Driving Sustainability-Oriented Innovation

Organizations can innovate to address environmental and social problems — but they need to build the right culture.
Driving Sustainability-Oriented Innovation

THIJS H.J. GERADTS AND NANCY M.P. BOCKEN

Organizations can innovate to address environmental and social problems — but they need to build the right culture.

It’s no surprise that many large multinational corporations are paying increased attention to sustainability-oriented innovation (which we’re broadly defining as improvements for social good, not just “green” initiatives).  

1 Faced with mounting challenges and pressure from governments, nongovernmental organizations (NGOs), investors, and employees to be more aware of the environmental and social impacts of business activities, companies are searching for ways to do things differently while also seeking opportunities for growth.  

2 As a result, many are attempting to tap into the creativity and entrepreneurial potential of their employees, encouraging them to develop new products, services, or business models that create value for both the company and society.  

Sustainability-oriented innovation isn’t new — researchers have been studying it for more than a decade.  

4 However, as traditional organizations adopt new technologies and business models, some are finding it difficult to get employees to think like entrepreneurs, which is essential to building an innovative culture that’s committed to solving environmental and social problems.  

5 To learn what leading companies are doing to address that challenge, we conducted interviews with managers at seven multinational companies recognized for their sustainability activities: AkzoNobel (a Dutch paint and chemicals company), Interface (a U.S. carpet-tile manufacturer), Johnson & Johnson (a U.S. medical products, pharmaceuticals, and consumer goods company), Pearson Education (a British education and publishing company), Koninklijke Philips (a Dutch company involved in health care, consumer electronics, and lighting),  

6 UBS (a Swiss financial services company), and Unilever (a Dutch-British consumer goods company). (See “About the Research.”) In this article, we integrate the experiences of these companies...
with findings from prior studies to illustrate what effective sustainability-oriented innovation looks like and to describe how companies can cultivate the entrepreneurial thinking and behavior that will spark such efforts.

**What Sustainability-Oriented Innovation Culture Looks Like**

Sustainability-oriented innovation takes many forms — everything from the development of new or improved products or services to the creation of new processes and business models that bring benefits to the environment or the society at large. While the innovations themselves may or may not be disruptive or radical, the idea is to mitigate the negative impacts of existing solutions or, even better, make a positive impact.

In describing environments that are successfully fostering sustainability-oriented innovation, most of the executives and managers we interviewed highlighted the close connection between individual purpose and corporate purpose and the importance of linking the company’s long-term interests with the good of society. (Those themes are prevalent in other studies, as well. ) There is a segment of employees, interviewees noted, who deliberately choose their employer on the basis of its commitment to sustainability. Having a common purpose, many said, helps set the direction for what individuals and corporations actually do. And when individual and corporate purposes are aligned, managers observe that employees are willing to go above and beyond what is required to express their values.

**Building the Right Culture**

Our research is designed to help corporations motivate and incentivize employees to change their behaviors and actively support new initiatives. So what can executives and managers do to promote sustainability-focused innovation in their organizations? Based on the experiences of the seven companies we studied (which reinforce findings in other research), we have identified five essential elements. First, companies need to have a clear direction and be able to articulate the goals to employees. Second, they need to provide an adequate budget and other resources (including the space, time, and training) to pursue the goals. Third, they must have what we call “room for collaboration” — that is, they need to allow people to work with other parts of the organization or partner with suppliers, customers, NGOs, and other third parties to address gaps in skills and resources. Fourth, companies should provide positive reinforcement to employees who get involved in sustainability-oriented innovation projects. And finally, they need to institute measures of accountability that establish social and environmental value creation as a priority.

**A clear direction.** To translate a corporation’s purpose into action, it’s important for managers to articulate how sustainability fits into the company’s broader goals. That involves explaining how sustainability-oriented innovation supports strategy and is embedded in day-to-day operations. At Unilever, for example, CEO Paul Polman has made sustainable growth a strategic priority and an essential part of the company’s long-term growth model. With Polman’s backing, the company created a road map that aims to increase Unilever’s positive social
impact while strengthening its competitive position. Unilever employees we spoke with said the plan is motivating, and many see it as an invitation to seek out their own ways of pursuing sustainability-oriented innovation.

Yet we also found that managers need to be willing to go beyond merely voicing encouragement for sustainability-oriented innovation efforts. They must actively guide and support employees who are involved in such activities. For example, at Interface, the carpet-tile company, one of late founder Ray Anderson’s most far-reaching goals during the early 2000s was to achieve zero waste. Interface’s executive board continues to encourage employees to create new sustainability-oriented products, processes, and materials, and identifies steps people can take to carry out Anderson’s vision. In one employee-led initiative, Interface is collaborating with local fishing communities in the Philippines and Cameroon to recycle discarded nylon fishing nets and turn them into material for new carpets. To support the business model, executives actively and publicly get behind sustainability-oriented initiatives like this one, thereby legitimizing the activities internally.

We found that having a coherent set of corporate sustainability values can serve as a behavioral and decision-making compass for employees. Johnson & Johnson’s credo — putting “the needs and well-being of the people we serve first” — doesn’t just describe the company’s commitment to society. It also gives individuals a clear context within which to act. Recently, a Johnson & Johnson employee initiated an effort to improve access to mental health care in sub-Saharan Africa. Once she was inspired and empowered by the company’s mission, she took steps to innovate accordingly, and the company identified ways to provide training for mental health care professionals in the region and give local residents access to less expensive medications.

**Budget and resources.** In addition to setting a clear direction, companies seeking to promote sustainability-oriented innovation need to make sure employees have the necessary funding, expertise, and corporate support to pursue related projects. Each of the companies we studied recognizes the importance of providing financial resources and helping employees connect with the right experts. In many cases, supportive business units and people in various roles throughout the organizations lend their support to sustainability-oriented projects and raise the profile of the initiatives. Pearson, the education company, for example, established what it calls Tomorrow’s Market incubator in 2016 to explore possible new products and ventures focused on expanding educational opportunities for people in low-income communities. Employees with ideas they think are promising can apply for funding, receive support from executives, and get time off to execute their business plans.

Like Pearson, many of the companies we studied give employees permission and flexibility to pursue the sustainability-oriented activities they are interested in. Philips, for example, gives scientists in its innovation department time on Fridays to work on their own projects and lets them apply for three-month research fellowships to pursue ideas of interest. In addition, the company gives sustainability projects leeway on how fast they are expected to show returns.
Obviously, a company’s ability to innovate successfully takes more than ambition, time, and financial resources. It also depends on being able to attract the right talent and helping employees develop the right capabilities and skills. Recognizing that it wasn’t attracting enough entrepreneurially minded employees, Unilever altered the way it recruits recent graduates and added a new program that focuses on hiring individuals with a sustainability mindset. Johnson & Johnson, for its part, has created what it calls the Social Intrapreneurship Program, which is modeled after a program developed by the Aspen Institute and is specifically aimed at helping employees learn how to develop initiatives focused on sustainability. Consultants teach participants how to attract resources, identify partners, and work collaboratively to achieve common goals.

Among the companies we studied, Interface stands out in its commitment to training. Every new employee goes through a mandatory training program detailing the importance of sustainability for Interface, describing activities underway and challenging people to seek out new opportunities for sustainability-oriented innovation. The company also provides optional advanced training aimed at helping employees become more effective in societal problem-solving. Employees say the training helps orient them to Interface’s philosophy and strategy, making them feel more positive about the company.

About the Research

This article is based on 63 semistructured interviews with top, senior, and midlevel managers responsible for sustainability-oriented innovation activities at seven multinational corporations. The companies were selected based on their rankings on the Dow Jones Sustainability Index and the GlobeScan/SustainAbility survey, which surveys thought leaders on sustainability issues. We asked interviewees to identify factors that stimulate, support, discourage, or hinder employees in relation to sustainability-oriented innovation projects inside their organization and to provide examples of best practices. We then used the most commonly mentioned projects and practices to construct our overview.

Room for collaboration. Many of the managers we interviewed stressed the importance of collaborative relationships both within their companies and with groups on the outside. Several interviewees talked about the negative effects that internal competition and silo thinking can have on innovation and the benefits of collaboration across disciplines. Some organizations are reinforcing that idea through behavioral incentives. Consider UBS, which has placed greater emphasis on collaboration over the past several years. Not only does top management regularly tout the value of collaboration, it has made it part of employees’ performance evaluation and the basis for recognition awards.

Other companies have redeployed internal capabilities by developing sustainability-oriented programs as offshoots of their traditional businesses. Philips, for example, wanted to leverage its expertise as a lighting specialist to develop business models that produce both business and environmental benefits. Through conversations with one of its clients, it came up with the idea of selling “light as a service” to commercial customers. Rather than selling lighting equipment in a traditional way, Philips designs an energy-efficient system and charges a fee — with a commitment to adapting the system as the customer’s needs change and, eventually, recycling it.
Having external partnerships, interviewees told us, enabled their companies to access capabilities they didn’t have internally while also establishing helpful new ties. Pearson, for example, established a strategic relationship in 2015 with Save the Children to provide education resources to child refugees. The immediate goal of the program, called Every Child Learning, is to increase educational opportunities for Syrian child refugees living in Jordan. However, Pearson treats it as a pilot program that could be adapted to other conflict-torn areas.

Several managers we interviewed emphasized the importance of having close relationships with community-focused stakeholders in supporting sustainability-oriented innovation. Such relationships enable companies to interact with local philanthropic groups on a regular basis, thereby allowing employees to identify potential entrepreneurial opportunities that can benefit society. For example, AkzoNobel, the Dutch paint and specialty coatings maker, developed a relationship with an NGO in the United Kingdom named Community RePaint. It collects tens of thousands of gallons of leftover paint from British households each year and remanufactures it for reuse by communities and charities, thus diverting the paint from landfill.

In studying how companies encouraged sustainability-oriented innovation, we found that while it is important for employees to have expertise in their own field, they also need to be interdisciplinary because the economic and societal value their initiatives generate transcends functional boundaries. Cross-functional teams and committees play a big role in bringing stakeholders to the table and fostering collaboration. Interface, for example, has a sustainability ambassador program. Its goal is not only to educate employees about sustainability and challenge them to innovate, but also to cultivate a cadre of enthusiastic and committed employees from different parts of the company.

Positive reinforcement. A proven way to motivate employees to go beyond initial involvement in innovation activities is to offer positive reinforcement. Managers do this through both informal compliments and formal recognition. Although many of the employees who take part in sustainability-oriented innovation projects are intrinsically motivated to participate in these activities, companies should look for ways to expand participation and show how the personal rewards exceed the costs. Although UBS, as a financial services company, operates in a highly regulated industry, it tries to encourage its employees to think entrepreneurially. At a recent event, the company’s top and senior managers spoke about the need to praise and support the employees who are championing initiatives from inside the firm.

The need for accountability. Organizations that want to promote sustainability-oriented innovation need to define employee accountability in ways that extend beyond profit maximization for shareholders and adopt targets and appraisal systems that include sustainability. Having such incentives encourages employees to work toward ambitious objectives for sustainable growth. For its part, AkzoNobel introduced a bonus system that rewards top and senior managers for meeting long-term sustainability targets. To encourage investment in sustainability-oriented innovation, 30% of the top managers’ long-term incentive bonus is tied to how well the company performs in an index developed by RobecoSAM, a Swiss investment firm that focuses on sustainability.
Multiple interviewees noted that transparency about sustainability goals and performance helps companies meet new standards of disclosure, raises awareness among customers, and shows what the company sees as important. At Pearson, for example, management made a commitment to advancing quality education and reducing inequities. In keeping with these goals, the company has begun reporting on the “efficacy” of its products and services for students, with results audited by PricewaterhouseCoopers. Such practices can help companies become more accountable and set even higher targets and standards.  

Sustainability-oriented innovation can help companies become more competitive and identify new markets while addressing the world’s needs. However, unless management provides a clear sense of purpose, the right resources, a collaborative environment, positive reinforcement, and a commitment to accountability, companies will find it difficult to get employees to participate in sustainability-oriented initiatives. And without the enthusiasm and commitment of motivated employees, companies aspiring to become innovators in sustainability will risk losing their edge.
About the Authors

Thijs H.J. Geradts is a lecturer in strategic management and entrepreneurship at Erasmus University in Rotterdam, Netherlands, and a research fellow at Nyenrode Business Universiteit in Breukelen, Netherlands. Nancy M.P. Bocken is a professor in sustainable business at Lund University in Lund, Sweden, and an associate professor at Delft University of Technology in Delft, Netherlands.

Acknowledgments

We would like to show our gratitude to our respondents representing participating companies – AkzoNobel, Interface, Johnson & Johnson, Pearson, Philips, UBS, and Unilever – for sharing their experience and delivering most valuable input leading to this manuscript. We especially thank our contact persons André Veneman of AkzoNobel, Geanne van Arkel of Interface, Adrian Thomas, Cori Vail, and Garrett Barr of Johnson & Johnson, Teodora Berkova of Pearson, Frans van Houten, Henk de Bruin, Robert Metzke and Saskia Verbunt of Philips, Angela Wiebeck of UBS, and Kelvin Hughes, Hanneke Willenborg and Florian Vernay of Unilever who were most supportive and greatly assisted the research. We are also grateful to André Nijhof, Björn Atterstam, Hidde-Jan Lemstra, and Jason Jay for their comments on an earlier version of the manuscript.

References


6. In 2016, Philips separated its health care and consumer lifestyle division from its lighting business. The health care and consumer lifestyle company is now known as Royal Philips. In 2018, the name of Philips Lighting was changed to Signify.


Articles published in MIT Sloan Management Review are copyrighted by the Massachusetts Institute of Technology unless otherwise specified at the end of an article.

MIT Sloan Management Review articles, permissions, and back issues can be purchased on our website: sloanreview.mit.edu or you may order through our Business Service Center (9 a.m.-5 p.m. ET) at the phone numbers listed below. Paper reprints are available in quantities of 250 or more.

Reproducing or transmitting one or more MIT Sloan Management Review articles by electronic or mechanical means (including photocopying or archiving in any information storage or retrieval system) requires written permission.

To request permission, use our website: sloanreview.mit.edu
or
Email: smr-help@mit.edu
Call (US and International): 617-253-7170 Fax: 617-258-9739

Posting of full-text SMR articles on publicly accessible internet sites is prohibited. To obtain permission to post articles on secure and/or password-protected intranet sites, email your request to smr-help@mit.edu.