

Developing Sustainable Organizations through Innovation and Societal Considerations

By
Beverlee B. Anderson
California State University San Marcos

ABSTRACT

The goal of most organizations is to survive. Recent years have seen the demise of many once thriving organizations. The reasons for their demise are varied, but most can be attributed to the changing competitive landscape. Many organizations recognize that in order to endure, they must adapt to their environments and continue to innovate. The innovations may be in products/services, processes, marketing methods or organizational structure. However, innovation may have negative as well as positive consequences. Innovation alone may not be sufficient. There are societal considerations that also contribute to the continued survival of the organization. The impact of innovation on organization, its stakeholders and society as whole should also be considered. The development of a Social Sustainability Portfolio may aid firms in their organizational sustainability efforts.

Introduction

Of companies on the first Fortune 500 list in 1955, 88% either have fallen away or do not exist today (Wikipedia 2015). What happened? Innovation happened! For the 440 companies that replaced these firms, such as Apple, Wal-Mart Toyota, Samsung, Etc. innovation has brought growth and success. But for the 440 companies that they replaced, innovation of various types resulted in lost jobs, shareholder losses, and failure. *Creative Destruction* at work! In 1942 Joseph Schumpeter coined this phrase to describe the pattern of small entrepreneurial firms unseating large (or small) successful incumbent firms. But at the time, he envisioned the **creative** part would lead to higher levels of economic development and welfare. And destruction would help eliminate waste and inefficiencies.

Now it appears the **destruction** is taking precedent over **creative** – resulting in **destruction creation**. This leads not necessarily to economic growth or welfare but in

more detrimental effects on a society. This has been happening throughout history. No firm lasts forever. For some companies innovation is good, for others, it has proved to be a major disaster.

Types of Innovation

There are various ways one may classify innovations. The OECD (2016) recognizing the complexity and variations of the innovation process, adopted the Oslo Manual guidelines that distinguishes innovation in four areas: **product, process, marketing and organizational.**

- A product innovation is a new or improved good or service.
 - *Life-lock a new product for identify theft protection*
- Process innovation is a new or significantly improved production or delivery method;
 - *The robot at Aloft hotel in Cupertino, CA covers errands. It trundles items to guests from the front desk, weaving pilotless through hotel corridors*
- Marketing innovation is a new marketing method involving significant changes;
 - *Data mining of consumer information*
- Organizational innovation is a new method in business
 - *Crowd-funding and the sharing -economy*

The guidelines also state that the minimum requirement for an innovation is that it is new or significantly improved to the firm. This includes products, processes and

methods “. . . that firms are first to develop and those that have been adopted from other firms or organisations” (OECD 2005).

Another classification system, traditionally found in marketing and consumer behavior literature is to classify innovations by the degree of change required in the adoption of the innovation: **Continuous Innovation, Dynamically Continuous Innovation** and **Discontinuous Innovation**. Continuous innovations require the least behavior change, whereas, the Discontinuous innovations create really big changes in how we live or how things are done ---the Internet for example has certainly changed how we live and how things are done. However, most innovations are more evolutionary than revolutionary such as the tweaking of various software packages or the introduction of a new video game. Dynamically continuous innovations are somewhere in-between. They usually involve a significant change in a product but may require less or fewer changes in behavior. Some new apps for your Smartphone may be classified as such. Firms in the new “sharing economy” such as Uber, Lift and Airbnb are examples that would probably fall further along in this category. Another entrant into this field is Roadie – launched January 2015 – This firm aims to become the Uber of package delivery. Utilizing cars that are already going somewhere, drivers pick-up packages and deliver to destinations. Drivers are paid 80% of the deliver price plus \$1 for insurance. Roadie is in partnership with Waffle House (chain of 1750 stores open 24/7) that will become a “pick-up-point” for packages. How this will impact UPS, Fed Ex, USPS and other parcel delivery firms will be seen.

Changing Competitive Landscape

The competitive landscape continues to be dynamic. New entrepreneurial firms are constantly entering every industry and other firms are forced to leave. The pace of these changes has accelerated in recent years. Resulting in more and more emphasis on innovation.

Governments see innovation as the major (or only) road to future growth. But are we destroying more than we are building? Only a few may gain from these seeds of “creative destruction” while a majority may not. How much of a social cost are we prepared to pay? High rates of innovation, often not truly needed can be disruptive to the larger society as a whole. (Hobcraft 2012) In some cases this leads to higher concentrations of wealth and power to the detriment of many.

Online shopping has dramatically changed the retail landscape. Spearheaded by Amazon and others, this marketing innovation has made shopping 24/7 from the convenience of one’s home, a major benefit to many. However, there have also been negatives fallout attributed to this innovation. Many retail stores have been forced to close and the traditional retail jobs for teenagers have greatly diminished in number. For example Sears, a former retail giant has not closed 20% of its retail outlets.

Taken together, the many firms that have entered the sharing economy (peer to peer businesses; collaborative consumption), are having a major impact on existing firms. Uber is having a significant impact on taxi services in some cities. Airbnb is cutting into the revenues of budget hotels and motels. Taskrabbit is another firm that is impacting temporary help organizations. Technology has allowed the search and transaction costs to be minimal and to reach larger markets.

Another aspect of the sharing economy would be crowd funding, which has resulted in new ways to fund start-up organizations. This has allowed individuals to invest in new start-up firms without having to meet the financial requirements usually associated with investing in new ventures. This also increases the possibility of less knowledgeable individuals losing their investments. There may be unanticipated social costs associated with all types of kinds of innovations.

Sustainability

Sustainability, the continued existence and enduring, is becoming more and more salient to societies, communities and organizations. Investors are also considering sustainability in their portfolios according Knoepfel (2005). Many investors today are looking beyond a firm's financials to include its responsibility as a corporate citizen as an indicator of the sustainability (continued existence) of the organization. Corporate Social Responsibility (CSR) is related to the impact of the organization on the three pillars of sustainability, (ecology, social and economic,). As such, firms are beginning to consider the impact of firm's actions on one or more pillar of sustainability in their decision-making.

There are many choices facing those who manage innovation development. What kinds of innovation should be pursued and what kinds should be avoided. Stuart Hart proposed a typology that firms can use to gauge their progress toward environmental sustainability (Hart 2005). It includes both internal and external "greening" activities and innovation that that will pay off in the short run and beyond greening that will pay off in the in the long run.

Table 1

The Environmental Sustainability Portfolio

	Today: Greening	Tomorrow Beyond Greening
Internal	Pollution prevention Eliminating or reducing waste before it is created	New Clean Technology Developing new sets of environmental skills and capabilities
External	Product stewardship Minimizing environmental impact throughout the entire product life cycle	Sustainability Vision Creating a strategic framework for future sustainability

Source: Hart, S. L (2005) “Innovation, Creative Destruction and Sustainability. Research Technology Management, 48(5), 21-27.

The upper left cell is more about continuous improvements in quality management and making the firm more efficient to reduce waste. These will most likely be *process innovations* that are *continuous innovations*. The lower left cell focus on extending the reach and impact of the firm on its external environment. These changes will likely be *process* or *marketing innovations* that are likely *continuous innovations* – but may involve a few *dynamically continuous innovations*. These activities are intended to improve what we already do. The right hand cells look at the long-term and this is where we see more innovation of the dynamically continuous and discontinuous types. To achieve in the long-term requires new skills sets and new ways of doing business.

This typology can also be modified to examine social pillar of sustainability. This will include types of activities that a firm can undertake that will benefit society today and in the future. This model, based on the World Economic Forum’s Indicators of Social Sustainability (2013) would include considerations of the following:

Table 2

Indicators of Social Sustainability

Access to Basic Necessities	<ul style="list-style-type: none"> • Access to sanitation • Access to improved drinking water • Access to healthcare • Access to decent housing • Food security
Vulnerability to shocks (Economic security)	<ul style="list-style-type: none"> • Vulnerable employment • Extent of informal economy • Social safety net protection
Social Cohesion	<ul style="list-style-type: none"> • Income Gini Index • Social Mobility • Youth unemployment • Working conditions

The first category concerns basic needs of the population: Access to sanitation, Access to safe drinking water, access to healthcare, access to decent housing and the security of food. The second category concerns economic security and how vulnerable the population is to economic exclusion. Vulnerable employment includes the percent of those employed who are self-employed or in a small family business that barely provides a subsistence living. – This type of employment can prove unstable in times of economic difficulties – example Greece. The extent of the informal economy concerns the integration of the workforce into official structures. The less integrated the workforce, the more vulnerable to concerns of job loss. And finally, whether there is a form of social safety net for the vulnerable. This provides protection for those who undertake entrepreneurial and innovative risks.

The third category, is social cohesion - which is the last of the three. It includes the income distribution Gini index, social mobility and youth unemployment. The inequality of income distribution may prevent lower-income families from accessing the

same opportunities as those with larger incomes. Social mobility is the ability for individuals and families to improve their conditions. If skilled individuals cannot improve their life situations, they are more likely to migrate. This may lead to a loss of skilled workers for enhancing their home economies. This combined with income inequality can also spur political instability. The third, high youth unemployment “can reduce social cohesion and incurs significant economic and social costs.” It will result in suppressing aggregate demand, eroding confidence and lessening prospects for investment (Bilbao-Osorio et al. 2012).

Working conditions involves the safety of the workplace and level of wages along with the actual work environment. For Example, in China the Lunar New Year is the only time year China's army of migrant workers gets to go home. They squeeze into trains and buses for the Spring Festival break, and after the New Year festivities, the nightmare starts over as they travel back to the factories in which they work. (Lu & Hunt 2015)

The Social Sustainability Portfolio

Using Hart’s model of the Environmental Sustainability Portfolio, a similar model can be developed focused on Social Sustainability.

Table 3

The Social Sustainability Portfolio

	Today: Benefit Society	Tomorrow Social Sustainability
Internal	Improving workers' lives <ul style="list-style-type: none">• Improve toilets and drinking fountains• Increasing pay/benefits• Hire summer interns	Invest in Future Employees <ul style="list-style-type: none">• Partnership with local educational institutions• Provide pension plans for employees
External	Improving Community <ul style="list-style-type: none">• Corporate social responsibilities• Actions to help the community.• Donate to community organizations	Social Vision <ul style="list-style-type: none">• Meet unmet needs in the community• Prioritize social needs of the population

The lower right cell calls for innovative ways of introducing meaning into profit-driven endeavors – to grand consequences for mankind. This requires a rethinking of the firm’s vision and a reorientation in the traditional priorities of a for-profit firm. This is a call that is being undertaken by many firms. Words such as, “mission”, “higher purpose,” “change the world” are being mentioned in earning reports, investor meetings and industry conferences. According to a Factiva search by Rachel Feintzeig, these phrases have almost doubled in use in the past five years (Feintzeig 2015).

KPMG, the accounting firm, is trying to change the firm to focusing on the broader purpose of number-crunching. The company kicked off the initiative with a video that boasts that it was helpful in “the election of Nelson Mandela and the end of apartheid in South Africa, the launch of the NASA’s first space station and the release of U.S. hostages in Iran in 1981. Many employees and managers are now talking about the

KPMG's impact on society – and those who are talking about it are highly satisfied with their jobs.

Travelzoo's (a travel company) employees have a shared sense of purpose that motivates them. Some see the joy they have brought to customers and that they are helping to preserve hospitality industry jobs. These innovative ways of thinking about the purpose and functions of firms have also added to their profitability in the long run.

Summary and Conclusions

Innovations, in all their forms are an essential part of our world. The human desire for improvement in all aspects of ones' lives leads to the continued efforts to develop new and different products, processes, marketing methods and organizational designs. A few of the discontinuous innovations have resulted in major changes in our ecology, economy and society. Other innovations have had less dramatic impact. However, firms and organizations that are responsible for developing and adopting innovations also have a corporate responsibility to consider the societal impact of each of their actions. To remain a sustainable organization, organizations should consider developing a Social Sustainability Portfolio, which includes the array of activities and actions that benefit society both today and tomorrow.

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