Fiona Stappmanns
fiona.stappmanns@unisg.ch

Working Paper*

Truly Sustainable Business Models in the Outdoor Industry

Translating Business Value into Societal Value Contributions

For submission to the Doctoral Summer School 2017 in Jäneda Manor, Estonia, June 26–28, 2017
Registration for the group organized by Liina Joller

Introduction

Sustainability has become a buzzword amongst company leaders and scholars alike. A simple Google search for the term yields 188.000.000 results as of today[1], compared to only 19.7 million in 2013 (Weidinger et al. 2014). On the business side, more and more companies integrate sustainability or CSR into their daily operations, strategy or business models. A recent study located the topic in the top five priorities of CEOs (BSR & GlobeScan 2016). Yet this popularity fails to show in the overall state of the planet. 15 of the 16 hottest years in modern record keeping have occurred since 2001, with 2016 being on top of the list (NASA 2016). Some regions of the world, like part of the Middle East or North Africa may even become inhabitable, causing a stream of climate refugees (Max-Planck Gesellschaft 2016). This phenomenon of a mismatch between popularity of sustainability management on the company with the disastrous ecological and social indicators on a macroeconomic level is described by scholars as the "big disconnect" (Whiteman et al. 2013; Dyllick & Muff 2016). In order to bridge this gap, firms need to adopt an outside-in approach when integrating sustainability into their business (Dyllick & Muff 2016). This means switching the perspective from reducing the negative impact of the firm and looking at how the firm can improve its environmental and social performance to creating a positive impact for society. Up until now most firms only focus on financial rather than social or environmental value creation, which leads to an asymmetry in this domain and above mention disconnection of the micro and macro level (Donaldson & Walsh 2015).

Background & Relevance

The importance of the private sector to successfully tackle sustainability has once more been emphasized by the joint global consensus around the Sustainable Development Goals (SDGs) (United Nations 2015). Those goals are replacing the Millennium Development Goals (MDGs) and shape the agenda for sustainable development until 2030. Unlike the MDGs, the SDGs explicitly address the responsibility of businesses in sustainable development, and - for the first time ever - point to their important role for a success (von Angerer et al. 2016). Although the MDGs were never really addressed by businesses, the private sector

* This paper is a very short overview of the conceptional foundations of my dissertation.
[1] 31.03.2017

largely contributed to their success, mainly indirectly through the creation of jobs (Stuart et al. 2016). Since the adoption of the SDGs, governmental institutions, NGOs and different actors in the private sector developed several guidelines and tools to support businesses in fulfilling their responsibility (GRI et al. 2015; UN Global Compact; KPMG 2015). A lot of companies recognize this problem as well and want to integrate the UN Sustainable Development Goals (SDGs) into their sustainability activities (BSR & GlobeScan 2016). Yet those goals are complex, abstract and usually situated more on a political than a business level. Consequently a concept is needed that breaks the SDGs down to accommodate topics, which are relevant and suitable for businesses. This translator will be introduced in this paper as Societal Value Contributions (SVC) and includes topics like sustainable sourcing or transparency. The concept connects the firm –or for the purpose of this paper- the firm's business model, with the macroeconomic level and thus enables firms to effectively address sustainability challenges.

The business model as a point of analysis was chosen for several reasons. First of all, it is emerging as a new unit of analysis in contrast to -for instance- strategy or business processes (Zott et al. 2011). It adopts a holistic, system-level perspective as it goes beyond the boundary of a single firm, also incorporating the value network and other stakeholders such as customers. With regards to sustainability this point is important. Partnerships across firms and the wider value network are crucial for successful sustainability management and an effective contribution of companies to sustainable development. The interconnectedness of all partners is thus best represented through the concept of a firm's business model. Third, a business model goes beyond the explanation of how the value is captured but also describes how it is created, thus is not limited to simply describing the profit or cost structure of a firm. In this case we are looking at how companies can create value not only for themselves but also for society (see above). Consequently it is not surprising that another study by Kiron, Kruschwitz, Haanaes, et al. (2013) found that almost 50% of companies engaging in sustainability activities altered their business model to reflect those changes. Also, studies found that business model innovation made firms more successful than only innovating products, services or processes (Lindgardt et al. 2009). This levitates business model innovation to be a powerful instrument for an effective contribution towards creating societal value. The term "truly sustainable business model" refers to this fact; rather than creating financial value for the firm and minimizing a firm's negative impact, a truly sustainable business model creates positive value for society and contributes towards solving the great sustainability challenges.

In order to focus the work and put it in a specific contest the outdoor industry will serve as an example to illustrate how the concept can be applied in practice. In the US alone, the so called outdoor recreation industry generated $646 billion in sales and is responsible for 6.1 million direct jobs in 2012 (Southwick Associates & Outdoor Industry Association 2012). Recreational activities like hiking, climbing or fishing are widely popular; in the for example UK 43% of the population engage in those hobbies at least once a month (Kaminski 2011). Outdoor companies profit from the growth in demand. Yet this development leads to a contradiction. An intact, beautiful nature is part of the business model and success of the industry, but for example specialized clothing often consists of synthetic materials, which are not biodegradable and mostly contain toxic materials (The Guardian 2016). When it comes to sustainability leaders, Patagonia Inc. is often mentioned as a shining example

amongst global companies. But a lot of other companies have put sustainability issues on their agenda in the last years within this industry too. Those two components: the environmental and social challenges on one hand and a progressive thinking towards more sustainability amongst many companies in this sector, make this industry an interesting subject to study.

From a theoretical view the information about this market segment is still very scarce, especially regarding sustainability issues. Thus we need to establish a deeper theoretical understanding of the underlying sustainability challenges, actions already taken and connections between those two. From the literature some of the main challenges can be already identified. Chemical pollution through environmentally hazardous per- and poly-fluorinated chemicals (PFCs) is one of the most severe problems caused by the industry itself. Those chemicals are mostly used to waterproof membranes or repel dirt and only slowly dissolve in nature, instead spreading across the globe. A recent study conducted by Greenpeace found traces of PFCs even in the most remote places, like the Himalayas, with especially high concentrations present in samples in Switzerland, Slovakia and Italy (Greenpeace 2015). Another challenge is transparency and traceability throughout the supply chain. Like in many other textile- related industries, the brands outsource production to suppliers, mostly in countries like China, Bangladesh or Vietnam. Those suppliers in turn source their raw materials from other sub-suppliers and so on, creating a complex and confusing network. This poses a big challenge for the outdoor companies to control the abidance of labor and safety, or environmental regulations.

Research Aim & Questions

The aim of this research is to show how the concept of truly sustainable business models can be used to create an impact towards solving the great sustainability challenges on this planet. Thus the overarching, leading research question is "*How can companies effectively contribute to sustainable development?"*. This research shall deepen the understanding of sustainability with regards to business models and make a contribution towards bridging the "big disconnect". The development of truly sustainable business models to effectively address global sustainability challenges will be focused on the adoption of an outside- in perspective, regarding those challenges as business opportunities in the Druckerian sense. The concept of SVC shall serve as a translator to break down the sustainability challenges to business themes and thereby facilitating a contribution of businesses towards the SDGs and sustainable development in general. Thus the ultimate aim is not only to deepen the understanding on an academic level but also to provide businesses with an easier concept for effectively addressing sustainability challenges and making a real contribution.

Throughout this process a variety of questions shall serve as:

- *What are the societal value contributions (SVCs) a company should aim at in order to contribute effectively to sustainable development?*[2]
- *How does a truly sustainable business model for specific SVCs looks like?*

[2] This part of the research is jointly conducted with Tabea Bereuther. Consequently some passages may be similar or equal to her research paper.

- *What sustainability challenges is the outdoor industry facing? Which are the most important, industry specific SVCs? How can the truly sustainable business model framework help to address the sustainability challenges? How can those findings contribute towards bridging the big disconnect? Which are the barriers or limits of this concept within this specific context?*
- *What actions is the industry already taking? Which sustainable business models do already exist? What can incumbents learn from start-ups in this respect? How can existing business models theoretically be transformed to be truly sustainable?*

Research Process & Focus

The research project of this dissertation can be separated into three distinct steps. Currently we are working on answering the first question posed above: *What are the societal value contributions (SVCs) a company should aim at in order to contribute effectively to sustainable development?* This is done through a conceptual analysis, which breaks down the sustainability challenges into business themes, or SVCs. Approaches like the SDGs serve as an orientation to form a list of sustainability topics for companies to address. First findings will be introduced later in this paper but the analysis is still ongoing. Furthermore, this qualitative meta- or conceptual-analysis of existing concepts aims at systematizing and restructuring the value discussion in order to identify important elements and similarities. It does not aim at establishing a universal truth and general approach towards sustainable development for businesses because the challenges and actions to address these challenges highly depend on the industry and context of the company. Instead, it has the goal to support companies in their efforts to contribute towards generating societal value in a very specific, case dependent manner for a single firm or an industry at most.

In a next step an analysis of the outdoor industry is necessary in order to identify the most relevant topics and sustainability challenges for the companies. Semi-structured interviews with sustainability experts from companies and industry associations were identified as a suitable research method for this step. From those findings the most relevant SVCs for the industry can be deducted and truly sustainable business models for this particular SVC specified. Finally a map of already existing sustainable business models within the industry will serve as an illustration of existing efforts.

First Findings[3]

Our initial research identified 11 distinct SVCs, ranging from topics like transparency to biodiversity, environmental protection and animal welfare (see Table 1), covering the dimensions of environment, society, economy and governance.

Each of the 11 SVCs covers several themes, from which in turn the topics for businesses can be deducted. For example the environmental SVC “Efficiency” comprises topics such as resource and energy efficiency and concepts like the circular economy, optimized packaging and modular design, across products and services, as well as processes. “Reliable and affordable (basic) services” specifies the provision of services for a range of areas, including healthcare, food and water, electricity and energy, sanitation, resources,

[3] Results are part of the joint research project with Tabea Bereuther.

infrastructure, housing, financial services, mobility and education. For each of those SVCs concrete business actions shall be defined in the next step of the research process. This means after aggregating several concepts in order to define the SVCs, the next step is to combine the strengths of each concept and build a comprehensive list of topics for businesses to effectively address sustainability challenges.

Table 1: Societal Value Contributions across four dimensions

Dimension	Societal Value Contribution
Environment	Efficiency
	Sustainable sourcing
	Biodiversity and environmental protection
	Animal welfare
Economy	Economic inclusion and participation
Society	Reliable and affordable (basic) services
	Training, education and competences
	Labor conditions
	Non-discrimination, equal opportunities and inclusion
Governance	Transparency

From these topics, concrete actions can be deducted. Those actions symbolize a concrete way to achieve the ideal state, namely the SVCs. Those actions are highly dependent on the specific industry and context. For example within the context of the outdoor industry, the SVC “Transparency” clearly relates to the management of the supply chain, which consequently represents one possible action to make a positive contribution for society for outdoors companies.

The list of SVCs builds a solid basis for further specification and deduction of concrete business topics and actions. The extensiveness of this list of SVCs does not mean that one company should address all of them, on the contrary. Comparable to the SDGs, companies should focus on the areas with the highest possible impact and prioritize SVCs based on their capabilities, resources and market position- put differently: its core competencies. Additionally, state governments and other private or public institutions have a shared responsibility to provide the 11 SVCs. Although the role and power of businesses should not be underestimated, it needs to be specified which SVCs businesses are able to directly contribute to, which one the government or other institutions need to provide and which ones can be achieved through joint efforts or by business alone.

Although those first findings are situated on a very abstract, general level, they indicate a great potential for an effective connection of companies and sustainable development.

Literature

von Angerer, A. et al., 2016. *oekom Corporate Responsibility Review 2016*, Munich.

BSR & GlobeScan, 2016. *The State of Sustainable Business 2016*.

Donaldson, T. & Walsh, J.P., 2015. Toward a theory of business. *Research in Organizational Behavior*, 35, pp.181–207.

Dyllick, T. & Muff, K., 2016. Clarifying the Meaning of Sustainable Business: Introducing a Typology From Business-as-Usual to True Business Sustainability. *Organization & Environment*, 29(2), pp.156–174.

Greenpeace, 2015. *Footprints in the snow: Hazardous PFCs in remote locations around the globe*.

GRI, UN Global Compact & WBSCD, 2015. *SDG Compass: The guide for business action on the SDGs*.

Kaminski, I., 2011. How the boom in climbing, biking and sailing is costing the earth. *The Ecologist online*. Available at: http://www.theecologist.org/investigations/natural_world/995647/how_the_boom_in_climbing_biking_and_sailing_is_costing_the_earth.html. [Accessed September 7, 2016].

Kiron, D. et al., 2013. The Innovation Bottom Line. *MIT Sloan Management Review*, 54(3).

Lindgardt, Z. et al., 2009. *Business Model Innovation: When the Game Gets Tough, Change the Game*, Boston, Massachusetts.

Max-Planck Gesellschaft, 2016. More climate refugees from Middle East and North Africa. Available at: https://www.mpg.de/10481936/climate-change-middle-east-north-africa [Accessed May 7, 2016].

NASA, 2016. NASA, NOAA Analyses Reveal Record-Shattering Global Temperatures. Available at: http://www.nasa.gov/press-release/nasa-noaa-analyses-reveal-record-shattering-global-warm-temperatures-in-2015 [Accessed May 6, 2016].

Southwick Associates & Outdoor Industry Association, 2012. *The Outdoor Recreation Economy*.

Stuart, E. et al., 2016. *Business and the SDGs – a baseline*.

The Guardian, 2016. Toxic chemicals found in most outdoor gear. *The Guardian online*. Available at: http://www.theguardian.com/environment/2016/jan/25/toxic-chemicals-found-in-most-outdoor-gear [Accessed May 20, 2016].

UN Global Compact; KPMG, 2015. *SDG Industry Matrix*.

United Nations, 2015. *Transforming our World: The Agenda 2030 for Sustainable Development*.

Weidinger, C., Fischler, F. & Schmidpeter, R. eds., 2014. Template.pdf. In *Sustainable Entrepreneurship: Business Success through Sustainability*. Springer.

Whiteman, G., Walker, B. & Perego, P., 2013. Planetary Boundaries: Ecological Foundations for Corporate Sustainability. *Journal of Management Studies*, 50(2), pp.307–336.

Zott, C., Amit, R. & Massa, L., 2011. The Business Model: Recent Developments and Future Research. *Journal of Management*, 37(May), pp.1019–1042.