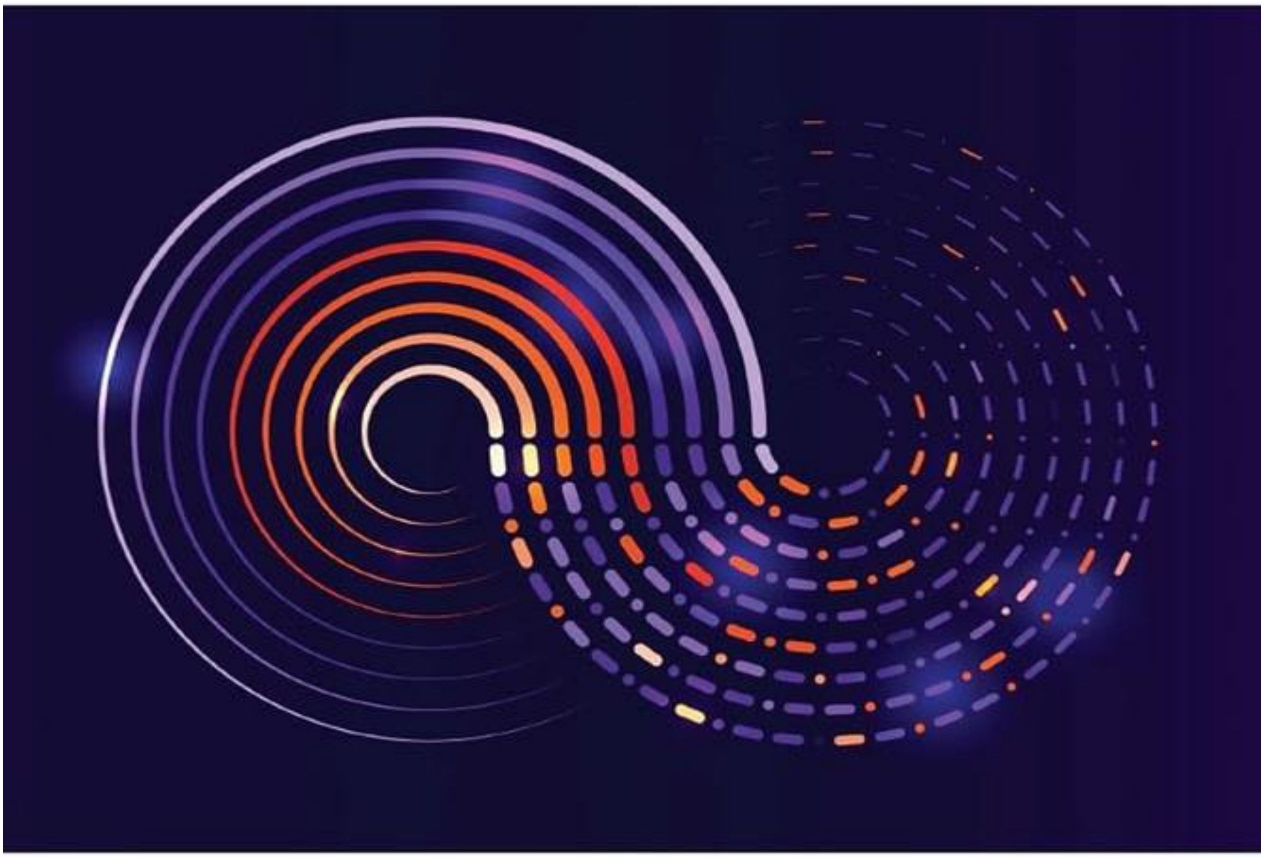
Driving Sustainable Innovation

HOW TO DO WELL WHILE DOING GOOD



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THINKERS 50

Driving Sustainable Innovation is published in partnership between The Brightline Initiative of the Project Management Institute and Thinkers50.

It brings together a powerful collection of leading thinkers and practitioners from around the world to map out in 25 chapters what achieving truly sustainable innovation means for individuals, organizations, economies, and society.

Chapter 10:

The Strategic Purpose of Sustainable Innovation

STRATEGIC THINKER, LEADER, AND ADVISOR

Any creation starts with a word, and therefore with its definition, meaning, and intent. So does any innovation, bringing us back to its original Latin definition, *"renewal from within"*. Applied to the modern realm of business, this *renewal from within* might take various forms from incremental process improvement to disruptive technological innovation to business model innovation to business ecosystem innovation.

Nevertheless, at times of perpetual accelerated change and continuum of uncertainty, one might raise the issue of the effective translation of this palette of innovations into stronger long-term benefits for companies, industries, and society. Likewise, in a global context of environmental preservation awareness, one might raise the issue of the sustainability of these innovations.

Moving forward, if we broaden our perspectives, we might ask ourselves whether the most sustainable innovation would not actually be an innovation of our thinking about sustainable innovation and the aim it is supposed to achieve beyond avoiding harm, depletion, and damage to the environment.

Fundamentally, we believe the ultimate legacy of businesses and governments —and therefore the ultimate outcome of their strategies— should be to ensure the planet is better off strategically, economically, societally, and environmentally for the next generations. Yet, such a level of ambition inherently raises the question of the expected role of sustainable innovation in *"greater-good-oriented strategies"*.

Or, in other words, what is the strategic purpose of sustainable innovation?

We will answer that question by depicting the strategic trajectory of the world in which corporations should project themselves through their strategic purpose i.e., the North Star their sustainable innovations should align with. Having defined the playing field, we will share our insights on the sustainable innovation strategies firms can leverage to build their legacy as well as our perspectives on the leadership challenges of sustainable innovation.

The Strategic Trajectory of the World: The Rise of the Ecolonomics

At its core, a strategic trajectory is defined by its starting point, its destination, and the transition strategy and milestones between both.

Similarly, we view the strategic trajectory of the world economy as defined by its current and future economic paradigms, and the *ecolonomics* transition between both where we define the *ecolonomics* as a newly redefined, balanced economic and ecologic paradigm whose main energy-protagonists-industries are the *grey hydrocarbons* and *green renewable* industries.

Strategically speaking, looking at the world economy trajectory through the growth strategy prism provides us with insights on the underlying dynamics of the *ecolonomics* transition unfolding before our eyes and that will draw the contours of the world in which firms will inscribe their sustainable innovation strategies.

At any time, businesses looking into the future face the triple challenge of the growth strategy paradox i.e., the trade-off between the further exploitation of current sources of strategic advantage and the exploration of new source of strategic advantage.

Indeed, first, exploitation and exploration respond to different strategic, operational, organizational, and capabilities logics which represents a tremendous leadership challenge. Second, considering there is no such a thing as a perfect 50/50 opportunity split between the present and the future, exploitation and exploration need to be kept in a dynamic perfect imbalance —e.g., 70/30, 45/55, or 90/10— according to the current market conditions and future market evolutions. Third, the exploitation/exploration trade-off might lead a firm to deconstruct —and reconstruct differently— its own business model in the face of competitive advantage obsolescence or risk of strategic irrelevance.

Today, the world economy is facing a similar trade-off and threefold challenge in the form of the grey versus green energy trade-off that, somehow, sets the global industrial agenda. Actually, the further exploitation of the grey economy and the exploration of the green economy follow different logics, which makes it challenging for firms to simultaneously invest in cross-energy green and grey portfolios.

The world economy trajectory will continuously be fuelled by a dynamic perfect imbalance of grey and green energies throughout the *ecolonomics* transition. Additionally, this latter further illustrates the strategic tension between further exploiting the strategic benefits of the grey economy; i.e., meeting the global demand of energy; subsidizing the emerging green economy; and exploring new industrial, technological, and financial opportunities to bring the green *ecolonomics* to life.

Interestingly, we expect the magnitude and quality of firms' sustainable innovation investments to be a driving factor of the constantly evolving grey/green breakdown and, thereby, a driving factor of the world economy trajectory itself.

Finally, today, we have arrived at a stage where we need to deconstruct part of the currently dominant grey economic paradigm and rethink it sustainably in the sense of strategic history. Indeed, the grey extraction-based economic model we have been relying on to meet global energy demand might have arrived at a point of societal irrelevance in the same way some companies might be confronted with the risk of strategic irrelevance.

Altogether, considering the grey-to-green ecolonomics transition aims to replace grey energies over time, we believe the trade-off between further exploitation and exploration will evolve towards a trade-off between gradual extinction and exploration according to corporations' level of investments.

The Strategic Purpose of the Firm

We define the strategic purpose of a firm as the synthesis between its strategic ambitions and societal aspirations.

It starts with an inspirational, compelling, and authentic broader-than-business *"existential why?"* of what the firm stands for as an industrial player, a market-driven organization, an economic agent, and a corporate citizen. It then continues with the strategic fit of the firm's higher purpose with the firm's strategic context, corporate and business strategies. Ultimately, the strength of the strategic alignment of the governance bodies of the firm plays an overarching role in corporations' successful inner transformational growth journey to define, implement, and own their strategic purpose.

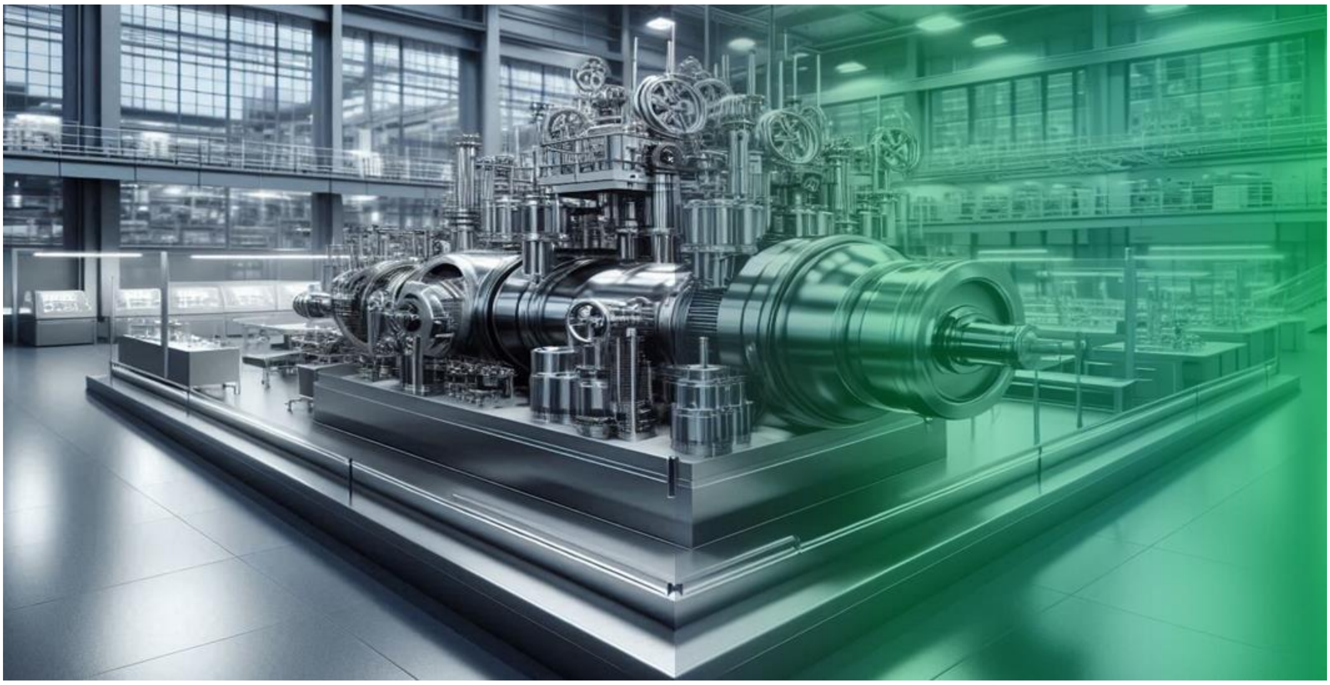
The days of problem-solving dichotomy when the business and policy-making spheres operated independently from each other are over. Considering the global momentum of corporate purpose, strategic success alone is not enough anymore. Firms need to be both strategically successful and societally meaningful. Hence, their strategic purpose has to both inscribe itself in the broader context of society and the world economy trajectory and to guide companies' sustainable innovation strategies.

The Strategic Paradox of Innovation in the Ecolonomics Transition

The *ecolonomics* transition leaves grey industries CEOs, C-suite executives, and Boards with a once-in-corporate-history challenge in the form of an innovation paradox.

Indeed, sustainable innovation rhymes —or is expected to rhyme— with growth, continuity, and renewed business longevity either through revitalization of market positions or inroads into new territories. Similarly, grey industries have always inscribed themselves in a long-term perspective, considering their 15- to 20+-year business cycles and the heavy and long-term character of their investment projects.

In this context, the paradox of the *ecolonomics* transition lies in the fact that grey industries' forthcoming sustainable innovations should be short-term oriented and motivated by a final discontinuity of business, considering the environmental ambition to replace grey energies with their cleaner and greener counterparts.



In other words, grey industries will be expected to achieve their fastest-paced and highest level of innovation but only to responsibly accelerate their own extinction, and thereby help the world achieve its planet protection ambitions. Simultaneously, these short-term sustainable innovations should not be too heavy financially in order to allow "declining" grey hydrocarbons companies to subsidize and help scale their cleaner and greener counterparts.

At this stage, the thought-provoking mind might be tempted to challenge the relevance of grey industries investments in the current environmental consciousness context. Nevertheless, as counterintuitive as it may seem, we believe three factors jointly make a compelling case for the grey side of sustainable innovation strategy. First, the *ecolonomics* transition is a two-way street where green and grey energies coexist. Second, the *ecolonomics* transition expiration date is unknown because of potential issues of long-term availability and affordability of climate-change-critical minerals whose extraction multiple forecasts range from 20 to 70 according to the International Energy Agency (IEA) (Biro & Gould, 2021; IEA, 2021). Furthermore, the technologies to scale green industries are not mature yet. Third, we believe grey industries can accelerate the *ecolonomics* transition innovatively by actively downsizing grey externalities instead of limiting themselves to passive divestiture as the externalities equation is not a zero-sum game where going "*all green" and "zero on grey"* would be enough.

Altogether, the strategic paradox of innovation raises two additional questions. Firstly, how can grey industries' CEOs rise from the innovation paradox to innovation excellence and successfully solve the sustainable innovation equation? Secondly, as sustainable innovation transcends industries' borders, what sustainable innovation strategies can CEOs put in place to fulfil their firms' strategic purpose in alignment with the strategic trajectory of the world economy?

Sustainable Innovation Strategy Beyond the Paradox...

CEOs and executive leadership teams can strategize on sustainable innovation to transform their firm into a high-performing, innovative, purpose-driven company following a three-step approach.

First, CEOs can repurpose their innovation strategy by realigning their firm's strategic purpose with the strategic trajectory of the world and its *ecolonomics* transition. Second, CEOs can strategize on the most impactful innovation areas across and within their business model dimensions. Finally, CEOs can operationalize their innovation strategy with a clear implementation roadmap to execute through their business model. So, what does a business model of the 21st century that is tailored for sustainable innovation look like?

Purpose-Driven Business Model

Following the 80/20 Rule, the strategic outcomes of the remaining decades of the 21st century will have found their origin in some of the strategic shifts of the last two decades.

Among them, we may cite the rise of the purpose economy that has only confirmed the shift from an exclusive shareholder focus to an open, balanced, and holistic stakeholder perspective. A second one is the establishment of business models as the cornerstone of business strategy definition and the primary vehicle of strategy implementation in a context where competition has shifted from products and services to business models.

In this context, while clarity, mastery, and ownership of one's purpose-driven business model appear as strategic imperatives for CEOs, the question of the role of sustainable innovation in stakeholder value creation through one's business model remains open.

Ultimately, it boils down to the "golden seven" questions CEOs and C-suite executives need to master to put their firm at the top of its sustainable innovation strategy game (see Figure 1).

FIGURE 1. The golden seven questions of sustainable innovation strategy

1. Is your sustainable innovation aligned with your firm's strategic purpose?

Between the Latin original definition of innovation and the forward-looking definition of sustainability, one might reframe sustainable innovation as a renewal from within enhancing the wellbeing of the world and the next generations.
To make this transformation a reality for your company, your industry, and society through your firm's business model requires both looking beyond the latest fancy shiny technologies and serving a twofold higher purpose, i.e., the strategic purpose of your firm and the strategic trajectory of the world.

2. Will your sustainable innovation better support or enhance the various elements of your value proposition?

Today, the business models aspiring to win customers' heart, mind, and soul must provide them with the highest functional, emotional, experiential, and societal value.

Consequently, CEOs and C-suite executives might reframe the innovation strategy questions in the following terms. Will the pursued sustainable innovations help:

- Maximize the functional value of your product and service offerings?
- Strengthen the emotional bond with your customers beyond products and services?
- Contribute to an indisputably superior customer experience?
- Reinforce the alignment of your firm's business model with its strategic purpose and increase your firm's capacity to attract and engage with purpose-like customers?

3. Will your sustainable innovation allow you to grow your client base and extend your market segmentation?

The purpose economy has given birth to purpose-driven market segments whose value creation and capture potential has not been fully tapped into yet, hence the customer base growth objective sustainable innovation should target.

4. Will your sustainable innovation improve client engagement throughout their lifecycle?

As a matter of fact, client relationships neither start nor stop at the moment of the transaction. Indeed, clients may engage with your firm and brand long before any consideration of purchase decision and long after the actual transaction.

Therefore, this raises the question of the extent to which a sustainable innovation helps meaningfully improve client engagement throughout the client lifecycle; both before and after the transaction, in client acquisition mode and in client follow-up mode respectively.

5. Will your sustainable innovation enhance the quality of your strategy implementation?

The quality of strategy execution directly refers to the quality of the value chain across all enterprise levels, market segments, business lines, support functions, and geographic areas of the firm. Furthermore, the quality of strategy implementation also refers to the quality of project management as corporate initiatives are implemented through projects.

Fundamentally, raising the issue of strategy implementation comes down to assessing the level of efficiency gains value chain innovation strategies and effective project management aim to deliver.

6. Will your sustainable innovation enhance the utilization of the underlying assets of your business model?

A company's assets are the cornerstone of the infrastructure dimension of its business model. Whether a sustainable innovation strategy targets the intrinsic value of one individual asset or a set of assets whose strength resides in their collective utilization, its success will be measured against the company's improved capacity to generate revenues and profits from its assets.

7. Will your sustainable innovation enrich the profitability equation of your firm?

Beyond the nobility of the societal contribution, sustainable innovation also aims to serve the profitability equation of the firm. The name of the game is to convert the "renew from within" into renewed profitable growth.

Essentially, by answering the "golden seven" questions across the strategic purpose, value proposition, client, infrastructure, and profitability dimensions of their business model, CEOs and C-suite executives can harness the power of sustainable innovation to strengthen their firms' stakeholder value creation capacity in alignment with both the strategic trajectory of the world economy and their firms' strategic agendas.

That said, as one might look at the "golden seven" as business model challenges to help maximize sustainable innovation value, we will turn our attention to their leadership equivalent.

The Leadership Challenges of Sustainable Innovation Strategies

Sustainable innovation strategy is an expansion, renewal, and complexity journey. It expands the business landscape in which a firm operates and the dimensions of its business model, which leads to a renewed equilibrium of the firm.

In this context, CEOs might relabel themselves as "Complex Equilibrium Officers" considering the need to manage the complex coexistence between the old and the new, be it value propositions and the skills and capabilities to deliver them, market segments and newly differentiated client relationships, or assets and value chains to ensure firms deliver on their newly balanced promise.

On top of that, CEOs also need to master the time dimension of innovation as managing portfolios of innovations requires juggling between the timeframe of business results and the time horizon of sustainable societal innovations.

Further down the road, CEOs might also face a visibility challenge as the post-transition *ecolonomics* paradigm has not been fully defined yet. To a certain extent, we are building the aircraft in flight without clarity on the ultimate destination, some of the milestones and the duration of the flight… which might hinder some innovation investment decisions.

It is also worth mentioning that some sustainable innovations aim to respond to global societal or business challenges whose magnitude imposes consortiums of companies to operate as business ecosystems where firms can solve problems collectively and holistically beyond their respective capabilities and levels of excellence with a strategic strike force outweighing the challenges to overcome.

Business ecosystems players are led by an orchestrating leader and are driven by commonality of strategic purpose, client-centricity, and value proposition as well as by modularity and complementarity of capabilities. Their interactions translate into ecosystem-level value propositions transcending ecosystem players' respective value propositions.

In this strategic configuration, CEOs face a threefold challenge. First, CEOs need to define the right level of strategic openness —i.e., strategic information-sharing— with the other ecosystems players to determine and agree on the commonality of purpose that will be the

North Star of all sustainable innovation investment decisions. Second, CEOs need to master business architecture design, considering the importance of modularity for ecosystem-level innovation. Third, CEOs face the leadership challenge of external followership. Indeed, CEOs need to lead, inspire, and mobilize stakeholders beyond the boundaries of their firm as the delivery of ecosystem-level sustainable innovation will be spread over various corporations. In a context of partially competing priorities and agendas across ecosystem players, successfully empowering an external workforce may prove to be a challenging exercise.

Final Thoughts

The brilliance of any strategy is either confirmed by its successful implementation or denied by its failure. Similarly, the brilliance of any sustainable innovation strategy will either be confirmed by its successful implementation throughout a firm's business model or be denied by unmet growth ambitions.

Unlocking sustainable innovation value does not happen in vacuum. It requires strategic alignment between the strategic trajectory of the world economy and corporations' strategic purpose and innovation strategies.

The power of any business model lies in the strength of its overarching equilibrium, and in the strength, relevance, purpose alignment, mutual reinforcement, and strategic fit with the whole of its individual dimensions. The sustainable innovation dimension makes no exception.

Ultimately, to challenge one's thinking on how to align the strategic purpose of the firm and the strategic trajectory of the world will be the distinctive winning trait of the CEO championing sustainable innovation.

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Throughout his 2-decade career, Maïna has helped clients align strategy definition, execution, and monitoring. After a 4-year stint in strategic planning in the financial services industry, he advised clients on strategy and strategic planning, large-scale transformation, post-merger integration, restructuring, and operational excellence across industries prior to launch his independent strategy consulting practice.