SUSTAINABILITY: FROM THE GREEN LINE TO THE BOTTOM LINE

"Smart companies now treat sustainability as the new frontier of innovation," wrote business thinker Ram Nidomolu[1]. How can firms take advantage of sustainability issues to revive their business and create value? This topic was at the center of the HEC MBA Sustainable Business Conference for its tenth edition in March.

Classical CSR (Corporate Social Responsibility) simply aims to manage compliance, avoid litigation and protect brand image against external attacks. Yet, ever more companies are going one step further and reducing their energy consumption in order to save both operational costs and natural resources. Good for the firm, it is also good for the planet. One case in point is the telecom industry. 1.7 billion handsets were sold in 2012, which makes this item the most sold electronic device in the world. However, less than 5% of these products are recycled. "Urban mines" of batteries, copper and gold are growing everywhere. Some telecom companies have launched "buyback" programmes coupled with new sales as part of their commercial offer. Thus, in the United States, the phone operator Sprint claims to have reached a 50% collection rate on mobile handsets, allegedly saving 1 billion dollars a year thanks to this programme.

BUSINESS OPPORTUNITIES

Sustainability needs can lead to lower expenses, but also result in new businesses. The French group Orange, for instance, sees opportunities in smart grid, at the convergence between energy and telecommunications. "*A key challenge is to shave the peak of electricity consumption: at 7pm in winter, when everyone goes back home and turns on the heating, there is a huge risk of shutdown. Information and communication technologies can help reduce that peak*," says Denis Guibard, Vice-President, Sustainable Development, Products & Services at Orange. The French group is working on new solutions to provide customers with real-time information about their electricity consumption, helping them to monitor it more efficiently. Another opportunity the company has detected concerns teleworking. Traffic jams at peak hours during the commute from home to work (and vice versa) generate disastrous environmental and social impacts. Transportation services are saturated, which means this problem cannot be solved on the supply side, but rather on the demand side. "*In order to address this issue, we are working on collaborative centers that will be located close to where people live*," Denis Guibard points out.

THE KEY ROLE OF R&D

R&D plays a key role in these "green" innovations. One example is Air Liquide, which is developing disruptive innovation on hydrogen mobility, in the wake of global warming and with a view to taking advantage from more stringent carbon regulations. "*Vehicles fuelled by hydrogen are completely carbon-free, and they will become price-competitive with traditional cars. Furthermore, they deliver an amazing driving experience*," confirms Olivier Delabroy, Vice-President, Research & Development for Air Liquide. Car manufacturers like Toyota and Daimler-Benz are actively involved in these new vehicles, which are authorized in many European countries (France excluded). However, social acceptance may give rise to certain issues and needs to be managed proactively. "*There is a 700-bar cylinder within the car structure. This can generate some fears, even if all kinds of crash tests have showed there is no risk of explosion*," explains Olivier Delabroy.

REVERSE INNOVATION

Meanwhile, what is the situation in emerging countries? During the Sustainable Business Conference, a panel addressed the potential of innovation that lies in bottom-of-the-pyramid (BoP) strategies, which target low-income people in countries like India or Bangladesh – consider-

© NLPhotos - Fotolia.com

NEW METHODS DESIGNED FOR THE "BOTTOM OF THE PYRAMID"

Provided it is linked with their core business, multinational firms have a business interest to address BoP markets. At Veolia Environnement, the BoP strategy consists of three kinds of innovations. First, technical ones: the group, specialized in environmental services, has designed new solutions to supply water in remote areas and villages. Second, financial ones: pricing is adapted to be socially acceptable in countries like Morocco or India. *"We work with social economists to guess how much poor people are ready to pay for our services,"* explains Mélanie Grignon, social innovation project manager at Veolia Environnement. Third, sales forces are adapted to local requirements. For example, in slump areas in Morocco, vans serve as offices for mobile sales.

ing them as customers rather than charity receivers. Multinational companies used to create new products and services in advanced economies, and then introduce them on so-called "developing" markets. Now, with reverse innovation, they work the other way around. "*Truth is, a lot of good ideas come from the field, when the understanding of local needs leads to original solutions*," underlines Vivina Berla, European managing director at Sarona Asset Management (a private equity firm which targets SMEs located in high-growth countries). These local innovations can then be exported to rich countries in Europe or North America. For instance, Nano, the cheapest car in the world, developed by Tata in Asia, will be sold in Europe. Likewise, Nestlé, which created a low-fat noodle recipe in India, has found a large market for this product in New Zealand and Australia.

SHORT-TERM PROFITABILITY IS NOT THE TARGET

In order to develop new businesses and meet the requirements of BoP markets, large firms usually work with small teams and light processes. "*Individuals have to think out of the box, take risks and often co-create with external partners, like NGOs: this develops a sense of* 'intrapreneurship'," says Bénédicte Faivre-Tavignot (H.88), executive director of the Social Business / Enterprise & Poverty Chair at HEC Paris. Reaching customers at the bottom of the pyramid in a sustainable way leads to innovation, but profitability – if any – remains lower than traditional activities. "*We are not yet profitable… and at this point, we don't want to be!*" asserts Thomas André rather provocatively, a business development manager at Schneider Electric who is dedicated to the "Bip-Bop" programme[2]. "*Our team has a specific start-up status, so we have the freedom to think on the long term.*" The programme is partially subsidized, as some salaries are not included in the cost of the goods sold.

"*It is very difficult to reach poor customers in a scalable and sustainable way: you have to find a source of funding that does not expect large returns*," adds Vivina Berla. "*That is why there is still an indefinite need for philanthropy*," she concludes. ●

1. Harvard Business Review, 2009.
2. This programme is focused on access to energy, considering that 1.3 billion people in the world lack proper access to electricity.

BACK TO THE GARAGE

In times of crisis, when management has to operate on the short term, R&D is under pressure to deliver results immediately. That may seem incompatible with breakthrough innovation. Also, some companies are tempted to reinforce processes to ensure that R&D is not wasting time. This is dangerous, claims Olivier Delabroy at Air Liquide, because *"too many processes or metrics can kill innovation."* To him, R&D is not a business unit like any other: it should be protected in order to preserve its agility. To encourage and facilitate disruptive innovation, some large companies try to set up a corporate garage mindset inspired by success stories at Apple, Facebook and others. Dedicated teams not only include engineers, but also business people and soft science experts who have different visions, all working under the same mantra: try quickly, fail early, succeed big.