

SUSTAINABLE INNOVATION

Essential to business survival and an opportunity for significant competitive advantage during a crisis and beyond.

BUSINESS: DECODED

During challenging times, company leaders should look to sustainable innovation to keep the wheels of business turning. Find out how your organization can continue to innovate through times of market turbulence, and what the rewards are for companies which succeed.

WHAT IS SUSTAINABLE INNOVATION?



The business community has been fueled by innovation since the very beginning. Creating new methods, ideas, products, or services which add value to the lives of consumers has been the starting point of most entrepreneurs; making this process repeatable is the goal of sustainable innovation.

Sustainable innovation involves integrating concern for resources, the environment, and society into company systems and practices from idea generation through to research and development (R&D) and taking products to market.

However, despite environmental and social considerations playing a role, sustainability in this sense is not just about philanthropy; it's about pursuing new opportunities by responding to new conditions in a scalable and efficient way.

SUSTAINABLE INNOVATION IN ACTION

Businesses across the globe are embracing the idea of sustainable innovation, and it is up to their leaders to champion the cause.

51%
of people trust
business leaders
to address societal
challenges,

VS

42%
trust their
government to
enact change¹.

Corporate citizenship - doing social good and accounting for a business' actions both externally and internally - is no longer optional;



of talent agrees that their CEO should take the lead in effecting change rather than waiting for legislation to spur them into action².

The benefits of sustainable innovation extend to practical elements as well as improved public perceptions.

Toymaker Lego, for example, demonstrated their commitment to sustainable innovation and the long-term future of their business by increasing efficiencies, reducing dependency on fossil fuels, and reducing waste through resource management.

By 2030, Lego plans to use environmentally friendly materials to produce all its core products and packaging, and the company is well on its way to achieving this goal. Having already saved over 7,000 tons of cardboard by shrinking box sizes by 14%, Lego also introduced toy pieces made from sugarcane—a revolutionary change to the petroleum-based plastic their signature building blocks are usually made from. An investment of \$164 million will fuel Lego's Sustainable Materials Center, where researchers are experimenting with bio-based materials that can be implemented into the production process³. As the world's second most reputable company⁴, it's clear that sustainable innovation has paved the way for Lego's long-term future.

Long-term thinking is key to driving sustainable innovation. General Electric, for example, has been working on sustainable innovation projects for over 15 years. **Their 'Ecomagination' concept is a groundbreaking strategy the company uses to "build more efficient machines that produce cleaner energy, reduce greenhouse gas emissions, clean water and cut its use, and make money while doing it"**⁵. Since Ecomagination's inception, the



world has faced economic recessions, unprecedented technological disruption, several pandemics, political upheaval, natural disasters, war, terrorism, and migration crises. **Their strategy is testament to what can be achieved by businesses which balance long-term gains with short-term goals; Ecomagination has generated over \$232 billion in revenue so far.**

SUSTAINABLE INNOVATION DURING A CRISIS

When uncertainty looms, many organizations' first instinct is to retreat and adopt a defensive financial position; funding for innovation of any kind is often one of the first casualties.

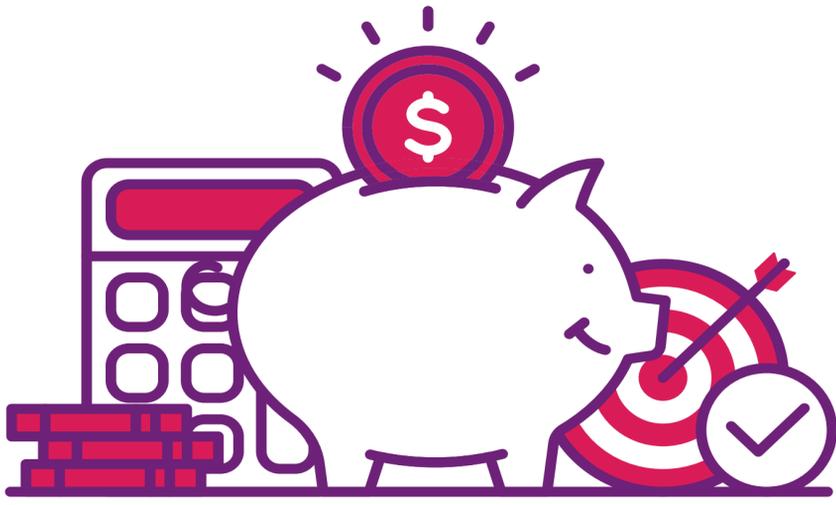
Unfortunately, for organizations with competitors which chose to continue innovation projects while they cease, it may be very difficult to make up for lost time. **Those who do find ways to continue to innovate behind the scenes, even if at a reduced rate, stand to gain a meaningful competitive advantage post-crisis.**



Chinese ecommerce giant Alibaba⁶ provided an example of exactly how successful innovation can be during a crisis through their response to the 2003 SARS pandemic. About to launch their online auction platform as the pandemic and subsequent quarantine hit, **Alibaba's leadership decided to implement work from home policies and focused on online consumer spending. These decisions would prove to be the foundations upon which Alibaba later built its \$470 billion company.**

While understandable that businesses must prioritize and reduce unnecessary or excess spending during market turbulence, short-term damage limitation should come in the form of a course correction rather than a hard stop. **Businesses which cease all innovation operations and financing are likely to find that it is far more challenging to restart a cut innovation program than it is to keep an established one on life support.**

In fact, research shows that innovation can be assisted by constraints⁷ as teams must become agile and adapt to the situation in front of them; intentionally restricting time, funds or other resources has been used as a method of driving innovation for some years⁸. Therefore, rather than hampering it, the fallout from a crisis can create the optimum conditions for innovation in several ways.



BUDGETARY CONSTRAINTS:

Even with a fraction of an organization's previous innovation budget, teams can be encouraged to respond creatively to challenges facing their organization. Entrepreneurs have been building game-changing innovations with much less for many years, particularly since the advent of cloud computing.

Teams with smaller budgets which don't require several levels of spending approval will make progress much more quickly than previously top-heavy department structures. Furthermore, small teams of fewer than 50 people are more innovative and produce outputs which succeed further into the future than larger teams.

Research also shows that as teams grow beyond 50 people, the disruptiveness of their ideas drops significantly.



On the other hand, tolerance for productive failure is likely to be reduced during a crisis, which may make teams more cautious. **Care should be taken to ensure that smaller, faster, and less risky initiatives are not pursued at the expense of slower but more impactful ideas.**

OPERATIONAL CONSTRAINTS:

Resources are of course likely to be scarce in an organization facing a crisis. **The non-availability of key team members, a shortage of physical resources such as equipment or testing facilities, and a reduced decision-making capacity don't mean that innovation must cease, however.**

On the contrary, the relaxation in bureaucracy, improved autonomy, and accelerated decision-making that generally occurs during a crisis also means that small-but-effective teams can produce results faster than large teams with substantial resources.

Time is another resource which may be scarce. The urgent nature of some crises can force timeframes to be accelerated throughout an organization. If support from senior executives can't be relied upon during turbulence, steps should be taken to ensure communication and decision making is expedited, or that teams on the ground are able to operate with relative autonomy. **Tight milestones force teams to fail fast and recover faster. Frequent assessment and review of projects also facilitates recalibration against goals, customer needs, and strategic alignment.**

DISRUPTED ORTHODOXIES:

Crises are known unknowns; recessions are cyclical, pandemics have occurred throughout recent history, and climate events are becoming ever-more frequent. After each, established norms no longer hold true and new ways of thinking, working, and purchasing often emerge. A new normal requires new, innovative solutions, and the future is bleak for companies which fail to adapt.



of Fortune 500 companies have disappeared in the past 20 years¹⁰.

The breaking down of assumptions is a powerful entrepreneurial tool. Spotify did it for legal music streaming; Zappos did it for trying on shoes; Rent the Runway did it for everyday clothing budgets. Abandoning long-held beliefs about the way things have always been done liberates teams' ability to ideate, but **empowering innovators to create new value propositions can be particularly significant for organizations whose existing business is negatively impact by a crisis.** Being unconstrained by the need to build on an existing foundation to protect a business' current interests is a rare and important opportunity for internal entrepreneurs.

CONSUMER REPOSITIONING

Spending habits and consumer behavior can change rapidly during a crisis event. Whether through necessity, loss aversion, risk aversion, or even fear, consumer behavior can gravitate towards the familiar or dry up. Short- and medium-term opportunities can be found through customer empathy however – pivoting value propositions towards nostalgia, familiarity, psychological/physical wellbeing, or risk reduction offer innovators a strong connection to customers.

It is also possible that entirely new markets may open up during a crisis. Profiteering inevitably leads to loss for any kind of business, but intelligent repositioning, such as the multitude of manufacturers who began making Personal Protective Equipment (PPE) or ventilators during the Covid-19 outbreak, may allow businesses to not just survive, but thrive.

OPEN INNOVATION

Human cooperation is at the heart of all disaster recovery efforts, and businesses also experience enhanced opportunities for collaboration. Again, during the Covid-19 crisis we saw many organizations working together to contribute to manufacturing or sourcing essential healthcare equipment or racing against the clock to develop technological and physical solutions to the spread of the virus.



Methods for external collaboration can range from crowdsourcing consumer ideas, to formal academic research partnerships, to actively investing in third party organizations. Forming partnerships with external actors not only provides access to talent, resources, and consumers; differing perspectives and diversification of thought is an essential ingredient in the process of sustainable innovation.

BUILDING AN ACTION PLAN FOR SUSTAINABLE INNOVATION IN A CRISIS

Here at Mantu, we stand beside business leaders to help them overcome the challenges of today and tomorrow. **Our practises in innovation and crisis management gives us a big-picture view of what companies today are experiencing, and what comes next.**

Dealing with the constraints and impacts of a crisis will never be easy, but for businesses which are prepared to adapt and overcome there are several methodologies and strategies which can help.

1.

LISTEN TO YOUR CUSTOMERS

Customers are vocal about their needs, wants, and aspirations. Market intelligence gathering, customer focus groups, social listening, and data analysis all provide a window into not only what your customers want, but when, how, and why they want it. **Crises will change customer priorities even faster than business priorities, so accurately forecasting market shifts is the first step in sustainable innovation during turbulence.**

It's worth bearing in mind that customer touchpoints will likely shift dramatically during times of crisis. Plan for how your organization will reach its customers, but also factor in gathering feedback on any innovations. If relying on physical sales, for example, will customers understand and appreciate a product if they can't see it before purchasing?

3.

RUN LEAN

Lean methodologies focus on the reduction of waste; be it time, process, financial, manufacturing, or operational inefficiencies, running lean will help to increase productivity, eliminate waste, and redirect the saved resources back into the sustainable innovation cycle.

The seminal text on lean methodologies by James Womack and Daniel Jones, *Lean Thinking*, emphasizes *five key steps* to achieving a lean working model:

Value: Identify what customers care about, and how much they are willing to invest in obtaining it. Create value by focusing on this need or want when designing new products or services but ensure top-down pricing is in play (working backwards so the cost of production is lower than the price point).

Value streams: Understanding a product's entire lifecycle from pre-production to disposal allows organizations to map where value is being lost or created along this journey. *Value stream mapping* also facilitates the identification of low value product features which can then be removed or reworked, adding to the overall efficiency of the innovation process.

Flow: Referring to delays or anything which keeps the value creation process from moving forward, flow is about understanding and smoothing any roadblocks which hold up any part of the cycle. Any materials kept in storage or unnecessary shipping delays, for example, are wasteful – establishing a continuous flow by running as tight a cycle as possible is the overall goal.

2.

FIND YOUR INNOVATORS

It may not be possible to retain the same size or make up of pre-crisis innovation teams. Prioritizing leadership skills, divergent thinkers, and creativity over specific job functions can help to mitigate the impact of reduced team size and resources. **Identify and support the natural innovators within your organization; the ones who will take risks, find unique approaches, and can think around problems.**

However, this talent need not necessarily come from within your firm. Outsourcing innovation, whether done via Open Innovation, partnerships or even M&A, can provide a ready-made alternative if internal sustainable innovation proves difficult to maintain.

Pull: As opposed to 'push', a pull is created when an innovation speaks to an existing customer demand. Orders are fulfilled as required, with little to no stock reserves created in anticipation of demand. Again aimed at reducing waste and depreciation, the pull strategy is likely to be the most challenging aspect of lean operations for businesses unused to operating this way: a fast and flexible order fulfillment strategy must be in place to avoid delays to customers.

Perfection: The old adage about not fixing things that aren't broken no longer applies. Constant improvement and a quest for perfection are the friends of sustainable innovation; things could always be done more efficiently, to a higher quality, or in a different way. This step fosters innovation, creativity, and solution-oriented approaches whereby existing methods are not allowed to stagnate or become embedded.



4.

DON'T STOP

Pressure can build in a crisis, and it may at times seem far more straightforward to pause and reflect rather than press ahead. **However, industry leaders are shaped during such times, and all businesses should do their utmost to embrace the competitive and market opportunities that disruption during a crisis can present.**

Asking for external assistance, be it from governments, third parties, or financiers, can be a short-term fix that will ensure sustainable innovation can continue throughout periods of uncertainty or risk. Weighing up the long-term gains against short-term pressure should be enough to convince senior executives that, during a crisis at least, **the only way out is through.**

Mantu

Mantu is an international brand platform providing guidance and services to businesses and entrepreneurs. More than 6,500 people work at Mantu: 95+ different nationalities, spread across 5 continents and more than 55 countries.

Mantu stands beside businesses and entrepreneurs to help them fulfil their dreams, achieve their ambitions, and realize their projects. Mantu bolsters their growth, enables their development, and supports their transformation.

Sources

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2 Ibid

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4 The World's Most Reputable Companies 2019

5 Ecomagination Ten Years Later: Proving that Efficiency and Economics Go Hand-in-Hand

6 The SARS epidemic threatened Alibaba's survival in 2003—here's how it made it through to become a \$470 billion company

7 Creativity and Innovation under Constraints: A Cross-Disciplinary Integrative Review

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9 Large Teams Have Developed Science and Technology; Small Teams Have Disrupted It

10 Digital Transformation Is Racing Ahead and No Industry Is Immune

