

Key Aspects of Sustainable Business Model Innovation



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Abstract Sustainability is one of the new competitive advantages on the market. However, companies cannot maintain planetary boundaries in practice when implementing ESG principles in management. Therefore, it is necessary to implement sustainable practices into the operational process as a whole. The research aims to formalize sustainable business model innovation (SBM-I) as a new tool for social and business value integration. The authors used three analytical tools to formulate the main features of the sustainable business model innovation: business model concept, innovation strategies, and sustainable goals. Using the business model as a common tool to visualize a rational way to create and deliver market value helps to create a framework for inclusively implementing sustainability to improve the outcome on the path to sustainability. The analysis of current advances in business model innovation and practical views of BCG consulting company contributed to the connection between theory and practice. It is pointed out that there is an incremental path to SBM-I, which signifies the level of the company's maturity. Consistency paths of developing SBM-I in a methodological way provide the connection between strategy and sustainability, making them mutually reinforcing, giving way to action instead of reporting, and realizing a multilevel approach instead of a company-centric one. SBM-I helps to consider all interests of company stakeholders to develop business in an appropriate business ecosystem. Sustainable business model innovation provides a way applicable for companies regardless of activity field, business size, and access to resources.

Keywords Business ecosystem · Business model innovation · Corporate social responsibility · ESG · Management · Sustainability

JEL Classification M19 · M21 · O12 · O21 · O31

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1 Introduction

At the current stage of economic development, sustainable development is a key component of the new competitive advantage of companies. It includes the necessity to address closely the planetary boundaries—the borders within which humanity can continue to develop and thrive [9, 10]. Besides, societal needs constrain companies when their opportunity space is narrowing, restricting their ability to pursue business value creation as usual. Therefore, it appears necessary for management to change the conventional business development approach to the new one.

In this context, a business model accumulates a view of business development and visually demonstrates how the firm creates market value, which contributes to making money. According to current research, as a general guide, the business model includes basic elements organized in a special way, called canvas. Simultaneously, according to BCG, in the last fifty years, the average business model lifespan has fallen from about fifteen years to less than five years. There is a new tool on the way to sustainability within developing a business framework [14].

Concurrently, the business model is one of the company-specific factors that are considered to measure the company's exposure to industry-specific material ESG risks and how well a company is managing these risks [11, 12]. Thus, the appropriate business model can be seen as one that has a strong potential to create environmental and social surpluses (net environmental and societal benefits) and connects them to the drivers of business advantage and value creation [3, 6].

In the BANI world, it is highly important for companies to look for and capture long-lasting competitive advantage. In this context, business model innovation can bring results by providing breakout growth, reinvigorating a lagging core, or defending against industry disruption or decline.

Business model innovation should realize in a special way. It is a simultaneous and mutually supportive reimagining of two key elements of the business: the organization's value proposition to customers and the operating model [3, 8].

Currently, many companies are trying to take different actions to realize business model innovation on the path to sustainability [2, 5, 15, 16]. This can be due to a variety of factors. Nevertheless, the most important of them is the need to embrace and maintain customer loyalty by providing real customer value (value proposition) as the business model's core [4].

Thus, the main questions in this context are as follows:

- What are the features of a sustainable business model?
- Are these features cross-functional?
- Is the model innovative?

To get the appropriate answers, it is necessary to solve different tasks, including the following:

- To analyze the existing approaches to business model innovation to highlight specific features;
- To schematize the elements in a business model that could make it sustainable;

- To match the innovation and sustainable features of the business model;
- To analyze the case of realizing a sustainable business model in the market.

Reimagining the business models of companies for sustainability to optimize social and business value in a new economic ecosystem is essential in developing a new concept of economic ecosystems [1, 7, 13]. The newest business aim is combining sustainable goals and profit.

According to recent research, few companies have attempted to formulate a systematic understanding of the limits of sustainability, vulnerabilities, and their current business models and ecosystem potential, resulting in the risk of reduced competitiveness in the future. This can be interpreted as an omission by managers regarding sustainability and social issues, as they often view them separately from the core business.

Additionally, one of the main problems of developing sustainable business is that ESG metrics have become an end goal instead of measuring action and progress against a strategic plan. Companies are increasingly trying to focus on reporting and compliance per se, as well as on metrics for materiality and sustainability.

This paper could help formalize the common approach to creating system understanding, where sustainable and social aspects are closely connected or even entwined into blocks of business operations to pore management on strategy, action, and advantage on the way to sustainable business.

Understanding the concept of a systemic, sustainable business model is also important in terms of creating a link between business value drivers and progress on sustainability metrics, as there is currently a common problem across firms of little connection between them.

Another challenge in implementing sustainable international business development is that many companies report on ESG metrics at the individual level, sometimes including elements of the supply chain but rarely including the full business ecosystem, industry, or the broader network of stakeholders. Simultaneously, all of them have a role in constraining or enabling advantage and sustainability. Thus, there is a great necessity to consider this aspect when implementing actions in the field of sustainability.

Hence, the concept of sustainable business model innovation contributes to the concept of sustainable business management on a systemic basis; it can act as a framework for implementing sustainability issues in business operations as a whole.

2 Materials and Method

The analytical method was used as the basis of this research. The authors begin by analyzing existing views on business model innovation. The authors used scientific theoretical research and practical materials of a consulting company, in particular BCG, one of the activities of which is consulting in the field of business model

development. It allowed the authors to combine theoretical and practical aspects and highlight specific characteristics.

3 Results

Figure 1 shows the two main changes in the business model innovation.

Decisions about changes at the levels of the operating model are made based on the formation of a value proposition by finding the answers to the following questions:

- Where to play along the value chain?
- What cost model is needed to ensure attractive returns?
- What organizational structure and capabilities are essential to success?

For companies seeking to grow through business innovation, there are common critical issues such as:

- What is the extent of the changes?
- What is the acceptable risk level?
- Is the process single or ongoing?

Therefore, as an answer and help to fill these gaps, there are contemporary approaches to business model innovation, each with its own characteristics (Table 1).

In terms of sustainable business management, there is a gradual path to achieving sustainable business model innovation (Fig. 2). This path connects strategy and sustainability on the process base at the enterprise level and at higher levels.

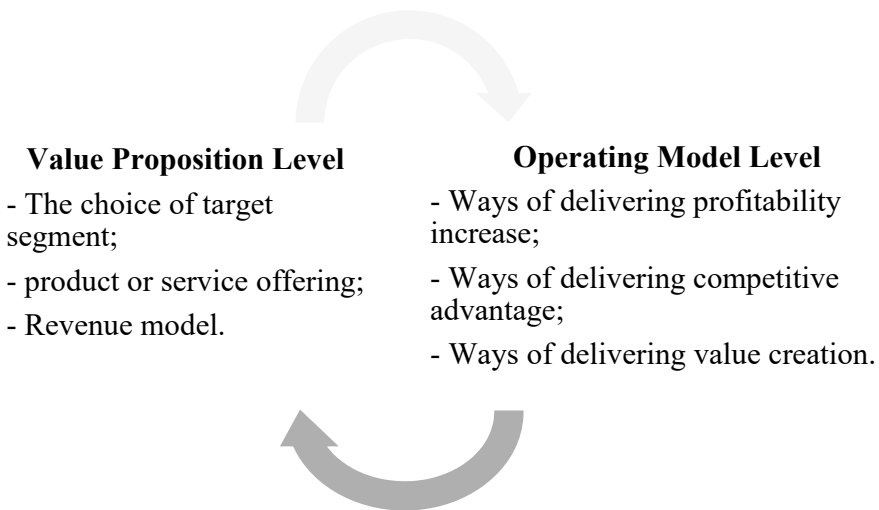


Fig. 1 Changes within business model innovation. *Source* Compiled by the authors

Table 1 Key features of the business model innovation approaches

No.	Approach name	Key indicators signaling the need to implement the approach	Main features of the approach
1	The reinventor approach	<ul style="list-style-type: none"> – There are fundamental industry challenges (commoditization or new regulation) – The current business development can be characterized as a process of slow aggravation, with no prospects for growth 	Reimagination of customer-value proposition and all business processes to deliver the new one = <i>Transform the core + Provide defense against industry decline or disruption</i>
2	The adapter approach	For all practical purposes, the current core business cannot hurdle key disruption in the industry even if it is reinvented	There is a possibility of exiting the core business. It is necessary to look closely at adjacent businesses or markets <i>Expand into noncore + Provide defense against industry decline or disruption</i>
3	The maverick approach	Zooming potentially more successful core business based on business model innovation	Mavericks could be startups and insurgent established companies. Leveraging the core advantage helps revolutionize the industry and set new standards due to their own individual view of traditional things = <i>Transform the core + Support breakout growth</i>
4	The adventurer approach	Promoting new markets using new tools to apply the company’s current competitive advantage	Persistently and suppressively expand business by exploring or developing new or adjacent territories = <i>Expend into noncore + Support breakout growth</i>

Source Compiled by the authors based on [3]

To be effective, it is necessary to realize SBM-I through several consistent steps. They are as follows:

- The first step is to test the current business model for sustainability against a broader temporal, societal, and spatial context to find out all vulnerability to externalities, its sustainability limits, and its potential to create new environmental and societal value;
- The second step is to explore business model innovations by applying a combination of modular transformations to address limits and leverage potentials;

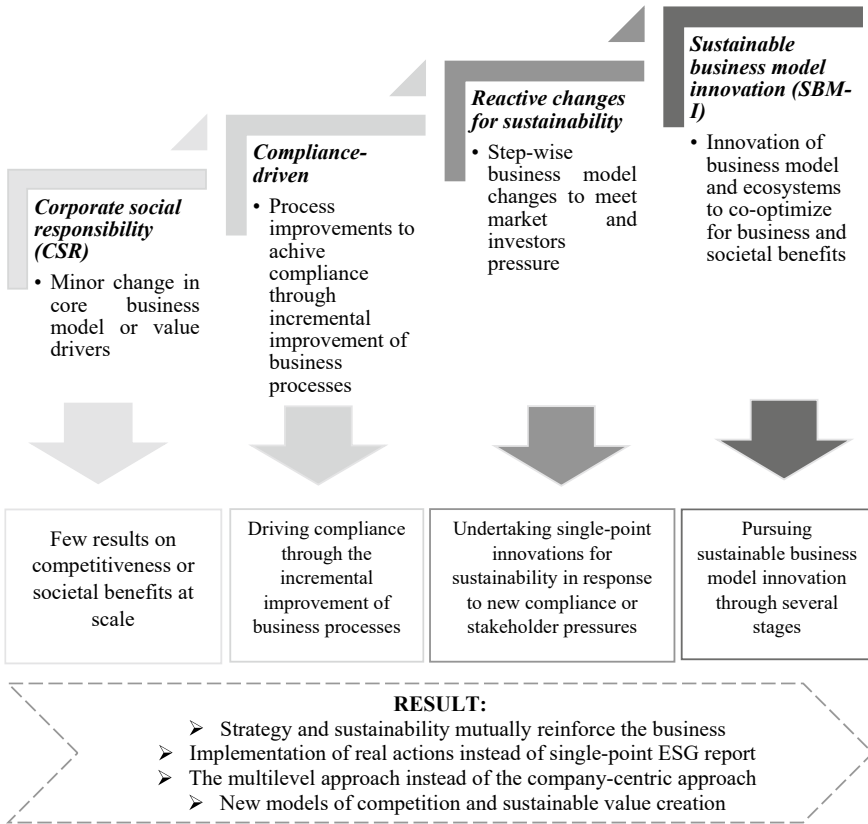


Fig. 2 From CSR to SBM-I: key stages of developing company maturity within business model innovation. *Source* Compiled by the authors based on [16]

- The third step is to connect business model innovations back to the core drivers of business advantage and financial performance to assess how they can deliver value and sustainability.

New models are piloted and tuned to capture advantage in the market and with investors’ and stakeholders’ interests. It is also essential to understand what changes are needed in the business ecosystem or at the industry level to create the right context for success.

Thus, implementing all steps helps connect strategy and sustainability and reinforce them mutually. However, it provides a way to action instead of reporting and implements a multilevel approach instead of a company-centric one.

To demonstrate the results of realizing SBM-I, it is interesting to analyze the front-runners’ experience of sustainable business model innovation, including Schneider Electric—a digital energy management firm. Initially, this French-based company was a traditional B2B electrical distribution equipment manufacturer on the market.

Due to developing the business model, Schneider Electric became a global leader in digital sustainability solutions. As a result, the business is effective in the context of realizing sustainability in the business ecosystem.

At the heart of the developed sustainable business model is an ecosystem based on the EcoStruxure platform, incorporating various digital technologies such as the Internet of Things. The use of advanced technologies helps manage the data and controls in buildings, infrastructure, data centers, power grids, and industries. The main directions of Schneider Electric's sustainable business model include the following:

- The company showed its customers the way to manage their energy consumption and sustainability footprint, which resulted in saving 90 million metric tons of CO₂ per year collectively;
- The company works on improving environmental and societal impact in other ways, particularly through ground-breaking collaboration with Walmart. This collaboration aims to provide increased access to renewable energy across the retailer's US-based supply chain. The initiative, called the Gigaton Power Purchase Agreement (GPPA) Program, is designed to educate Walmart suppliers about renewable energy purchases and facilitate adoption through aggregate purchase agreements;
- The company works with countries worldwide to develop fast-track healthcare facilities throughout the COVID-19 pandemic. For instance, in China and Turkey, Schneider Electric helped get new hospitals operational. In the UK and Italy, it helped convert exhibition centers into temporary hospitals. In France, India, and Spain, it helped manufacture respirators. On a global scale, it worked on the rapid deployment of solutions to enable intensive care units to manage the challenges of the COVID-19 pandemic better.

4 Conclusion

Having a sustainable business model means having a new competitive advantage in the current business environment by being able to provide sustainability, longevity, and value creation in a changing business, community, and investor environment.

To be a pacesetter in some industries, companies must esteem sustainability as a source of business advantage. It means the necessity to take a new approach that seeks out innovative ways to address environmental and societal needs through the core business models.

There is a path in successive steps to sustainable business development, starting from CSR to SBM-I. SBM-I helps businesses to make sustainability a source of advantage, solving two main issues. The first issue is the possibility of making efforts in the field of developing sustainability initiatives (for instance, reducing greenhouse gas emissions, improving the general quality of life, reducing vulnerability to diseases, or lifting people out of poverty) in a systemic rather than fragmented

way, to scale up and give them greater strength. The second issue is the possibility of integrating all efforts into their core business.

Involving different stakeholders in achieving a sustainable goal by embracing different elements of the business model makes all sustainability efforts more effective. Simultaneously, there is no universal way of doing this for all players in the international market. In the current phase, companies can use business model innovation approaches as thought inspiration in developing sustainable business model innovations.

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