla did not try with a regional approach, but they had immediately a vision of global domination of the automotive industry – which is to a great extent crazy when looking at the established players, with hundred-year histories. So American companies might be better at having a global vision, particularly in industries that are now faced by digitalisation, on which European industry is maybe a little slower.

The automotive industry, for example, is becoming more and more a computer-based industry and the US has some advantages in this respect. But in terms of business models for sustainability, I think the Europeans are generally much stronger because they are more forward-looking with regard to environmental and social challenges in value creation processes. In Europe, we see a lot of entrepreneurial activity trying to develop new environmentally-friendly business models or social-business models, but I think that sometimes entrepreneurs in Europe do not scale up fast enough and the established companies are maybe a bit slow to really believe in this kind of change and invest in it more rapidly.

Europe has some good history of policymaking to support sustainability, but I think we need still clearer policy signals and more ambitious goals so that companies can feel that they really have to change. Companies are also wary of investing in case the markets for more sustainable products don't take off. So we need stronger policy incentives to support more sustainable products and services and the associated business models.

One fundamental example is energy. In EU policymaking, there are still many that think that we need to keep energy prices very low to underpin economic activity. In fact, it would be a big signal if we could make energy more expensive, which would better reflect the

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environmental externalities and in turn would drive innovation for energy efficiency and contribute to long-term competitiveness. It would also drive innovation in business models, for example in relation to the circular economy, which only makes sense if sourcing of virgin materials from the other side of the world – instead of using secondary raw materials – becomes more expensive. Without such signals, the change to greater sustainability will be very slow, and probably too slow.

[1] See for example: <http://dx.doi.org/10.1177/1086026615599806> 
(<http://dx.doi.org/10.1177/1086026615599806>)

[2] See for example: http://ec.europa.eu/environment/ecoap/about-eco-innovation/business-fundings/small-companies-blaze-trail-modular-design-and-longer-gadget_en (http://ec.europa.eu/environment/ecoap/about-eco-innovation/business-fundings/small-companies-blaze-trail-modular-design-and-longer-gadget_en)

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