# Connecting sustainability and continuous innovation: Successful sustainability strategies in mid-size Finnish companies

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**Abstract**

First approach, corporate environmental, social and governance (ESG) actions, is typically called corporate social responsibility. It is concluded that ESG actions have a significant positive effect on financial performance even though the effect is small. Second approach, strategic sustainability thinking, is a newer research area that has been been introduced in several business publications during past years. In strategic sustainability thinking companies use the knowledge about game-changing megatrends as a source for innovation and turn sustainability into a resource. However, this type of strategy is not yet well-defined or covered.

The incentives for incorporating sustainability into core processes and strategy vary depending on the size of the organization. Large companies are often at the center of public attention, partly due to their greater risk potential. For mid-size companies the motives and incentives to implement sustainable business strategy seem to vary more.

In the article we examine the variety of strategic sustainability approaches of mid-size companies in Finland. The data consists of firm-level interviews with 20 companies. The companies that we look at are the ones that could be called forerunners - they are companies eager to grow and to make profit – while implementing a sustainable business strategy.

Our research suggests that there are three ways of incorporating sustainability into companies.

They are:

1. Risk aversion strategy

2. Cost-effectiveness strategy

3. Differentiation strtategy

We will present and discuss these in detail in the paper. The results help to promote sustainability in companies, since there are more ways to incorporate into business models than just risk control and responsibility.

*Keywords:* Sustainability, strategies, mid-size companies

## 1 Introduction

The enterprises of our time are seen either as problems or as solutions for global resource crises and other wicked problems. For this reason, the meaning of sustainability as a business concept is changing. Since the 1980’s companies have understood sustainable development as something that has to be taken care of, but new strategy-focused sustainability talk is changing the discourse.

In 2001 Abagail McWilliams and Donald Siegel defined sustainability as something that "appear[s] to further some social good, beyond the interest of the firm". (McWilliams & Siegel, 2001.) In the end, sustainability is understood to be actions taken, which create systems better able to control risk and avoid negative impacts on society, throughout the profit maximizing process. These can be seen as protective sustainability activities that separate sustainability from the core processes of the company.

The new literature in business theory challenges this line of sustainability thought. Writers like Michael Porter and Mark Kramer (2011) state that companies should start perceiving the changes in society as the potential key to success and as a source of revenue. They claim that the ability of a company to extract economic value is essentially dependent on its ability to create solutions to the challenges of the society around them. (Porter & Kramer, 2010.) Firms capable of tapping that potential will conduct extensive and continuous research in order to gain insight on needs of the surrounding society and to gain a comprehensive view of the problem (Pfitzer, Bocksette & Stamp 2013). However, this strategic sustainability thinking is a research area that is not yet well-defined or covered.

The incentives for incorporating sustainability into core processes and strategy vary depending on the size of the organization. Large companies are often at the focus of public attention, partly due to their great risk potential. Multiple auditing systems, indicators, index lists etc. exist to keep track of the sustainability of the activities of large companies.

Substantially less attention has been paid to mid-size companies as forerunners of strategic sustainability practices. However, there are various reasons to assume that the best examples of strategic sustainability might be found amongst mid-size companies. Former Harvard Business School professor John Kotter has suggested that the ability to be agile is a strategic challenge for all companies amid times of constant turbulence and disruption (Kotter, 2012). Often mid-size companies are strategically more flexible than their larger competitors. Secondly, creating sustainable products or services may be more profitable of a strategy for mid-size companies than it is for larger ones. (Halme & Korpela, 2013) They use up-to-date knowledge about game-changing megatrends (such as scarcity of energy and natural resources) as a source for innovation and strategic planning, and can turn sustainability into a resource.

This article works to expand the understanding of strategic sustainability practices in mid-sized companies. Furthermore, it offers a new classification of three distinct approaches to sustainability and presents ways in which firms expect to benefit from their investments in sustainability.

## 2 Methodology

The objective of this research is to identify the strategic sustainability approaches of mid-size companies in Finland according to previous research, and to classify these strategies. The comparative case study method is made use of in comparing company cases which may share some characteristics in common and may differ in others.

This study focuses on mid-size companies in Finland. For the purpose of this research, mid-size is used to refers to companies that employ less than 700 employees and whose sales are less than 100 million euros per year. Micro companies - companies with less than 10 employees - are not included in the study. The cases were selected by identifying forerunners in sustainability, ie. amongst companies that had a documented strategy in some field of sustainability. However, we did not only look for companies with complete and diverse sustainability profiles, but considered success in some field of sustainability to be adequate.

In the first phase of the study, information about case companies was collected from public sources (annual reports, sustainability reports and web pages). This information was analysed and the final selection of cases completed. After this, the CEO or some other individual holding responsibility at the company executive level was interviewed. 20 case studies were written and the characteristics of cases were analysed by incorporating the key answers into a spreadsheet.

We seek to analyze the variety of sustainability strategies and to explore how sustainability is linked with innovation in these different strategies. The outcome of the research is new, further understanding of sustainability as an element of strategy.

## 3 Typology of sustainability strategies

Through our comparative case study we found that Finnish mid-size companies have various motivations for connecting sustainability with the interests of their core businesses. When interviewed, one CEO described his entire business as having been built around the fight against climate change. A CEO from another company related that the sustainability strategy of his company was created in an attempt to repair its damaged reputation. Some companies are responding to the demands of the personnel and others are seeking a way out of the economical crises of the company. Despite different situational and industry-related factors, we were able to identify similarities in the sustainability strategies. In this section we present the three-partite typology of sustainability strategies.

Deriving from data there are three essential questions that companies are typically facing and which typically lead to the formation of a sustainability strategy:

1. How to manage and control for risks in the supply chain?
2. How to utilize factors of production more efficiently?
3. How to stand out from the competitors and create new markets through sustainable products and services?

These questions relate to three different types of sustainability strategy: the first to the risk aversion strategy, the second to the cost-effectiveness strategy and the third to the differentiation strategy. (See figure 1.)

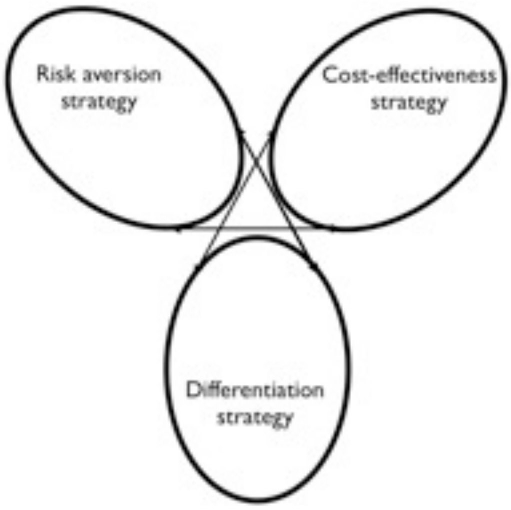


***Figure 1.*** *Sustainability strategies of mid-size companies.*

*Risk aversion strategy*

The most traditional type of sustainability strategy is the risk aversion strategy. It is often a reaction to an external critique that a company is exposed. Consumers, investors or potential buyers demand that the company be responsible and should avoid having any negative impact on society. The company needs to prove that it is aware and manages the potential economic, environmental and social risks that are related to it’s activities and supply chain. This is often done through the use of certificates and standards.

Managing the risks of the supply chain is crucial to brand companies that are on top of global supply chains. They typically invest in corporate social responsibility systems and publish their sustainability indicators on a regular basis. One case company working in the farming industry had found a competitive advantage in a progressive risk aversion strategy. As the legislation changed and battery cages were banned, this company had already met the new standard.

*Cost-effectiveness strategy*

Cost-effectiveness strategy strives for the smart and effective use of natural resources and of the human resources of the personnel. This creates cost savings. The focus of the strategy is for effective production and working processes that save resources, money, and create better outcomes. In other words, this strategy focuses on the processes inside the company and in the supply chain.

An example of this type of strategy is the Finnish cleantech cluster. Many of its companies have a long history in manufacturing. In heavy cost competition these companies have found a strategical advantage in energy and resource efficiency. Gradually they shift their strategies towards cleantech markets by commercialising their own resource efficiency innovations, thus entering new markets by differentiation strategy. This way they are able to attract new customers and keep the business alive. For some companies this strategy has been a crucial factor in making profitable businesses in Finland instead of moving the production to, for example, the Far-East.

Another cost effectiveness strategy deals with human resources. A Finnish company and the European-wide winner of the Great place to work index, Futurice, has created a policy of sharing both the responsibility and the profit of the company with the personnel. Futurice’s strategy is to create stability and financial profit through commitment and well-being at work.

*Differentiation strategy*

Differentiation strategies are based on the company’s need to distinguish its offering from other companies in the market. In the context of ecological and social sustainability the differentiation strategy seeks to create blue ocean markets by tackling climate change, aging population, increasing digitalization and resource-scarcity.

In contrast to other types of sustainability strategies, differentiation strategy redefines the offerings and products of companies. The focus of the strategy is on a more remote future than in the other strategies. Differentiation strategy is a continuous problem-solving strategy as opposed to avoiding immediate risk or maximising the effectiveness of current processes.

Examples of companies in this category include Lappset, a company that was competing with other designers of children’s playground equipment. Once they examined the global population change and it’s affect on the age pyramid they started to design playground equipment for the elderly.

The differentiation strategy is mainly dependent on new types of products and services. Some companies are applying co-creation methods as a tool for problem-solving and continuous innovation. These companies often work with different user groups (citizen, hobby, NGOs etc.) to design for new sustainable services and products. Differentiation strategy is most tightly related to the continuous innovation of the three types of sustainability strategies.

## 4 Conclusions

In our data the mid-size companies typically tell a story of having implemented only one of the three types of sustainability strategies. The value of the sustainability work is understood through one strategic line, and other sources of value are not considered. Only one fourth of the 20 mid-size companies communicated that they had expanded their strategy to all three strategic types.

All three of the sustainability strategies require different kind of investments. Furthermore, the timespan in which they bring about the competitive advantage varies. For example, resource-effectiveness strategy might bring about instant cost savings and lead to new, more efficient manufacturing processes that additionally can grow into new products in markets that the company hasn't previously operated. On the other hand, companies implementing differentiation as their sustainability strategy are trying to find the best markets for long-term demand.

To understand the reasons for restraining to one form of sustainability strategy, further research is needed.

Our research suggests the presence of multiple ways of incorporating sustainability into companies, and that these strategies are not limited to just one or two types of actions. There are more ways to incorporate sustainability into business models than just those of risk control and responsibility. In fact, companies are employing strategies that use sustainability as a resource for thinking and innovation. This kind of data helps promote sustainability and encourages companies to seek new opportunities in era of resource scarcity.

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