PROGRESSIVE BUSINESS MODELS

Creating Sustainable and Pro-social Enterprise

EDITED BY

Eleanor O'Higgins & László Zsolnai

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Editors

Progressive Business Models

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Palgrave Studies in Sustainable Business In Association with Future Earth
ISBN 978-3-319-58803-2 ISBN 978-3-319-58804-9 (eBook)
DOI 10.1007/978-3-319-58804-9

Library of Congress Control Number: 2017948271

Cover illustration: Melinda Podor/Getty Images

Printed on acid-free paper

This Palgrave Macmillan imprint is published by Springer Nature
The registered company is Springer International Publishing AG
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Preface

The idea of the book was born in the *Business Ethics Faculty* meeting of *CEMS—Global Alliance for Management Education* that we organized in 2014 at Bocconi University in Milan. After many years of decrying, the unethical and unsustainable practices of mainstream business we realized that the time has come to study the *best* of what *business can offer* to the world.

We decided that, along with colleagues from selected CEMS member universities and other friends, we would start to explore the most promising *progressive businesses* in Europe and beyond. By "progressive business" we presaged enterprises that seek to serve society, nature, and future generations, while maintaining their robustness and financial profitability.

We did not want to develop a conventional case book. Instead, we decided to focus on the *business models* of progressive businesses. In our understanding, its business model is the way the company creates (and destroys) values in the broad socio-ecological context. The whole picture view of the mechanism of value creation and destruction is crucial to study the role enterprises play in the society and nature at large.

In 2015, we became involved in *Future Earth*, a major international research platform of academics from a range of disciplines, with a common goal to support and achieve global sustainability. Our project has been included as one of the projects of the Future Earth Finance and Economics Knowledge-Action Network. We are especially pleased that the resulting book of our project is published as the first volume in the newly created *Palgrave Studies in Sustainable Business*—in association with Future Earth.

One of us (Eleanor) just recently visited Antarctica. She learnt there what it means to be a "visitor" in nature. In a deep sense, we are only *temporary visitors* on the Earth. For this reason, all of us should learn the governing rules of our host, respect its values, and organize our businesses accordingly.

It is our hope and ambition that our book on Progressive Business Models can contribute to reinventing business, geared towards engendering sustainability and creating ecologically conscious and ethically minded business organizations.

Dublin, Ireland — Eleanor O'Higgins
Budapest, Hungary — László Zsolnai

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Eleanor serves on the editorial boards of several international management, ethics, and corporate governance journals and carries out a range of national and international teaching and speaking assignments. She is a member of the Business Ethics and the Public Management and Governance interfaculty groups of the Community of European Management Schools (CEMS). She has held a range of leadership positions in the US Academy of Management, including chairing the Ethics Committee and the International Theme Committee.

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Part I

Introduction

What is Progressive Business?

Eleanor O'Higgins and László Zsolnai

This introductory chapter signposts the rationale, framework and case study contents of the book. First, we offer an overview of the need for new more progressive business models than the mainstream which exists at present, identifying the current challenges facing business in Europe and beyond in its international ramifications. To remedy these challenges, we present our alternative vision of progressive business functioning, whose basic criteria comprise ecological sustainability, respect for future generations, and pro-socialness. Then, synopses of our case examples follow.

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E. O'Higgins and L. Zsolnai (eds.), *Progressive Business Models*, Palgrave Studies in Sustainable Business In Association with Future Earth,
DOI 10.1007/978-3-319-58804-9_1

1 The Issues of Big Business and the Deterioration of the Earth System

All the important indicators show that the state of the *Earth* (the sum of our planet's interacting human, social, physical, chemical, and biological processes) has deteriorated in the last 50–60 years. A set of global indicators studied by the Stockholm Resilience Center shows adverse socioeconomic trends (such as increases in population, real GDP, foreign direct investment, urban population, primary energy use, fertilizer consumption, water use, paper production, transportation, telecommunications, and international tourism). Convergently, we observe harmful rising levels in Earth System toxins (such as carbon dioxide, nitrous oxide, methane, surface temperature, ocean acidification, tropical forest loss, domesticated land, and terrestrial biosphere degradation) since 1950 (IGBP 2015).

This severe deterioration of the Earth can be attributed largely to current patterns of production and consumption, as business activities have come to dominate nearly all the life spheres almost everywhere in the world. The issues of big business, especially global corporations play a crucial role in ecological degradation and human malfunctioning.

The market economy as a whole can be deemed to be disembedded from society and nature (Polanyi 1944). In parallel, many modern business organizations, especially global corporations, are *disembedded* from the *environmental* and *social context* in which they operate, as they are rootless in ecological and social senses, displaying no real interest in the places they happen to function.

Inherent features of today's globalized business inhibit business enterprises from becoming environmentally sustainable and socially responsible (Boda and Zsolnai 2016).

The core of the problem can be seen to lie in the *corporation* itself (Bakan 2003; Mayer 2013; Stout 2012). The modern corporation as a legal entity was an institutional innovation in the early capitalist era. While it has considerable merits, such as serving as a means to collect and unite into one organization the small investments of many individuals, it has also had the awkward side effect of dispersing and, ultimately, mitigating responsibility and accountability. As a limited liability company, the corporation can allow its owners to limit their obligations for their business activities to the amount of capital subscribed to it. Limited liability means also limited moral liability. "The situation may be contrasted with the case of unincorporated businesses, where unlimited liability also means unlimited moral liability. No distinction can be made by the business and the person(s) conducting it because the reputation of the one is the same as the reputation of the other" (Róna 2014: 10). By nature, corporations and their owners have only limited responsibility.

Individual shareholders do not necessarily have the power or interest to control the corporation, influence decisions, and hold the management accountable. They are interested primarily in the dividend or capital appreciation, that is, the return on their investment. Dispersed ownership also means a limited commitment to the future of the company and aggravates the dangers of a hostile takeover (Mayer 2013). Moreover, takeovers may actually be encouraged when a corporation makes long-term investments into the future, thereby, undermining its short-term profitability, so driving down share prices. In turn, falling or stagnating share prices provoke owners to dump their shares.

The reality of corporations puts the "shareholder value" idea above anything else. Lynn Stout calls this the "shareholder value myth" (Stout 2012) which has a profound effect on how corporations are managed, governed, conceived, and interpreted. She argues that there are neither compelling legal, nor economic arguments to support the shareholder myth. Contrary to what many believe, the corporate law does not impose any legal duty on corporate executives to maximize profits or share price. And there is no persuasive empirical evidence demonstrating that individual corporations run according to the principles of shareholder value maximization perform better over time than those that are not (Stout 2012). Nonetheless, the shareholder myth determines how we conceive corporations, and how they are managed. Further, this myth is perpetrated by what is taught in business schools, notwithstanding evidence of its often devastating effects on the social and environmental performance of businesses (Tencati and Zsolnai 2009).

Today's extremely complex *financial system* makes ownership and accountability even more blurred and impersonal. Nowadays, institutional investors, investment funds, and pension funds hold the large majority of corporate shares. Those funds—generally corporations also—are themselves managed to look for increasing profits at any cost. Moreover, there are multiple mediators between individuals and companies they own through portfolios run by fund managers, and involving brokers, advisors, etc., many with conflicts of interest, whereby, complicated financial services distance investors from the companies they are putting money into. The financial crisis of 2008 revealed how derivatives and other complicated financial products are indeed able to hide reality away from the eyes of even experts. Nowadays, investors choose between investment portfolios offered by their banks or agents, and are rarely knowledgeable about how their money works and what it does (Kay 2015).

The financial system also acts as a principal evaluator of corporate performance. Shareholder value is constructed by the financial market and its institutions: rating agencies, consulting firms, auditors, and finally the stock market itself, a complex institutional infrastructure that promises to evaluate corporate performance and that forces companies into an arms race for profit. Without a constant effort to increase profits and save on costs, companies are threatened with losing shareholder value and finally being discredited. One of the most effective ways to save on costs is to externalize them, by making nature, society, and future generations pay for them.

Corporations face the consequences of *globalization* that separates corporate decisions and stakeholders, owners and workers, consumers and the places of production. This facilitates the externalization of costs (that is, causing social and environmental problems and damages). Shareholder value myth and competitive pressures are the guiding principles of decisions throughout the supply chain. Globalization, therefore, contributes to a shading of business activities and the externalization of production costs (Princen).

Externalization is enabled by growing corporate power vis-à-vis society, especially in developing countries. Globalization opens up new corridors of power (Jensen and Sandsröm 2011). The effect of companies on softening labor and environmental regulation, that is, the 'race to the bottom' is obvious (Drezner 2001; Vogel 1995; Diamond 2003). The institutional setting of today's mainstream business helps to *dilute responsibility*. It is a system in which the pursuit of profits is the only ultimate goal and where the externalization of costs upon society, future generations, and nature is not an unfortunate exception, but the rule (Sethi 2013).

The perverse nature of the decisions made by modern business organizations that ignore environmental and social consequences is visible in such phenomena as decision-making under risk and discounting in space and time. Modern business organizations likely engage themselves in "here" and "now" positive options for them. Correspondingly, modern business organizations likely disengage themselves in "far" and "later" negative options from them. The self-centered orientation of many modern business organizations produces environmentally and socially disengaged functioning. These organizations disregard the environmental and social consequences of their functioning in a self-reinforcing cycle (Shrivastava and Zsolnai 2014).

2 The Failure of Business Ethics and CSR

There are powerful mechanisms which may make the ethical efforts of corporations ineffective or even counterproductive. One mechanism is the *ethics management paradox* while the other is the use of *moral disengagement strategies*. "Business ethics" aimed at teaching corporations to behave in a civilized manner. Most of the corporations tried to accept ethical advices to some degree but they did not become ethical and responsible at all.

Bouckaert (2006) warns that by reducing ethics to a functional and instrumental management concept we lose something vital. This is the core of the so-called ethics management paradox. We are crowding out genuine moral feelings and genuine moral commitment, by substituting them for rational and technocratic management tools instead. This substitution fails, as ethics management has failed to overcome the emergence of new, more sophisticated and hidden forms of opportunism in business.

According to Bouckaert (2006), the paradox is the following: By creating new regulations to temper opportunistic behavior in and among organizations, we may temper the symptoms but often reinforce the underlying roots of opportunism. We introduce economic incentives like benefits, such as premiums or tax relief for those who respect the new regulations, but by doing this, we substitute economic calculations and incentives for moral feelings and motivation. Preaching moral concepts such as trust, responsibility, or democracy on the basis of calculative self-interest or as conditions of systemic functionality opens the door for suspicion and distrust because calculations and systemic conditions can easily be manipulated.

Stanford psychologist Albert Bandura and his colleagues described how corporations make dirty things and at the same time disengage themselves from the unethical consequences of their conduct (Bandura et al. 2000). Corporate transgression is a well-known phenomenon in today's business world. Some corporations are involved in violations of law and moral rules that produce organizational practices and products that take a toll on the public. Social cognitive theory of moral agency provides a conceptual framework for analyzing how otherwise pro-social managers adopt socially injurious corporate practices. This is achieved through selective disengagement of moral self-sanctions from transgressive conduct.

The mechanisms of moral disengagement enable otherwise considerate people and organizations to commit transgressive acts without experiencing personal distress.

i. Moral Justification

People and organizations do not ordinarily engage in reprehensible conduct until they have justified to themselves the rightness of their actions. In this process of moral justification, detrimental conduct is made personally and socially acceptable by portraying it in the service of valued social or moral purposes.

ii. Euphemistic Labeling

Activities can take on markedly different appearances depending on what they are called. Euphemistic labeling provides a convenient tool for masking reprehensible activities or even conferring a respectable status upon them. Through sanitized and convoluted verbiage, destructive conduct is made benign and those who engage in it are relieved a sense of agency.

iii. Advantageous Comparison

Behavior can also assume very different qualities depending on what it is contrasted with. By exploiting advantageous comparison injurious conduct can be rendered benign or made to appear to be little consequence. The more flagrant the contrasted activities, the more likely it is that one's own injurious conduct will appear trifling or even benevolent.

iv. Displacement of Responsibility

Under displacement of responsibility, people and organizations view their actions as springing from the social pressures or dictates of others rather than as something for which they are personally responsible. Because they are not the actual agents of their actions, they are spared self-censuring reactions. Hence, they are willing to behave in ways they normally repudiate if a legitimate authority accepts responsibility for the effects of their actions.

v. Diffusion of Responsibility

The exercise of moral control is also weakened when agency is obscured by diffusion of responsibility for detrimental conduct. Any harm done by a group can always be attributed largely to the behavior of others. People behave more cruelly under group responsibility than when they hold themselves personally accountable for their actions.

vi. Disregarding or Distorting the Consequences

Additional ways of weakening self-deterring reactions operate by disregarding or distorting the consequences of action. When people and organizations pursue activities harmful to others for gain, or because of social inducements, they avoid facing the harm they cause or they minimize it. In addition to selective inattention and cognitive distortion of effects, the misrepresentation may involve active efforts to discredit evidence of the harm that is caused.

vii. Dehumanization

Self-censure for injurious conduct can be disengaged or blunted by dehumanization that divests people of human qualities or attributes bestial qualities to them. Once dehumanized, they are no longer viewed as persons with feelings, hopes, and concerns but as subhuman objects.

viii. Attribution of Blame

Blaming one's adversaries or compelling circumstances is still another expedient that can serve self-exonerate purposes. In moral disengagement by attribution of blame, people and organizations view themselves as faultless victims driven to injurious conduct by forcible provocation. By fixing the blame on others or on circumstances, not only are one's own injurious actions excusable but also one can even feel self-righteous in the process.

Moral disengagement strategies were documented in famous business scandals, including the Bhopal Case, the Ford Pinto Case, the Nestle Case, and the Three Mile Island Case (Bandura et al. 2000). Further, Bandura detailed extensively the working of moral disengagement mechanisms in almost every major industry such as the gun, entertainment, tobacco, and financial industries (Bandura 2015).

Business ethics as a corporate practice has been highlighted as the Corporate Social Responsibility (CSR) movement. The practice of CSR builds on a number of basic beliefs which turned out to be false. The first belief is that companies would be willing and able to become inherently responsible. The second belief is that the market can force companies to be more ethical, while the third belief is that stakeholders can promote ethical business practices (Boda and Zsolnai 2016).

The first belief of CSR about the voluntary compliance of corporations is discarded by facts. Some companies have certainly made efforts to change, but these efforts have remained superficial, and contingent, not integrated into everyday processes.

The second belief of CSR implies that being ethical is somehow profitable for companies, that is, the market will reward companies for responsible behavior. Evidence for this phenomenon is sparse and contradictory (Eabrasu 2015; Schreck et al. 2013). Indeed, some flagship "responsible companies" simply disappeared or were bought up by competitors like the Body Shop.

The third belief of CSR presupposes that stakeholders would be able to force corporations to change for the better. Among stakeholders a special role was assigned to consumers. Consumers were expected to use their power through conscious consumer decisions or boycott to force companies to behave responsibly (Boda and Zsolnai 2016). There have been some promising developments in the past years, like the rapid development of Fair Trade or organic agriculture. But overall consumers send only weak signals to companies. Another stakeholder group that received special attention is "civil society". Thanks to the Internet, civil society went global, linking people and NGOs all around the world in their criticism against harmful corporate practices. Civil society movements have contributed to a growing awareness about corporate misbehavior by ringing the bell and provoking scandals. However, the influence of civil society on corporations has been marginal compared to immediate business imperatives.

CSR has failed to deliver the expected results in improving the ethical performance of corporations. Companies have been reluctant to make genuine ethical progress; the "business case" of CSR has remained weak; and stakeholders have been unable to pressurize companies to become socially responsible and ecologically sustainable. The dominant business model has made mainstream companies largely resistant to CSR efforts (Boda and Zsolnai 2016). In fact, it can be argued that the currently followed CSR has actually distracted from genuinely responsible behavior.

3 The Transformation of Business

The current mainstream paradigm of business has to be changed to achieve a sustainable Earth, or at least to get closer to it. This transformation requires the development of new business models which are ecology-oriented, respect the needs of future generations, and produce values for society at large, not just for shareholders or selected stakeholders. *Progressive business* is understood as ecologically sustainable, future respecting, and pro-social enterprise. These kinds of organizations seek to create socio-ecological well-being while maintaining their financial viability.

The triple criteria require that business activities may not destroy nature, violate the interests of future generations or pose negative impacts on society. Business actions can be claimed "progressive" only if they satisfy all of these criteria.

The notion of ecological integrity was introduced by American environmentalist Aldo Leopold in his classic, "A Sand County Almanac." He writes: "a thing is right when it tends to preserve the integrity, stability, and beauty of the biotic community. It is wrong when it tends otherwise." (Leopold 1948). Business activities might be evaluated against environmental indicators that operationalize the notion of ecological integrity. The aggregate ecological value of business activity can be calculated by using different sets of environmental indicators. A business organization can be considered ecologically sustainable if its aggregate ecological value is positive.

How can we evaluate economic activities from the perspective of future generations? We cannot know much about the interests of future generations, but freedom is a central value here. The freedom of future generations is insured by satisfying the following principles: (i) conservation of options; (ii) conservation of quality; and (iii) conservation of access (Brown Weiss 1989). In aggregate, these principles can serve as indicators of the interests of future generations. Therefore, a business organization can be considered future respecting if its aggregate future generations value is positive.

Business activities should be pro-social, that is, should contribute to the development of capabilities of people. Amartya Sen proposes to understand people's well-being in the terms of capabilities. Capability is a reflection of the freedom of a person to achieve valuable functioning. Therefore, capabilities represent the substantive freedom that people enjoy (Sen 1992). The aggregate social value of business activity can be calculated by using different sets of capability indicators. A business organization can be considered pro-social if its aggregate social value is positive.

In sum, we can derive some basic principles for progressive business:
The first principle says that

Business activities may not harm nature or allow others to come to harm.

The second principle says that

Business activities must respect the freedom of future generations except where such respect would conflict with the First Law.

The third principle says that

Business activities must serve the well-being of people as long as such service does not conflict with the First or the Second Law.

The above laws together suggest that business should seek to create socio-ecological value in an integrated way. This in no way negates the requirement for the enterprise to be profitable and financially sustainable. The essence of progressive business is to serve nature, future generations, and society while maintaining its financial profitability and health.

4 Cases of Progressive Business

The purpose of each case chapter of the book is to delineate the *business model* of the selected case and to show how it creates an enterprise that is ecologically sustainable, future respecting, and pro-social. Business models are basically stories about how enterprises work, so case studies lend themselves to telling a story. The case study is a structured narrative that depicts the past, present, and potential future of the enterprise, how it came to develop and implement its business model and how it works. Since no business is perfect in all its dimensions, issues and challenges with respect to progressive business principles fulfillment and enterprise sustainability faced by the organization and its business model will be presented in the case studies. The case chapters conclude with generalizable insights offered by the case. These insights provide a basis for pedagogical analyses which can be applied to the material and used by instructors with students as appropriate.

Companies ranging from small single unit enterprises to large global multinationals are presented in the book. The companies following progressive business practices are also representative of a variety of industries and countries as follows: Triodos Bank (ethical and sustainable banking, The Netherlands/transnational), Béres Pharmaceuticals (preventive and natural medicine and organic wine-making, Hungary), illycafé (artisan coffee production and distribution, Italy/international), DKV Integralia (inclusion of disabled people into society and the workplace, Spain), Sonnentor (organic food, Austria), Armor (printer accessories and cartridge recycling, France), Lumituuli (clean technology, Finland), John Lewis Partnership (cooperative model governance in retailing, UK), Novo Nordisk (human-centered pharmaceuticals, Denmark/international), Carlson Rezidor Hotel Group (responsible hospitality, Norway/international), and Unilever (consumer goods, UK/Netherlands/global). Many of the companies, although European in origin, are internationally renowned, for example, Triodos Bank, Illy Café, Novo Nordisk, Carlson Rezidor, and Unilever.

The case study chapters follow the same structure. Section 1 of the chapters introduces the profile and business model of the selected company. In effect, the business model explains the choices the enterprise makes. The progressive, sustainable, and socially responsible nature of the enterprise is captured in its choices: (i) policies—how it chooses to operate, the actions taken across all operations, involving internal and external stakeholders; (ii) assets—what resources the enterprise will choose to own and operate; and (iii) governance—how power and decision-making are exercised.

Section 2 of the chapters describes and analyzes the selected company through the lenses of progressive business. Commonly accepted components of business models, that are included in the narrative are (i) the value proposition—how value is created for customers/clients of the enterprise; (ii) the market segment targeted by the enterprise; (iii) the cost structure and profit potential of the enterprise, given its value proposition and targeted market segment; (iv) the structure of the enterprise value chain to create and distribute its offering; (v) the position of the firm within its value network, comprising its stakeholders; (vi) the strategy of the enterprise and its positioning in its competitive space.

Section 3 of the chapters discusses problems and challenges of the selected company. This section gives a balanced and fair critique of the company's practices and its prospects for the future.

Section 4 of the chapters provides conclusions. It summarizes the novelty of the business model of the selected company and explores its generalizability for other companies, industries and countries. Use of the case study for pedagogical purposes is suggested here, e.g., questions that instructors might pose and students might address in a learning exercise.

We present a brief indication of each case in this chapter, so the readers are then prepared to get the most out of each chapter. It will also give the readers an opportunity to pick and choose those chapters which they wish to prioritize, thus offering informed flexibility in the use of the book.

Triodos Bank

Triodos Bank N.V. is a Dutch ethical and sustainable bank with branches in four European countries. It was founded in 1980 and its mission is "to make money work for positive social, environmental and cultural change."

Triodos finances and invests in companies, institutions, and projects within an ecological, social, and cultural scope. Triodos' principles are reflected via a thorough qualitative decision process. In general, it excludes loan applicants involving "any product, service, or business process that it believes would hinder the development of a sustainable civil society. Specifically, Triodos does not lend to organizations, businesses, and projects whose activities products, services, or processes are more than 5% non-sustainable."

Triodos is highly transparent when it comes to its portfolio of investments. The company's portfolio is disclosed on its website, enabling customers to track directly where their money is put to work through an interactive map. Triodos also invests money directly through several green funds which are under its management. These funds provide an additional instrument to raise capital for responsible investments. The ethical funds invest in different themes such as microfinance, sustainable trade, organic agriculture, climate and energy, sustainable real estate, arts and culture.

Triodos finances projects and companies that "promote a more sustainable society in a concrete way." In the process, it has identified sustainable sectors of the economy in which it is willing to invest: nature and environment (e.g., biological agriculture), culture and well-being (e.g., healthcare), and the social economy (e.g., housing). Within those sectors, it selects projects that pursue not only commercial, but also social, environmental, or cultural goals. Applications for financing are screened by the bank's qualitative criteria, as mentioned earlier. Triodos explicitly excludes investment in nonsustainable services or processes such as animal testing, genetic engineering, and infringement of fundamental labor rights. It also explicitly excludes environmentally burdensome sectors such as tobacco, weapons, and nuclear energy.

Triodos' mission is translated into a set of business principles that all employees are expected to follow. The executive board and senior management are charged with managing these principles. The principles promote sustainable development, obedience to the law, respect for human rights and the environment, accountability, and continuous improvement. The principles are paired with practical instructions regarding, for example, internal and external auditing of, and reporting on the bank's environmental performance. Bonuses are not part of employees' compensation packages. The bank does not set any up-front targets that influence worker pay. The bank believes that its employees act on their intrinsic, value-based motivation. The bank has also implemented a whistleblower policy in order to promote compliance with its principles.

Béres Pharmaceuticals

"Béres" is named after its legendary inventor, Dr. József Béres Sr., whose invention Béres Drops, a natural and preventive medicine, comprising a unique trace element supplement product strengthening the immune system of the human body and additional natural medicine developed from it, is the leading product of the company. Over the last 20 years, the family-operated company has developed into an international enterprise. Due to strong value commitments of the owner family, the company is active in supporting people and communities in need, education, culture, science, and even promoting and doing organic agriculture (viticulture, wine-making).

Béres' mission is to promote human health by supplying people with natural medicines for their physical and mental well-being. The company definition of success consists not only of financial profitability but also running an ethical operation and safeguarding the well-being of stakeholders. Béres defines its stakeholders in a broad sense: employees, customers, partners and suppliers, competitors, government and regulatory bodies, needy members of society, and the natural environment. The company applies a strict and continuously revised code of ethics, fair and open communication, and ethical training. Béres has been able to prosper because its ethical stance and innovativeness result in loyal employees, suppliers and customers.

illycafé

illycaffè, the family-owned company located in Trieste, produces and sells a unique single blend of premium-quality coffee in more than 140 countries on all five continents. The top-quality coffee blend, the basis of the growth and competitive success of the company is deeply rooted in strong, progressive, and collaborative relationships with farmers.

illycaffè buys green coffee directly from the farmers that produce the highest-quality coffee beans in South and Central America, India, China, and Africa. The production of this kind of coffee requires great personal, economic, and managerial efforts by the local farmers. illycaffè remunerates these efforts by paying 30–35% more than the market price for Arabica coffee beans. Therefore, illycaffè and the local suppliers develop long-term, mutually beneficial relationships and build robust partnerships, establishing a virtuous cycle of sustainability based on four principles: (i) sustainable development and quality are an inseparable pair; (ii) 100% of illy coffee is bought directly from local producers; (iii) quality is a tool for improving the living conditions of farmers over time; and (iv) a fair price is always applied.

Supportive linkages, mutual respect and listening, transfer of know-how and ad hoc training to enhance and strengthen the skills of the selected producers, alongside fair margins to ensure profits and resources for improving the overall quality of life of the local communities are the key features of the supply chain management policies deployed by illycaffè. These policies are part of the overall value proposition provided by illy, which aims to develop and spread the culture of coffee through several initiatives, including a continual interaction with the world of contemporary art.

DKV Integralia

DKV Integralia is the Spanish affiliate of Munich Health, the leading European health insurance company, a division of Munich Re. It has a wide network of offices and consultancies throughout Spain, with 760 employees servicing 1.6 million clients as of 2014. DKV's business model revolves around the central idea of "really interested in you," which is a value proposition based on how DKV Spain relates with its key stakeholders based on "open collaboration, participative, long-term and sharing the DKV Dream."

DKV Integralia Foundation is a nonprofit foundation established in 1999 by DKV Spain, with the objective of "fostering the integration of handicapped people into society and the workplace". The Foundation is the contact center for DKV Spain, servicing over 2.5 million contacts with almost 300 employees in different call centers. The Foundation offers call center services with a high level of quality and virtually no employee turnover.

DKV has the highest percentage of handicapped employees (29%) of any company in Spain. The goals of The Foundation are not only to hire handicapped people, but also to train and help them get jobs in other companies, as well as to spread the culture of integrating handicapped people in business. DKV Spain enacts its collaborative business model through four objectives: (1) being the best company co-responsible for the health of its clients; (2) give a service that surpasses their expectations; (3) being an exemplar organization; and (4) being an innovative, open, and responsible company.

Sonnentor

Sonnentor Kräuterhandelsgesellschaft mbH specializes in producing and merchandising organic products like food, tea, and spices in Austria with subsidiaries in the Czech Republic, Romania, and Albania. The company was founded (and is still privately owned) in 1988 by Johannes Gutmann. His approach is based on the concept of maintaining the small rural structures of the region by fair trade and ecological, controlled farming.

According to the firm's mission, people at Sonnentor "strongly believe that nature holds the best recipes for a beautiful and long life. That's what we work for and what we thrive on. We also believe that organic farming is the only sound and passable way in a time of monoculture and overproduction. We work in highest consideration of the rhythms of nature. Respect & consideration for nature is our highest ambition. Only harmonious cooperation with nature makes a real balance possible."

Sonnentor's sustainable HRM is based on the following design principles: (i) The firm strives for equal opportunities in the recruitment process and promotes the reintegration of elderly people in the labor market. (ii) Sonnentor offers onboarding programs for all newcomers, occupational retraining if necessary (e.g., for older employees who change their job within the firm), and off-site training. (iii) The Company offers flexible working hours as well as job rotation, and employees can choose their place of work. (iv) Sonnentor invests in health care of its staff, provides various leisure activities, and secures a healthy workplace by, for instance, offering organic food in the staff cafeteria. (v) The firm offers mentoring and strives for age-diverse teams. (vi) The owner of Sonnentor pursues a respectful and supportive leadership in his firm. (vii) The Company is strongly aware of demographic changes and uses measures to monitor the age structure of its staff.

Armor

The Armor Group is a French middle-sized company, specialized in printing ink consumables. The Group is committed to an ambitious industrial project, to provide technical solutions to meet current and future challenges in society. Its business development depends on it meeting three major challenges: protect property and individuals through product traceability, reduce the environmental footprint of printing, and convert light into energy for all.

Armor no longer seeks to sell a product but rather a service. This has had the effect of redesigning and enhancing the company's role. Through its core business, it participates in social changes and the protection of resources, aiming to demonstrate that this new vision can create added value in terms of social development, international competitiveness, and economic profitability.

Lumituuli

Lumituuli Inc. is the first nation-wide customer-owned wind power producer in Finland. Its main business operations consist of commissioning and operating wind generators and funding these activities via share offerings targeted mainly at ordinary people. Electricity produced by the turbines is sold to the firm's shareholders. Thus, Lumituuli is a customer-owned firm having more than 1200 shareholders; mostly private citizens but also other firms, associations, and municipalities.

Lumituuli is a socially oriented company whose ultimate goal is to raise awareness about the possibilities and potential of wind power and extend its use. Its activities help to scale down the use of fossil fuels, reduce carbon emissions, and facilitate a transformation to renewable resources in the economy.

Investment in Lumituuli ensures that new wind power capacity will be installed. Moreover, to broaden its scope, the company has released public loans which enable people to make direct investments in building new wind turbines without using the power generated from them. This move has enabled the disconnection of investments and personal electricity use. Lumituuli has offered opportunities to get involved with a €1000 minimal investment. Lumituuli has strong communal and civil society foundations, as the firm has played a distinctive role as a model for and as an active supporter of local community projects and of citizens in economically sustainable ways.

John Lewis Partnership

The John Lewis Partnership is an employee-owned UK company which operates 42 John Lewis department stores across the UK, 328 Waitrose supermarkets, an online and catalog business, a production unit and a farm. The company is owned by a trust on behalf of all its 90,000 permanent staff, known as 'Partners,' who have a say in the running of the business and receive a share of annual profits, which is usually a significant addition to their salary.

Its Constitution states that 'the happiness of its members' is the Partnership's ultimate purpose, recognizing that such happiness depends on having a satisfying job in a successful business. It establishes a system of rights and responsibilities, which places on all Partners the obligation to work for the improvement of the business in the knowledge that they share the rewards of success. The Constitution defines mechanisms to provide for the management of the Partnership, with checks and balances to ensure accountability, transparency, and integrity. It established the representation of the co-owners on the Partnership Board through the election of Partners as Elected Directors.

Novo Nordisk

The Danish pharmaceutical and healthcare corporation Novo Nordisk is known for a model of management that integrates business ethics, stakeholder management, and the balanced scorecard in their strategy. The main product of Novo Nordisk is insulin to treat diabetes, but the corporation also engages in research to manufacture related medicines and to find a cure for the disease.

Novo Nordisk is a company that considers good corporate citizenship and CSR as fundamental for a management strategy. The company also works with stakeholder communication as important for corporate self-perception in order to improve the balanced scorecard. In many ways, Novo Nordisk promotes itself as a virtuous corporation that is able to deal with business dilemmas in a constructive way.

Balance is considered as a vital aspect of organizational culture to create the right atmosphere and a tool to build corporate identity, image, and self-perception. Moreover, values of balance are also connected with external stakeholders in the sense that they contribute to the formation and identification of ethical integrity as a central component of organizational identity. Novo Nordisk is a large multinational corporation with approximately 20,000 employees, operating in more than 75 countries, and selling its products in nearly all countries in the world.

Carlson Rezidor Hotel Group

Carlson Rezidor is a global hotel group, quoted on the Stockholm Stock Exchange with the Radisson SAS, later Radisson Blue brand as a key asset. The company is an exemplary case in the travel and service industry.

Its program of Responsible Business is aligned with the company's 4D strategy (Develop Talent, Delight Guests, Drive the Business, and Deliver Results). The core of the program includes three dimensions: Think Planet—minimizing the company's environmental footprint; Think People—taking care of the health and safety of guests and employees; and Think Together—respecting social and ethical issues in the company and the communities in which Carlson Rezidor operates.

The global travel industry has a considerable impact on social, economic, and environmental conditions around the world, so there is an urgent need for a new mindset. If the tourism industry continues to operate in the way it does today, energy use and emissions will double by 2050, and water use will increase 2.5 times. Buildings are responsible for 30% of global energy consumption and use of energy savings technologies is needed. These are some of the challenges that need to be approached by the Rezidor Hotel Group's management. The conservationist resource use and its employment in local communities of Carlson Rezidor can play a major role in initiating and leading the new mindset.

Unilever

Unilever is a British-Dutch global consumer goods company whose Sustainable Living Plan includes three main goals: improving health and well-being, reducing environmental impact, and enhancing livelihoods.

The Unilever Foundation improves quality of life through the provision of hygiene, sanitation, access to clean drinking water, basic nutrition, and improving self-esteem. Unilever promotes this through their partnerships with Oxfam, PSI, Save the Children, UNICEF, and the World Food Program.

Unilever creates value for customers by supplying them with responsibly sourced products. It earns enough profit to be sustainable and supply the products that their consumers demand. It works every day to attain the goals that it has set for itself, in a sustainable living plan to grow as a company, while protecting the environment.

CEO Paul Polman joined Unilever in 2009. He eliminated earnings guidance and quarterly reporting and does not want hedge funds as investors, thus, changing the way business is done by Unilever. Polman redefined the role of CEO as statesman—someone who runs his or her business responsibly and successfully, with integrity. Because no company has ever made such sustainable commitments before, Unilever does not know for certain that they will meet their goals and succeed. The biggest challenge to committing to such a broad initiative is surviving the transition. Unilever is working to arrive at solutions to various problem areas, including safe drinking water, fighting viruses, better packaging, sustainable washing, storing renewable energy, and changing consumer behavior.

5 The Hope of Progressive Business

What is common in the selected progressive businesses is the strong underlying belief that business can be a force for good and can serve the flourishing of life on Earth (human and nonhuman alike).

Before his death environmental philosopher, *Hans Jonas*, said "The latest revelation (…) is the outcry of mute things themselves that we must heed by curbing our power over creation, let we perish together on a wasteland of what was creation." (Jonas 1996).

Our book represents the hope that the "wasteland of what was creation" can be recreated by genuine ethical action of creative people and their progressive enterprises.

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Part II

Progressive Business Cases

Banking on Values: Triodos Bank

Nel Hofstra and Luit Kloosterman

After the many scandals that were revealed during the financial crisis of 2008 the banking sector received significant societal attention. They experienced a historic outburst of antagonism and offense focused at bankers, banks, and other financial institutions for their role in the global crisis. The succeeding call for transparency in the sector gave room to not merely financial and social issues but also to determinants that broadened banking responsibilities to the natural environment. In this global turmoil, the Dutch Triodos Bank with branches in four European countries remained intact.

1 Responsible Lending and Investment Policies

Triodos was founded in 1980 and became one of the best known sustainable banks in Europe by distributing its mission "to make money work for positive social, environmental and cultural change" and to

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E. O'Higgins and L. Zsolnai (eds.), *Progressive Business Models*, Palgrave Studies in Sustainable Business In Association with Future Earth,
DOI 10.1007/978-3-319-58804-9_2

"operate on the assumption that their unique position provides them with leverage for addressing social and/or environmental challenges" (Profundo 2014; Kaufer 2011). Triodos' balance sheet total showed an average annual growth of 32% in the 1980–2014 period. Triodos' principles exclude loan applicants involving "any product, service, or business process that it believes would hinder the development of a sustainable civil society. Specifically, Triodos does not lend to organizations, businesses, and projects whose activities products, services, or processes are more than 5% non-sustainable."

This policy is communicated to stakeholders.

- About 65% of savers' deposits are invested in sustainable projects.
- Transparency of investments by interactive social media.
- Raising capital by green funds based on microfinance projects, sustainable trade, organic agriculture, climate and energy, sustainable real estate, arts and culture.

These policies provided Triodos a leading position in sustainable banking and justify their positioning as a "community linked by money."

Triodos promotes a "more sustainable society in a concrete way." In their case sustainability refers to:

- the natural environment
- culture and well-being
- human circumstances.

Agriculture, healthcare, and housing are identified as sectors of a sustainable economy. Different projects are selected and actively screened on concrete functioning by their economic, social, and ecological goals. It is explicitly stated by the bank that unsustainable practices like animal testing, genetic engineering, and sectors of tobacco, weapons, and nuclear energy are excluded.

The way Triodos can be held accountable by their stakeholders are visible in the rules, norms, and actions that create and reinforce the values of the bank and are aligned with indicators referring to integrity principles. Triodos' vision and mission are transformed into a set of business beliefs that all employees are expected to abide. For example, the instrument of whistleblowing has been implemented to enlarge compliance not merely based on the responsibilities of board and management but also of those of the individual employees. This assumes the intrinsic, value-based motivation of every person in the organization. External supervisors are the Dutch Central Bank (DNB: De Nederlandsche Bank) and the Dutch independent market conduct authority (AFM: Autoriteit Financiele Markten). All shares in Triodos Bank are held by the Foundation for the Administration of Triodos Bank Shares (SAAT: Stichting Administratiekantoor Aandelen Triodos Bank) which issues depositary receipts to finance the shares, control rules, and prevent self-interests.

The principles of governance by Triodos are based on:

- obeying the law
- valuing human rights
- respecting the environment
- promoting sustainable development
- and last but not least definitely a no bonus-culture.

These principles are guidelines for accountability and continuous improvement accompanied by instruments as internal and external auditing.

2 Triodos Bank as Progressive Business

Banks operate by managing financial risks, lending money for return and establishing investments. Financial business can be part of a virtuous vision on economic systems and touch the heart of moral aspects of economic activities. To become sustainable they need the funding of a comprehensive selection of concerned investors and depositors in the meantime being financial intermediaries which acquire assets by distributing money and guaranteeing appropriate investments within the economy. In these operatives, not only risks and responsibilities but also liabilities play a role. One of the reasons why the financial crises of 2008 caused so much disorder is the obscurity of many financial products offered to and achieved by clients and the way bankers acted mainly on the base of self-interests instead of taking their virtuous responsibilities. Progressive banking conversely is meeting the needs and demands of developing sustainable societies.

Demands for further corporate accountability and responsibility can be traced back to the former century in which concerns about the natural environment became deeply embedded and the call for more transparency arose. Slower than within other industries the banking sector adapted to rapid environmental threats and opportunities mainly because their clients encouraged them to significant social and institutional rearrangements. These changes have generated pressures and dynamics in the sector to drive banks to greater responsibilities and accountabilities.

The ASN Bank was one of the first Dutch banks that had moved towards the changing social and environmental conditions and established a proactive status quo. The Triodos Bank followed in 1980. Recognitions of these strategies can be found in a typology representing four stages of banking attitudes towards environmental problems: defensive, preventive, offensive, and sustainable banking (Jeucken and Bouma 1999). In 2007 the Triodos Bank's lending portfolio comprises the following three major segments to establish its value proposition:

- Nature and Environment: projects in the field of renewable energy (wind energy and hydroelectric projects) and organic agriculture across the entire value chain including health food shops and environment technology such as recycling companies and nature conversation projects (40%)
- Culture and Welfare: small loans to artists and organizations actively involved in education, healthcare or providing aid to people with physical and learning disabilities. All these enterprises have a clear, people-centred policy (35%).
- Social Business: loans to traditional business and innovative enterprises and service providers with clear social goals, including the finance of start-up enterprises, fair trade companies and microfinance institutions providing basic monetary services for people in the developing world (23%) (Dash 2008).

- By investing in the renewable energy industry Triodos launched a major share in the UK since 1995. Direct stakes in clean energy projects and the possibility to take practical steps to combat climate change in combination with very competitive financial returns made them highly attractive and innovative in the financial field (www.re-focus.net May/June 2005).

Next to offering better products/services and awareness raising programmes ethical and ecological aspects have to be considered when choosing customer targets groups. Clients generated pressures and encouraged the banking sector to significant social and institutional rearrangements driving them towards societal responsibilities and accountabilities. These pushes forced bank companies to increasingly adopting market segmentation strategies directed to sustainable consumers. The market segment of the "sustainable client" in this sector is based on divergent as well as homogeneous characteristics. Divergent in the sense of geographic, demographic, psychographic, and behavioral aspects. Homogeneous because it is a group of customers sharing a priori a virtuous sustainable worldview. They form a segment based on unique customers' (individuals, companies, and institutions) needs and qualifications. This is important for the value proposition, policy, and strategy of the bank.

The clients of Triodos Bank exist of savers, investors, depository receipt holders, and funds. Its targeted market segment consists of customers who want to achieve a positive and remaining change in society and strive for reduction of pollution and emissions towards a sustainable acceptable level, but also for longer lifespans and recyclability and reusability of products. It means that loans and investments have to fit in the concept of sustainability mentioned by Triodos "impact financing." Illustrative in this sense is that Triodos' management is, according to the Annual Report of (2015) very enthusiastic about the results of the Paris Climate Conference concerning international attempts to decrease carbon emissions. On the base of these and other developments they expect investors to be more decisive on "impact-based assets," not only focusing on financial results. Triodos sees these type of outcomes as a promising development for their bank (Triodos Annual Report 2014). Especially, when it comes to convincing their clients.

Triodos Bank has chosen for a position in the target market that seems to be successful. It is clear, consistent, credible, and competitive. Their marketing communicating strategy is based on commercials with slogans like "Follow Your Heart. Use Your Head" or "How do you become truly wealthy?" These imaginings show various customers with testimonials of their view or belief in making the world a better place to live in. The commercials and slogans emphasize the advantages of being a Triodos client as someone who wants to make a "real contribution" to a better world in contradiction to clients of competitive commercial banks.

The markets of Triodos are served by three business units.

The "Retail & Business Banking" business unit offers the customers "a credible set of services including savings, payments, lending and investments" (Triodos Annual Report 2014: 6).

This business unit is active in the Netherlands, Belgium, Germany, Spain and the UK. Loans are granted to enterprises engaged in one of the following areas:

- nature and environment
- culture and welfare
- social business.

The second business unit is called "Triodos Investment Management," which is active in European emerging markets. Individual and institutional investors made the total amount of 3.1 billion of Euros (Triodos Annual Report 2015: 33) divided in 17 investment funds, all encapsulated under the Triodos brand name.

The funds are based on six themes of actual investments:

- energy and climate
- emerging markets
- real estate
- arts and culture
- sustainable food and agriculture
- socially responsible investment (SRI).

Private banking is the third business unit of Triodos and is only operating in the Netherlands and Belgium. The core service is sustainable asset management including investments funds and private asset management. This business unit offers according to the annual report "a wide range of financial and non-financial services to wealthier people, foundations, associations and religious institutions." The total amount of the funds is EUR 1381 million, EUR 461 million managed by the Private Banking business unit (Triodos Annual Report 2015: 34). The fund's reports are published separately and some are organized around exclusive meetings with the stakeholders involved.

The Triodos Bank Group is not aiming at the average citizen. Triodos' strategy is directed to the rich individuals and institutions. Looking to the financial market, it is important to notice that Triodos Bank is serving a niche instead of a mass market and still has a growing number of entrants. An advantage of this niche market is that it enables the bank to organize both "physical" meetings and virtual sessions on Internet. The target market of the Triodos Bank could be described as healthy private individuals, enterprises, and institutions, attracted by the concept of value-based banking in order to get the world to a better place to be. The loans must be used for the purpose of sustainable purchases or long-lasting investments. In terms of market segmentation, the Triodos Bank Group benefits the idealistic drives of customers and these motivations are considerate when choosing customer target groups. Within the annual report, it is stated that competition in the conventional lending market is increasing. The reason mentioned is that conventional banks also more and more acknowledge that "sustainability is an emerging market and that they want to be involved in it". (Triodos Annual Report 2015: 29)

Since the beginning of the financial crisis in 2008, the Triodos Bank has grown enormously. This is in contrast with other international and domestic Dutch commercial banks. The CEO of the Triodos Bank Peter Blom explained this growth in a press communiqué in 2013 on occasion of the presentation of the bank's financial results of the year 2012 as follows:

> More and more people prefer to be allied with a bank that invests money consciously in order to realize affirmative changes in society. Obviously the growth occurs because of the fact that Triodos attracts more savings and investment funds. (Triodos Persbericht, 28 februari 2013; www.triodos.nl/persberichten)

If we compare the results in the period between 2008 and 2012, Triodos doubled its characteristic financial numbers. And this development continued after 2012 according to the integrated Annual Report of 2015 and the overview of their balance sheets between 2011 and 2015.

Analyzing the economic results of the Triodos Bank equity, entrusted funds, loans, and the number of accounts nearly doubled within five years. A significant measure is the Core Tier 1-ratio or Tier 1 capital ratio. This ratio refers to the core capital a bank must maintain to secure the ability to absorb the financial shocks. In fact, the ratio is the comparison between the banks' core equity capital and its total risk-weighted assets or loans. Although the emission of CO_2 hardly reduced, the strong common equity tier shows renewed trust in the bank's stability. This could indicate that Triodos Bank is seen by savers and investors as a safe place during the economic crisis and after. Apparently, the bank crisis has put many financial customers in a new buying position, because of the risks of solvability problems of the big banks. Without the support of the Dutch government, several banks (ING bank, the state-owned banks of ABN-AMRO bank and the SNS bank) would not have survived the crisis. The fourth big bank of the Netherlands, the RABO bank survived the crisis because of the absence of "bad loans and mortgages." But then they got into trouble in 2012/13 because of the role of the London RABO Bank office in the Libor rate-fixing scandal. In October 2013, the RABO Bank organization was fined and needed to pay 774 million Euros. So during the crisis, the big Dutch banks at the home market were in stormy weather. And consumers were losing their faith in the established banks. This could be an explanation for Triodos' developing profit potential.

If we compare the period directly after the financial crisis of 2008 to the one of 2015 we can conclude that some results are triplicated and others increased fourfold (Table 1).

Table 1 Key financial data of Triodos Bank

	2008	2015	Increase (%)
Equity (in millions of Euros)	204	781	383
Number of depository receipt holders	11,797	35,735	303
Funds entrusted (in millions of Euros)	2077	7283	350
Number of accounts	169,517	707,057	417
Loans (in millions of Euros)	9381	5216	410
Number of loans	21,900	44,418	473
Operating expenses (in millions of Euros)	89.9	150.2	270
Net profit (in millions of Euros)	17.3	40.7	403

Triodos earned a very competitive financial return with projections of rising annual dividends and invested in a series of prudently and thoughtfully sited projects to invest the money it raises in a variety of developments, including sustainable projects linking its community of stakeholders with local projects. Many conventional banks were not strong enough in order to cope with difficult crisis situations. This has changed in 2011 by the Basel Committee on Banking Supervision or "The Third Basel Accord." An important European institute is the Bank for International Settlements (BIS) which is located in the Swiss town Basel. Members are the central banks of affiliate countries. One of the committees is the Basel Committee on Banking Supervision. The Basel III Accord adapted the rules for the banking sector to secure the financial strength of banks. Or in words of the BIS, to reform the measures to strengthen the regulation, supervision, and risk management of the banking sector. These measures aim to:

- Improve the banking sectors' ability to absorb shocks arising from financial and economic stress, independent of its causes.
- Improve risk management and governance.
- Strengthen banks' transparency and disclosures.

The Basel III accord states for 2015 a ratio of at least 6%, but in 2019 it has to be 8.5%. The idea is that a correct core tier 1 ratio a bank can meet the financial problems without ceasing its operations. In 2015 the Core Tier 1-ratio of the Triodos Bank was again 19%, while the goal is set at a minimum at 6%. It means that this indicator is high which will increase the trust in the Triodos Bank.

The name of the Triodos Bank is derived from the Greek word "tri hodos" which means "three-way approach." This stands for "People, Planet, and Prosperity". From the perspective of Michael Porter's (1985) value chain, we can distinguish several activities within the bank's operations. These activities show the process of transforming inputs into outputs, involving all kind of subsystems like acquisitions, use of resources, money, labor, materials, equipment, buildings, bureaucracy, and supervising. These analyses into primary and secondary or supportive activities lead to an identification of the generic value-adding activities of the bank. This value chain is described in the business model of the Triodos Bank.

In the annual report of 2014 Triodos Bank describes its business model as follows:

> Our business model and value creation process is illustrated in the diagram above. Our business model transforms capital inputs—such as the skills and entrepreneurship of the people within our organization and money from customers, via our core products and services, into value outputs—such as making a positive contribution to the development of a healthy society.
>
> To make this financially viable, we offer fair (but not inflated) interest rates to savers and aim for reasonable long-term returns for investors both in our funds and in Triodos Bank itself. We use these deposits to lend to sustainable entrepreneurs working in the real economy, so they can deliver real impact.
>
> In order to lend to sustainable enterprises we aim to use deposits rather than borrow from other banks. And we aim to deliver a healthy balance between loans and deposits so we're able to mobilize as much of our deposits as possible. We also maintain healthy levels of capital, well above regulatory requirements. This makes us more resilient over the long-term. Triodos Bank develops through cycles of reflection and dialogues between our inner essence as an organization and our interaction with society's evolving needs (Fig. 1).

The activities of transforming inputs into outputs like acquisitions, use of resources, money, labor, materials, equipment, buildings, bureaucracy, and supervising show the generic value-adding activities of the

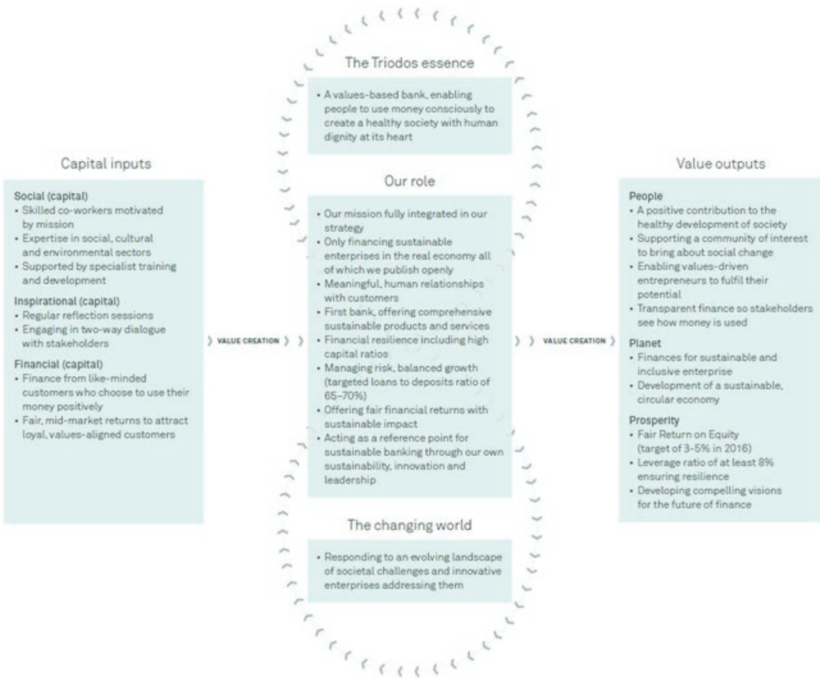

Fig. 1 Value creation by Triodos Bank. Triodos Bank Business Model: Creating Value (Triodos Annual Report 2014, 2015)

bank described in the business model of the Triodos Bank. Triodos' business model is a template for the whole organization in order to create values consistent with Triodos' mission statement. "…finance enterprises, which add social, environmental and cultural value, with the support of depositors and investors who wish to encourage the development of responsible business working for social renewal. Social and ethical—as well as financial perspectives are at the heart of Triodos' business practices" (Buttle 2007).

Triodos presents its business and value creation process model as an "input-throughput-output model." Triodos separates three capital inputs: *social* capital, *inspirational* capital, and *financial* capital. Social capital are the skilled coworkers motivated by the mission with expertise in social, cultural, and environmental sectors and supported by specialist training and development. The inspirational capital inputs are realized by organizing on a regular base so-called reflection sessions. Furthermore, Triodos is fully engaged in a two-way dialogue with the stakeholders. The financial capital input of the Triodos Bank comes from like-minded customers and fair mid-market returns to attract loyal, values-aligned customers. The most important objective of Triodos' Bank is to create value outputs for the people in terms of a contribution for a healthier society together with human dignity, transparency to the stakeholders and helping values-driven entrepreneurs in adding positive products to society. To Triodos the bank "is a community of people linked by money" (Jenkins 1999).

By means of investing exclusively in sustainable projects, the bank takes a clear position towards the need to preserve the planet. In order to continue its activities, Triodos asks a fair return on equity by targeting on 3–5% and a leverage ratio of at least 8% to ensure resilience. The requirement of 8% of the Triodos Bank management is much higher than the Basel III Tier1 obligation of 6%. Triodos sees itself as a value-based bank that wants to react to the changes in the world. It may be clear that not all developments fit into the view of the bank. The problem is how Triodos assess the sustainability of a potential project. Triodos expects from its clients that the mission is fully integrated into its strategy. The bank acts as a reference for sustainable banking "through sustainability, innovation and leadership."

The CEO of the Triodos Bank *Peter Blom* pronounced "Putting human dignity first" as the most important value in the network position. "Triodos Bank's mission is to make money work for positive social environmental and cultural change. More specifically, the bank helps create a society that protects and promotes the quality of life of all its members, enables individuals, organizations and businesses to use their money in ways that benefit people and the environment, promotes sustainable development and provides its customers with innovative financial products and high-quality services" (Zsolnai 2015). Crucial in the value network is that Triodos is acquainted with all the stakeholders of their network and that they communicate on a regular base. This knowledge is used as a guarantee for the values the bank stands for. Triodos is fully engaged in a two-way dialogue with the stakeholders and as the brand Triodos promises a "three-way approach" used to People, Planet, and Prosperity. "Growth is about more than just numbers" is the eye-catching message on Triodos' website. According to the Triodos Bank, everyone talks/thinks about "growth." Economic growth is habitually about production, savings, consumption expressed by financial indicators. The Triodos Bank succeeded in bringing together "measurable and nonmeasurable" indicators into their business "growth" model.

One of the postured problems of the Triodos Bank itself is "Do we actually need to grow?" in which they think about a process of "growth"-rethinking. Obviously, it is important for the Triodos Bank to emphasize the structure of growth in terms of "improving schools, hospitals, nursing homes, making buildings more energy efficient, sharing cars and houses." Another layer in the concept of growth could be "doing nothing" like gardeners and farmers changing their pest control techniques by ecological means, for instance, using ladybirds instead of pesticides. Facing the different levels of growth, it gives entrepreneurs and banks the possibilities to invest in nonconventional industries, i.e., new technologies. Like (small) villages producing their own energy by exploiting windmills, solar panels. Or butchers fabricating meat and fish from plants (lupines). This means that the value network is extended and diversified. Which requires a broad scale of knowledge systems to operate within. Triodos Bank concentrates on promising developments, small or big improvements or in Triodos' words "banking to make a positive impact." This is anchored in the mission statement saying "… to make money work for positive social, environmental and cultural change."

The bank wants to profile itself as a "reference point" for a worldwide development of sustainable innovations. That's why they stimulate and support the public debate on sustainability. This point of view has resulted in an international organization for value-based banking. In 2009 the Global Alliance for Banking on Values (GABV) was founded as an initiative of BRAC Bank (Bangladesh), GLS Bank (Germany), and the Triodos Bank. Nowadays, the GABV is a network of 36 financial institutions and four strategic partners or banking leaders with a shared vision and mission to use finance in order to deliver sustainable economic, social, and environmental development. Members of GABV are located in 31 countries, serving 20 million customers with in total 100 billion USD.

These member banks want to promote a positive viable alternative to the current financial system by means of a fundamental paradigm shift in the bank sector. The shift includes transparency in banking models, sustainability indicators to report social and ecological impact and a diversity of banks.

GABV members subscribe the five fundamental pillars of value-based banking:

- Client-oriented
- long-term resilience of the bank
- transparency
- investing in real economy
- triple bottom line as the heart the business model: people, planet, and prosperity. It means that banks simultaneously are focused on the three P's.

Coworkers of several bank members expressed the different important values in a video presentation. GLS Germany and Vancity Canada sees "investing in people" as the central value, while coworkers of the Merkur Bank Denmark mention "expanding democracy" and "a GABV bank is a facilitator for people who wants to make a change and a positive contribution to society." The Ecology Building Society expressed their view on value-based banking in clear terms by saying "to promote ecological policies designed to promote or enhance the environment in accordance with the principles of sustainable development." Thus, since 1981 UK-based Society uses the savings deposits and the mortgage services as a tool to create sustainable buildings and houses. They declared banking on values "to build a more sustainable and flourishing economy and society," which means that the value network positioning of Triodos within the sector is a strategic choice or "a generic strategy of differentiation" (Porter 1985) and not a strategy based on cost leadership.

Triodos believes strongly in delivering professionally financial services and sustainable products at a competitive price. Triodos' competitive strategy is based on the core values of the bank that leads to decisions about creating an affirmative change like sustainability and transparency. Triodos knows where the money of the depositors goes to (knowledge), Triodos wants to be among the best of its industry (excellence) and Triodos Bank facilitates and encourages entrepreneurs who develop and produce innovative sustainable products in a sustainable way (entrepreneurial innovation). The competitive strategy of the Triodos Bank is based on the pillars of:

- knowledge
- excellence
- entrepreneurial innovation.

These pillars help the Triodos Bank to competitively strive for taking responsibility for the consequences of their economic, societal, and ecological actions.

Transparency in the way business has to operate is a vital element in the strategy. Money originating from saving accounts obligated the Triodos Bank to show the money owners in which projects it has been invested. The bank wants to promote being a "reference point" as stated earlier for a worldwide development of sustainable innovations. Creating a strong, clear, and consistent image of a product in comparison with those of the competitors is the key to differentiate in the market place. Triodos mentioned itself a "global pioneer in ethical banking." Triodos' mission statement is comparable with that of the ASN Bank (General Saving Bank for the Netherlands) who is competing in the same niche market as Triodos and has a similar vision and mission. ASN Bank is a subsidiary of the state-owned SNS Bank, whose origin lies in the labor unions.

Although ASN claims to be the eldest sustainable bank and having more than 600,000 customers, its balance sheet shows a lower total of 11.9 billion Euros. The international oriented Dutch bank ING is the biggest bank in the Netherlands. Their claim is that it operates since 2007 climate neutral for 100%. Further on, ING invested in sustainable electric power stations and educational projects for children. The Rabo Bank is originally established by Dutch farmers and claims to support customers in their process activities for realizing a sustainable food production and agriculture business. The Rabo Bank states that innovation in sustainability will be stimulated. The commercial claim of the state-owned ABN AMRO Bank Group “A better bank which contributes to a better world” is also an important competitor. The AMRO is supporting families and businesses by giving loans to make more sustainable houses and buildings. These potential competitors give an insight into the internal rivalry at the home market of the Triodos Bank. Sustainable banking becomes a booming business in the Netherlands. Based on the home market observations it can be concluded that the Triodos Bank Group will face strong competitive pressure in the near future despite a growing market segment.

3 Problems and Challenges

Research by Profundo (2014) on honest banking between the nine biggest bank groups on the Dutch payments and savings market in 2012 shows ASN, is ranking slightly higher (10 to 8) compared to Triodos on issues like human rights, climate change, labor rights, and weapons. Although the two banks based its foundation on different principles (ASN is originated from labor unions and Triodos inspired its philosophy on Rudolf Steiner’s anthroposophical thoughts) they come closer to each other. This makes it more difficult for customers to make a choice. And for the banks to profile themselves. Common issues are sustainable energy, housing, food, farming, and technologies. More problematic is it to explain why Triodos invest in alternative homeopathic medicines and meditation centers. Clear reconsidering and further communication on what sustainability as a concept involve for them is important.

Another point is the discussion on sustainable mortgages. In Belgium, mortgages are provided for sustainable housing and with low energy usages, this is not the case in the Netherlands. Triodos did not take the challenge to pick up this leading position, which means that they still invest in so-called sustainable private mortgages that again are invested in non sustainable housing (NRCNext 2012).

Another problem is the complexity of knowledge systems. Operations and activities in so many different market segments require knowledge on current and future developments. Triodos came up with innovations in financial products and services, easily to copy, which can be a competitive advantage for the short term.

It is unclear if there exist sustainable projects, which are disapproved or ignored by the management. Possible circumstances could be improved by an effective communication to the relevant coworkers. It makes sense during a deep bank crisis that the Triodos' coworkers are very cautious in providing loans to entrepreneurs who have to face the "same crises." Triodos already organizes on a yearly base the so-called entrepreneurial days on which up-to-date information between the bank coworkers and the business people is exchanged.

In the annual reports, Triodos Bank does not mention the value of integrity. In the banking sector integrity plays an important role where it stands for independency of the management and coworkers to avoid entanglement of interests (conflict of interests). For instance, if a bank employee has a share in a company, then the independency is at stake.

The approach of the Triodos Bank to the concept of sustainability is anthropocentric of character. This means that ecocentrism or biocentrism is underdeveloped in their philosophies, which will hamper investments in future regenerative developments of economies and business.

Is Triodos Bank Group *ecologically sustainable*? The ambition of Triodos is to promote environmental conservation. It brings sustainable banking into practice by offering products and services which promote sustainability. Triodos is convinced that money plays a role in preservation of "mother earth." Based on the Annual Report (2014) it is not clear how the Triodos Bank Group measures any progress in realizing this aim. One could say that today sustainable real products like solar collectors, windmills etc. producing sustainable energy has become a common business. Even for the big commercial banks in the Netherlands. It should be interesting to know the amount invested in new or fundamental scientific technological research projects to facilitate sustainable developments.

Unbridled growth is the financial position of the Triodos Bank at the moment. Reflections on growth positions and alternative potentials have not been given.

Innovations in new product and service technologies made the supply more transparent, but still needs further developments through personal banking, business, and charity banking, and investment banking options. It is not always clear whether genuine change is reached making use of investors that are truly "sustainable."

- The concept of sustainability needs to be communicated more homogeneous in terms of "what is really ecologically sustainable."
- More reflection is needed on the business model. How transferrable is it? Is it easy to copy? How to resist aggressive marketing techniques of competitors?
- More attention to benchmarking.
- More praxis of frugality: this means more forms of self-limitation and temperance in order to keep spiritual and material needs in balance.
- The Triodos Bank is still in the stage of a niche marketing strategy and its business model depending is based upon input-throughput-output processes instead of more circular and holistic system thinking.

The emergent infrastructure of the banking sector and their environments yielded pressures from outside. The most important problem was that change was inevitable, but that the direction of change was unclear. Despite concern for the future, change will continue not within a fixed framework, but depends on new knowledge, new inventions and innovations, and new opportunities. Change is not a threat but a challenge. The conservative strategies of banks in general need revision. And the narrow definition of corporate social responsibility too. Sustainability reports are only part of the changing picture. Too narrowly defined criteria of CSR and sustainability lead to window dressing by way of outer philanthropy or patronage and public relation programmes. In this case, the business model opens eyes in how far reality is disguised or not. Research by Jonker (2016) shows the changing transactions that create multiple value led to an identification of certain characteristics of new business models, for example:

1. Types of cooperative collaboration as a central principle to connect.
2. A conscious creation of multiple value, balancing nature, care, commitment, and money.
3. Money is not the only means of exchange. Time, energy, or care as well and sharing profits.
4. Economy as a system of needs. Bridging now and later can be operationalised by credit booklets, for example, energy, health, vegetables, or care.
5. No central focus on ownership of the means of production. Paying for use instead of possession. Entrance to the means becomes more important.
6. Commitment for the long-term. Reliability within relationships.
7. Alternative 'Money' like time or points can replace the euros.

Triodos is on its way to meet several of these criteria and has a leading position in the market.

According to a list of Dutch Banks in the Netherlands, there are 43 banks which have together 74 subsidiaries. Furthermore, there are nine offices possessed by foreign banks. One of the reasons for so many banks could be the position of the open Dutch economy, its favorable geographic location (harbor of Rotterdam) and gateway to the extensive German economy. Numerous banks are specialized in finance and assurance of (sea) transports and trade with foreign countries. Others are more domestic-oriented. These dynamics will strengthen the intensity and character of the internal rivalry of sustainable banking shall increase and Triodos has to anticipate on that, despite its strongly growing segment.

4 Conclusions

The Triodos Bank started in 1968 with the mission to invest and to lend to concerned community members (individual customers and institutions) with the intention to use banking as a mean for societal transformation. They took a leading role in the green energy market and in microfinance. Fair trade, social responsibility, and sustainability became key pillars of their policy. In the 1990s, they decided to become a

European bank. The financial crisis of 2008 caused a successful growth and the bank became a leading discussant in the public debate at the same time developing its business model and business culture in which the bank distinguished itself from conventional banking.

Incorporating sustainability in corporate strategies requires a long-term vision. The banking sector, in general, reacts rather conservative and inactive on societal issues and changes in the environment. It is a relatively environmentally friendly sector in terms of pollution. For a long time, banks considered themselves to be amoral firms virtuously focused on risk and return. The Triodos Bank is a good example how this attitude can be changed into proactive strategies with growth potentials (Kaufer 2011).

For the long-term clear communication to the customers is necessary to distinguish between progressive and conventional banking and keep its strategic positioning as a responsible banker.

The model of Triodos has a traditional input-throughput-output structure and not a cyclical and holistic one as promised in their strategic ambitions. Research into alternative business models is necessary (Jonker 2016; Shafer et al. 2005).

Sustainable markets are rapidly changing and differ strongly from each other (the wind energy market is hardly comparable with the solar energy market). This requires close ties with innovators for example in the field of biomimetics, circularity and nanotechnology.

Even conventional bankers can change and this can go faster than expected. Anticipation and networking on markets with a new generation of bankers and new generations of ecological technologies is essential to relocate the strategic position in time. Technological developments, public interest, and markets are changing rapidly now sustainable sectors are more and more accepted.

Pro-social entrepreneurship means for the Triodos Bank Group investing areas like culture and welfare and in social business. Triodos wants to support organizations which try to cause a social change in society. A change towards a more sustainable world. Both individuals as organizations who feel attracted to this direction of change could account on the funds, knowledge, and experience of the bank. But sometimes, it could bring Triodos in trouble. For instance, in the case of the Islamic University Rotterdam. This institution is financed by funds of the Triodos Bank. In 2013, the rector of the university said controversial things about homosexuals. We can imagine that the statement of the rector contrasts sharply with the human dignity issue of the bank.

5 Questions to Address

- What are the differences between the business models of the Triodos Bank and other players in the sustainable banking sector?
- What would you consider to be the generic value-activities and the core capabilities of the bank?
- Why are there merely a few players in the international banking sector prepared to take up the role of a sustainable and ethical bank?
- What will be future rivalries in the global financial market?
- What are the limitations and opportunities of the model itself on the bank's vision, mission, and strategies?
- Will the Triodos Bank stay competitive enough compared to "new entrants" in the field?
- Does the bank have to change its portfolio?
- How does Triodos assess the sustainability of a potential project?
- Does the Triodos Bank actually need to grow?

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The Power of Tradition: Béres Pharmaceuticals

András Ócsai and Zsolt Boda

1 The Profile of the Company

"Béres" is one of the most famous and most respected companies and brand names in Hungary. It was established in 1989. It was named after the legendary inventor, Dr. József Béres Sr. whose invention, Béres Drops, now a symbolic Hungarian gentle medicine, was the first product of the company and it is still its leading product. Over the last 27 years, the family-operated company has developed into an enterprise with international reach and been able to preserve its independence and competitiveness in the globalized competition. Béres products are today available in almost every settlement of Hungary and well known in several countries of the region; millions of people ranging from the youngest to the oldest generations know and use it.

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E. O'Higgins and L. Zsolnai (eds.), *Progressive Business Models*, Palgrave Studies in Sustainable Business In Association with Future Earth,
DOI 10.1007/978-3-319-58804-9_3

Béres Drops is the original invention on which a group of companies and a portfolio of dozens of products have been built. It was developed by 1972 crowning two decades of research process. It is a unique trace element supplement product that helps to preserve and restore the human organism's normal functioning. It improves the functioning of the immune system. It is applicable also in the supplementary therapies for cancer patients to improve their general condition and well-being. In the 1970s, after the news on the beneficial effects of the drops spread, increasing number of people asking for help from all over the world visited Dr. Béres. He served crowds of people free of charge—often in defiance of the authorities—until the drops received marketing authorization as a paramedicinal product in 1978. Dr. Béres shortly realized that the efficient promotion, distribution, and official recognition of the drops were only possible through a business venture. The family then decided to establish Béres Ltd. in 1989 with the mission to improve the health of the Hungarian population and develop its health awareness. The drops became famous overnight after a documentary about its story and effects was broadcasted on the national television. The popularity of the product began to soar and remained unbroken until today when hundreds of thousands of people use it day by day. In 2000, Béres Drops was officially recognized as medicine in Hungary. The regulation of this category of medicinal products is stricter (therapeutic effects of the product must be scientifically proved by laboratory experiments and approved by the competent authorities) than that of the paramedicinal products. However, the market perception of the officially recognized medicine tends to be much more favorable which could reflect in higher price. In 2002, Dr. Béres received one of the most prestigious scientific recognition awards of Hungary, the Széchenyi Award. This Hungarian state award has provided recognition for representatives of outstanding academic excellence since 1990. The candidates proposed for the award are selected by a committee that consists of previous winners, distinguished scholars, and members of the Hungarian government; and the President of Republic hands over the award. In 2008, his bust was placed among the greatest Hungarian healers in the Semmelweis Museum of Medical History. In 2013, Béres

Drops was selected among Hungaricums, and Hungarian products are considered characteristically Hungarian all over the world.

Building on the popularity and success of Béres Drops and the Béres brand, the owner family decided to further develop the company and product portfolio. Béres now offers more than 70 products in Hungary and other countries in the region. Its products are market leaders in four market segments (immune system strengthening products; complex multivitamin, mineral and trace element products; vitamin C; and complex calcium supplement medicines), ranks second in three segments (joint disease products; eye products; and magnesium products), and have significant shares in four more segments (vitamin D; calcium products; herbal medicine for weather fronts; and travel diseases).

In 1989, Béres Ltd. was a small business with only ten employees. Through considerable development, it has expanded into an around 500-person organization. It is now a strong group of companies with more than EUR 280 million annual turnover in 2015. The subsidiaries are organized into business lines: development and manufacturing of preventive and natural pharmaceutical products (Béres Pharmaceuticals Co. Ltd.), wholesale of pharmaceutical and medicinal products (part ownership in Hungaropharma Pharmaceuticals Wholesale Co. Ltd. together with the biggest Hungarian pharmaceutical companies), viticulture and winery (Béres Vineyards and Winery Ltd.). Common strategic goals are defined and efficient cooperation is ensured by the holding structure. In the holding structure, the family-owned Béres Holding Ltd. owns shares of the subsidiaries. Béres Pharmaceuticals, headquartered in Budapest, with local branches in Szolnok and Miskolc, is the market leader in manufacturing and distribution of health promotion and preservation products in Hungary with more than 30% market share. Regarding the medicine wholesale business line, Béres has almost the third of shares in the market leader company, Hungaropharma that had annual sales of EUR 842 million in 2015. The winery business line is located in Tokaj Wine Region, declared UN World Heritage Site in Eastern Hungary. The main goal of Béres is to rebuild the fame of Hungarian wines, Tokaj wines both in Hungary and all over the world through creating excellent wines with the highest standards as organically as possible.

The company started as, and has remained, a family business: It is not listed on the stock exchange, and the owners still do not plan to go public. According to them, family ownership ensures their freedom of choice. The top decision-making body consists of the family members (Dr. József Béres, President; Klára Béres, Communications Director; Melinda Regéczy-Béres, Managing Director of Béres Vineyards and Winery Ltd.; and Marcell Béres, Project Manager), the Chief Executive Officer (Ferenc Major), and the Financial Director (Miklós Nagy). Besides, Béres uses decentralized company management system where lower level executives and employees play an important role in decision preparation and decision-making.

2 Béres Pharmaceuticals as Progressive Business

The value creation of the company is based on the founder's initial invention, Béres Drops, a unique trace element supplement product strengthening the immune system of the human body and additional gentle medicine developed from it. Due to the human-centeredness and strong value commitments of the founder and the owner family, through their foundation Béres Group is very active in supporting people and communities in need, education, culture, and science. Béres even promotes and does nature-friendly agriculture (viticulture, winemaking) in Béres Vineyards and Winery.

According to the mission statement (Béres Csoport 2016b: 1):

> Béres Pharmaceuticals develops, manufactures and markets health preserving and health care products, and its development is based on high-quality, modern, marketable products and value-creating dynamic, coordinated marketing and sales activities.

Basic needs Béres covers are health promotion, disease prevention, health recovery, through which it intends to contribute to a healthier, longer, and higher quality life. Its main competencies are to develop and register products to the defined markets; to manufacture products in solid, liquid, or ointment form; to distribute products in pharmacies, herbal shops, and groceries; to do high-quality professional and consumer communication; and to make rapid decisions.

The following core values guide the company's operations (Béres Csoport 2010, pp. 9–10):

a. Honesty, reliability, and predictability: Béres Group is a nationally and professionally recognized company and at the core of its ethos are righteous business and compliance with laws. It aspires to establish reliable and transparent relationships with all of its stakeholders;
b. Social and national responsibility, responsibility toward the natural environment: the most important market for the Hungarian-owned group is Hungary. Béres is committed to the country, to the people, and feel responsibility for people's health and the society; support Hungarian education, culture and sports. It is also committed to the health and soundness of natural environment; and to make constant efforts to protect it;
c. Scientifically and professionally recognized, high-quality products: besides the commitment to people's health, Béres put significant emphasis on development and innovation in the whole group. The basis of its operation is the development and marketing of innovative, scientifically sound, high-quality products in order to outstandingly cover consumer needs, contribute to health preservation, disease prevention, and strengthen Béres brand;
d. Perseverance, diligence, compassion, and commitment: the managers at Béres believe that working with commitment, benevolence, perseverance, combined with talent and knowledge, always ends in results. They also require from the employees diligence and loyalty to the group;
e. Successful organization, team spirit, and professionally excellent, successful people: they aim at maintaining friendly and family atmosphere in the group where employees can work in cooperative, open, teamwork environment;
f. Maintaining the transparency and efficiency of the organization while creating an engaging and rewarding work environment: physical and mental well-being of its customers, colleagues are very

important at Béres, private and family life is respected and appreciated. Béres offers attractive work place for those who are able to work innovatively, creatively, and independently.

Analyzing several documents (president's forewords of Béres magazines in several years) through summative approach of content analysis (Hsieh and Shannon 2005), Béres values and value-orientation were compared to the findings of Schwartz's (1994) theory of universal values. Beyond the above-mentioned core values, Schwartz's universal values appear in the documents of the company, those related to conservation, and security (health 23 times, family 6, society 4, nation 4, preserve 2) occur the most frequently. In addition, values of universalism (beauty 4, harmony 3), benevolence (help 8, friend 5, kindliness 3, love 3, and responsibility 1) and achievement (success 4) appear several times. Based on examining the context of these occurrences, the general tone of these texts is always positive even if the president writes about difficulties of the era or people's problems. He takes these as challenges that they have, and are able, to cope with so he can enhance readers' mood. He emphasizes several times our health is a value and should be a "Hungaricum" (Hungarian speciality) but we have to work for it, preserve it and take responsibilities while doing so. He asks us for taking responsibility for our health and even for our society and nation. Besides the main product, Béres Drops health education is a very important tool for Béres and through that the company wants to help the needy, the people, and the communities. He adds that we all have to pay attention and take care of our families, friends because benevolence creates values and gives us the strength to work well which results in success. Ultimately, we ourselves are responsible for our life, health, and the harmony in them. According to these texts, Béres's value-orientation seems to root in its persons' consciousness, sense of duty and responsibility, love, benevolence, perseverance result in health, joy, victory, and gratitude. Also external factors are important such as education, hard work harmonized with relaxation and holidays that then lead to success, good reputation, advanced culture, and a chance for a better future.

The competition is very strong in the markets where Béres operates, because powerful multinational corporations are also incumbent.

Competitors are Hungarian and multinational drug manufacturers and over-the-counter drug producers and distributors. The competition, however, is rather fair due to strong external and self-regulation, as good reputation is a core asset in this market. Only smaller players happen to breach regulations forced by cost pressure. In recent years, a new kind of competition emerged–price competition determined by cost competition. More and more self-administered products of Far East origins have turned up and overflown the Hungarian market. The production cost of these dietary supplement products could be much lower than the ones manufactured in the European Union. However, their manufacturing and quality conditions in many cases are uncontrolled and unverifiable, thus, compliance with European regulations seems to be questionable, and they may even present a health risk for human safety.

Under these competitive conditions, loyalty to original corporate values of Béres becomes more substantial: continuous and consistent product innovation, resulting in scientifically established and reliable high-quality products. The quality management system is based on these principles and integrated in to the whole value chain, from research and development, through production to sales and marketing. The most important quality standards are manufacturing under safe and controlled conditions; using optimal, regulated, and reliable processes; and to completely meet specifications of regulatory requirements and authorities. It seems that so far Béres has been able to sustain and prosper because its ethicality and innovativeness result in loyal customers, suppliers, and employees.

Béres's mission is to promote human health by supplying people with gentle medicines for their physical and mental well-being. The main goal is to target disease prevention and treatment markets by development, manufacturing, and marketing over-the-counter drugs. Béres serves customers who are conscious in their health preservation, who are able and willing to use health care products most of which are beyond the scope of the health care system. It targets consumers for whom health prevention and natural products are important, and patients with special needs like those suffering from cancer, eye problems, or joint disorders. The primary market is Hungary; secondary markets are Russia and Eastern European countries.

Béres's market segmentation seems to be successful. In the markets of immune system strengthening products, complex multivitamin, mineral and trace element products, vitamin C, and complex calcium supplement medicines, its products are market leaders. In the markets of joint disease products, eye products, magnesium products, they rank second; and have significant shares in the markets of vitamin D, herbal medicine for weather fronts and travel diseases. These products steadily maintain their places in a market environment where the competitors promote their products through strong professional and consumer activities. In 2015, Béres won the Product of the Year award and Béres brand was selected repeatedly among the best Hungarian brands. With a 32% share, the company is the market leader in the market of self-administered medicinal products for disease prevention and health preservation, and is a major player to be reckoned with in the most segments.

The year 2015 was very successful for Béres; it reached remarkably high revenue in spite of the fluctuating consumption. Total sales revenue increased by 15% approaching EUR 32 million. The greater part (more than 80%) of the turnover comes from domestic sales; however, export sales growth rate was eight times higher than domestic increase. The proportion of domestic and export sales appears to be just the opposite compared to the big multinational players of the Hungarian market whose revenue mostly stems from export sales.

The cost structure did not change substantially in 2015 compared to the previous year; the main part is the indirect costs of sales. A change in the product structure caused a slight increase in the ratio of direct cost, and due to the growing production efficiency, the ratio of indirect costs further declined.

As a result, operating earnings and earnings after taxes significantly grew while maintaining its operation and growth safe, sound, and organic. Comparing the figures to its competitors, it seems, though, that in the present Hungarian market conditions Béres is unable to reach as high profitability as the best performers of the market do (Richter 2015). However, it is not at all its main goal. Its definition of success consists of not only financial profitability but also and mainly ethical operation and well-being of stakeholders. Nevertheless, Béres earns enough money to be also economically sustainable by being a leader in a special market segment.

A company's value chain consists of primary activities (inbound and outbound logistics, operations, marketing and sales, services) and support activities (firm infrastructure, human resource management, technology, procurement) (Porter 1985). In the increasingly strong market competition, the base of Béres' value chain and one of its key success factors is continuous *product innovation*, developing new products and modernizing existing ones. The Medical and Product Development Directorate is responsible for the professional and scientific preparation of product concepts, the technological and analytical development of medicinal products, applying for domestic and foreign authorizations, monitoring the side effects of medicines, handling industrial property rights cases, and the scientific coordination of the commercial communication activity. Regarding pharmaceutical technology and analytical developments, product development remained intensive during previous years. Numerous new medicines, special therapeutic nutritional supplements, and dietary supplements were technologically reformulated; analytical testing methods were developed; and then laboratory developed manufacturing technologies and analytical testing methods were successfully transferred into and validated in the manufacturing plant. In parallel with launching operational manufacturing processes of new or modified products, the guarantee of the high quality of the products are the constant stability tests run in the development laboratory.

The regulatory environment is increasingly strict which means it is a huge challenge for the medicine registration. In light of this, it was a significant success in 2015 that Béres could obtain marketing authorization in Hungary for three strategically important pharmaceutical products. It also puts great effort to notify the National Institute of Pharmacy and Nutrition on the new nutritional supplements and special formulae. The export activity to more Central and Eastern European countries also poses challenges for the registration colleagues to meet different special requirements. The medicine safety experts also do side effect monitoring which is not a legal requirement from the authorities but rather the consequence of Béres's commitment to the highest quality and product safety. Their scientific background necessary for product development and commercial communication is highly regarded also outside the company. As a token of this appreciation, Béres was invited, as the most knowledgeable expert in Hungary, to create the professional agenda for the first key topics—correct and safe vitamin use—in the public health program launched in 2015. The joint initiative of the National Institute for Health Development and the Hungarian Chamber of Pharmacists aimed at the protection and development of the Hungarian population's health conditions and promotion of healthy lifestyles, and preparing the educational scientific communications addresses the professional audience. Colleagues of the Medical and Product Development Directorate also published scientific articles in the journal of the Hungarian Society for Pharmaceutical Sciences.

Regarding industrial property protection, Béres has several trademark protections for product names suitable for brand building and distinguishing the company from competitors in Hungary and abroad. It has almost 150 registered trademarks in 44 countries at the end of 2015. Beyond trademark protections, the company continuously tries to apply and maintain patent protection for the inventions.

Béres's most important tasks during *production* activities are manufacturing, controlling, and warehousing high-quality products, using methods of Good Manufacturing Practices and HACCP licenses, state-of-the-art technology, and highly qualified, dedicated staff. Due to the expansion of domestic and export markets in recent years, the bottleneck in production in the Szolnok plant was a great challenge; only working at full capacity with substantial amounts of overtime could meet the market demand. Béres, thus, decided in 2015 the largest development in its history in Szolnok to set up a new plant and extend the logistics warehouse capacity. On the basis of Article 107 (3) (a) and (c) of the Treaty on the Functioning of the European Union and the Guidelines on regional State aid for 2014–2020 (2013/C 209/01), the company was eligible for one-off investment aid by individual government decision (nonrefundable grant of 50% of the total investment value) because the planned investment would result in significant value added to Hungary's economy and create a significant number of jobs. The government-subsidized investment of EUR 10.3 million is under construction with which—by the end of January 2017—the plant area will grow by more than 1600 m^2, the warehouse by more than 800 m^2, new technology will be installed, infrastructure will be developed and 60 new jobs will be created. By the end of the first phase in December 2015, raw materials and packaging materials warehouse building was completed, new compacting equipment was installed, and the testing and controlling of incoming raw materials' and finished goods' metallic active ingredients was ensured by an ICP equipment in the quality control laboratory. For achieving smoother and more efficient workflows, the integrated enterprise resource planning system was developed and more emphasis was put on auditing the suppliers. The so-far results of the developments—partly due to the new equipment installed in December 2015—show a record manufacturing volume (15% increase) and raw material usage (almost 30% increase), with a staff of 230 in Szolnok.

The Purchasing and Logistics Directorate is responsible for stock management, production planning, domestic and international customer service, freight management, purchasing, receiving and storing raw materials, packaging materials, and delivering them for manufacturing, purchasing finished and semi-finished products, storing and distribution of finished goods, and purchasing of printing services for the whole company. In the new starting material warehouse extended storage place and a modern, automated, dynamic tray-based storage solution (Lean-Lift) were set up in 2015. Due to regulatory changes—which allowed Béres to create a fourth level of storage trays, thereby to fully utilize the total inner height of the warehouse, the storage capacity could be extended also in the finished goods warehouse. That year, Béres could successfully cope with one of the greatest challenges for its logistics activity: the introduction of Electronic Trade and Transport Control System obliged by the National Tax and Customs Administration of Hungary. The implementation of this new procedure is to avoid VAT fraud on movements of goods transporting to and from Hungary. By using this system, the actual route of the goods can be tracked because transport-related data (name and quantity of goods, consignee, consignor, registration number of vehicle, etc.) have to be registered in a central electronic system before departure. It was also a significant achievement that—as a result of lobbying activity in close cooperation with other departments and professional organizations—the finished medicines were taken out of the set of goods to which reporting obligation should be applied.

Béres's key strategic goals are the increase in sales, development, and marketing of new health protecting products. Major sales channels in domestic sales are pharmacies via medicine wholesalers. Béres has strategic alliances with individual pharmacies and chains of pharmacies. It monitors and coordinates the pharmacies' promotions and regularly trains pharmacy expeditors. Consumers and partners always pay significant attention to launches of new Béres products because its existing products are popular and well recognized by consumers and it has reliable and efficient cooperation with the partners. Sales revenue considerably increased in 2015, even in the export markets mostly in Romania, Czech Republic, and Slovakia. Other markets remained stable except Ukraine where the uncertain political environment and war situation caused significant decline.

Béres has business development activity in domestic and export markets in which its partners sell Béres products under the partners' own private label while paying fee for the distribution rights (contract manufacturing). Last year, the development of this business line achieved remarkable results, and its sales revenue doubled. Béres also has co-owned medicines. In cooperation with Richter Gedeon Pharmaceuticals, one of the largest Hungarian pharmaceutical companies, it sells several medicines in different Asian countries and in Central Eastern Europe. It also has cooperation in trading one calcium product in the UK with one of the UK's largest manufacturers of over-the-counter medicines, Thornton & Ross Ltd.

The results of Béres's marketing activity seem to be impressive. The products retain market leading positions in the markets of immune system strengthening products, complex multivitamin, mineral and trace element products, vitamin C, and complex calcium supplement medicines. Béres was even rewarded in 2015 for several achievements: Product of the Year, unique and innovative packaging, and Béres brand was honored to be selected again among Superbrands and MagyarBrands. Superbrands is a listing of the strongest brands, published annually since 1995 in Great Britain and since 2004 in Hungary.

There are two separate surveys: Consumer Superbrands of the strongest B2C brands and Business Superbrands of the strongest B2B brands. In both cases, the brands are independently chosen by an expert council (consists of experts from the fields of marketing, media, communication, intellectual property rights) and by thousands of consumers (surveyed by representative online market research). Brands do not pay or apply to be considered. MagyarBrands Program has awarded the best Hungary-related brands (Hungarian ownership or produced in Hungary), representing excellent Hungarian intellectual performance in Hungary and internationally for seven years. Hungarian companies could apply for the award in three categories: consumer brand, business brand, and innovative brand. The best MagyarBrands are selected by volunteer and independent brand experts through using a complex indicator evaluating the brands' Hungarian identity, reputation, brand building, traditions, recognition, popularity, financial soundness, innovativeness, and social utility. Béres uses ordinary marketing techniques extensively: television-advertising videos, outdoor billboards, press releases and advertisements, radio advertisements, point-of-sales materials, sales promotions (in drug stores, hypermarkets), consumer price promotions. It also uses online advertisements (Google and YouTube campaigns), TV show sponsorships and appropriate direct information campaigns to general practitioners, pharmacy managers, and pharmacy expeditors. Béres participated in the comprehensive health protection screening program of Hungary, and supported blood donors in a common initiative with the Hungarian Red Cross organization. It sponsored the Month of Vision campaign through which it was present in about 300 optical shops. The Strategic Marketing Team is responsible for exploring new product segments and product variants, creating product launch proposals, dealing with the expansion and upgrade of existing brands and product families. The Trade Marketing Team ensures the highest possible awareness of Béres products in pharmacies, drug stores, and hypermarkets via custom product offers and promotional packages. Béres has long-term cooperation contracts with several pharmacies and pharmacy chains for product placement and rental of available decoration areas. Due to these efforts, its presence in pharmacies grows stronger.

Authentic, open, and straight communication is a key in the medical industry. The Communications Directorate is responsible for nurturing and strengthening the Béres image and organizing the group communication to the public and inside the company. 2015 was a year of remembrance to the founder who would have turned 95 that year. Not only the family and the company but also many others remembered him. His statue was erected in Záhony, a play about the most difficult period of his life was published. The play was staged in 2016 in Kecskemét then in Budapest. Two documentaries were produced, one of them about Béres's charity activity for the Milan Expo 2015. They were broadcasted on television, presented in cinema and at film forums. Béres has online channels and a Webpage presenting the founder's life and his heritage. As part of the mission, Béres joined the largest health protection screening program in Hungary until 2020 as a gold-level strategic partner. It also supports the training of young handball players as official vitamin supplier, and of Hungarian Olympic athletes as gold sponsor to the Hungarian Olympic Committee. The members of Béres staff regularly give lectures on the company's activities throughout the country and abroad and even publish Béres books. Media appearances concentrate on interviews with Béres family members, recognition of company leaders, charity activities and programs of Béres Foundation. Béres is featured in television magazines, radio interviews, daily magazines, online portals, women's and lifestyle magazines, pharmacy publications, have own radio program (Béres Health Repository), and articles in church publications; in 2015, it appeared in more than 350 news reports. Béres also designs and coordinates press campaigns for its products. In 2015, 200,000 copies in two editions of its free magazine Béres Health were published in pharmacies and screening trucks available online on Béres Website and Facebook. The Facebook page has more than 60,000 followers; video contents, skill and quiz games, photograph competition, and flash games are popular among regular visitors. Regarding internal communication, Béres uses intranet to keep employees informed about news and events. Béres also involves colleagues in special events recognizing the company, like the book launch of the play about Dr. Béres Sr., watching the play in theater, or year-end celebrations, and company trips.

One of the most important support activities of the value chain at Béres is human resource management. As it says in the annual report (Béres Csoport 2016a, p. 21):

> The human being and human resources are at the base of every success reaped by Béres and the high quality of its products. Beyond the fact that the human-centered operation and solid set of values of the Béres Group have been present from the start and passed down through stable co-worker teams, it is our duty to support and develop human excellence and increase motivation through every HR tool available.

The yearly Béres Orientation Program offers insights for the new colleagues into the company's history, the operation of the departments, the work and efforts of Dr. József Béres Sr. The managers and the Béres family members personally introduce the company sites and Béres museums. In 2015, the most important challenges for HR department were recruitment and selection of 60 new employees for the investment in the Szolnok plant and the training for the previously transformed sales team. For the training, Béres employs internal trainers and contracted trainers. With 50% state subsidy, it can offer professional and skill development training for the employees in addition to the normal annual training plan. Béres has a yearly team-building event at the Béres Vineyards estate at the countryside. It is committed to protect the health of the staff by offering yoga-practicing courses and annual full medical screening. In 2016, Béres also won the award of "The most dedicated re-engaging workplace" in "My workplace expects me back" competition of Jól-lét Foundation. Jól-lét Foundation is an NGO working for the women's economic independence, self-fulfillment, and equal opportunities at work. Through this program, employees could award their best-performing employers really supporting to re-engage female colleagues returning to work from maternity leave.

Béres defines "stakeholders" in a broad sense: employees, customers, partners and suppliers, stakeholders in abroad, competitors, government and regulatory bodies, needy members of society, and natural environment. To be able to treat and serve them all fairly, it applies strict and continuously revised code of ethics, fair and open communication, and ethical training. Through the Béres Foundation, Béres supports people and communities in need with product donations, information materials, educational lectures, charity concerts. It actively supports also education (educational institutions, foundations supporting talents, scholarships); culture (preserving Hungarian cultural values, funds for artist, programs); and science (higher education scholarships). As an important part of the group, Béres Vineyards and Winery aim at rebuilding the fame of Hungarian, especially Tokaj wines in Hungary and even abroad (more than 50% of the sales revenue stems from export); taking an active part in the work of the winemaker community; and nurturing the traditions and the culture of the region.

Human-centeredness and employees are at the base of Béres's operation. It appreciates the employees, purposes to create and maintain a workplace culture in which workers feel good and safe, and are proud to work there. Béres group prefers long-term employment and keeping the fluctuation rate as low as possible. Béres also participate in the training of future professionals: year after year, university students complete their internships at the research and development department, Béres experts hold technological practical training for chemical engineering students of the largest Hungarian technical university, Budapest University of Technology and Economics.

Establishing and maintaining a good relationship with consumers are the basis of the long-term operation and the future of Béres Group. For this purpose, Béres complies with regulatory requirements; develops, produces, and markets high-quality products committed to the consumers' health; informs consumers in accordance with the principles of regulations, industry guidelines and its code of ethics; handles customer complaints. Based on the quality approach beyond mere compliance to authoritative regulations, Béres follows standards of quality management systems of ISO 9001, Good Manufacturing Practices, and Hazard Analysis and Critical Control Point. As one of the most widely used management tools in the world, ISO 9001 set of quality management systems standards is designed to help organizations ensure that they meet the needs of customers and other stakeholders while meeting regulatory requirements related to products. Good manufacturing practices are required in order to conform to the guidelines recommended by pharmaceutical authorities, providing minimum requirements that Béres must meet to assure that its products are of high quality and do not pose any risk to the consumers or public. Béres uses HACCP to systematically prevent biological, chemical, and physical hazards in food production processes, to measure and reduce these risks to a safe level. The company has product liability insurance, as well. The communication toward consumers is open, trustworthy, and straight, using innovative and integrated methods in public messages, following the long-term strategy (commemorations on the founder; plays published and staged; documentaries, broadcasts on television, in cinemas; Website, Facebook page with videos, games, competitions; national health protection screening program; product donations to people in need and to Hungarian sportsmen; Béres books published; media interviews; own magazine; press campaigns; specific charity activities). Béres intends to inform and educate people in order to make them able to preserve their health.

Béres pursues to establish long-term cooperation and strategic alliances with partners (mainly individual pharmacies and pharmacy chains) and audited suppliers, and even to gain partners' recognition. Béres offers fair and transparent business relationships and expects ethical business conducts from the partners. Béres also aims at being reliable regarding accurately keeping payment deadlines. It is continuously expanding its foreign relations. It fully respects and complies with the local laws, culture, and habits in order to represent the group and even Hungary with dignity. Béres does not cooperate with companies violating the law or the ethical principles of Béres Code of Ethics and Conduct.

Béres operates in a strong competitive environment, yet complies with the market rules, respects its competitors, and does not spoil their reputation. It follows the guidelines of Hungarian Competition Authority, Hungarian Authority for Consumer Protection and industry bodies. It even has cooperation with competitors: joint ownership of a calcium product with Gedeon Richter Pharmaceuticals Plc. in Hungary and abroad; and of another calcium product with Thornton & Ross Ltd. in the UK.

Although the regulation becomes increasingly strict in the industry, they are law-abiding and have very good contact with the authorities

(National Institute of Pharmacy and Nutrition, National Public Health and Medical Officer Service). The respective government has recognized efforts of Béres; it won state subsidies to its activities and investments.

Being faithful to its motto, the creed of the founder ("…do good for human beings in harmony with nature, heal them without harming…" Béres Csoport 2010, p. 1), Béres is committed to the health and soundness of the natural environment. It makes considerable efforts to prevent pollution and continuously improves its environmental protection activities. Béres applies a written environmental policy (Béres Gyógyszergyár Zrt 2014; Béres Csoport 2016a, b) in which—beyond the compliance to the national regulation—the company takes responsibilities to create clean and safe work environment; to regularly optimize its production processes in order to reduce pollutant emission, material and energy requirements, the amount of waste; to selectively collect and recycle waste; to use the best available technology. Béres also aims at properly storing and handling hazardous waste and expired products; using recyclable packaging materials; increasing manufacturing safety; and applying green office concept and practices. When planning and implementing new investments, besides complying with the environmental protection and work safety regulation, Béres considers the value of nature. For example, it decided to choose brown field investment instead of green field investment when starting the construction of the new production plant in Szolnok last year. Through this decision, the company undertook considerably higher investment costs in order to preserve valuable land and soil. It also takes responsibility for enhancing employees' environmental awareness through communication, education, and encourages them to propose feasible ideas and measures for environmental preservation.

Summarizing the business model of the company, its progressivity lies in a consistently applied traditional, family-owned responsible business model, founded on the "good old values" of integrity, honesty, care, and duty. The core activity of the company aims at healing and providing support for a healthier life, which makes difficult to raise any legitimacy concerns about it. The company bears the name of the family and apparently, the family, which is not only owning, but also managing the company takes pride in doing so in a responsible way. Financial success is an important part of its definition of success, but by no means the only or the most important part of it. As a family-owned business, Béres can afford to make a bit less profit than usual if this is the condition of protecting the environment or deal with the different stakeholders in a fair and even generous way. The charm of this model lies not in a specific trait that would make it a leader according to a certain conception of progressive or ethical business, but in the way all the stakeholders are treated in a responsible manner. The company takes into consideration many social, ethical, and environmental aspects of its operation and strives to improve its performance in all of these dimensions.

3 Problems and Challenges

The main challenge for the Hungarian medium-sized companies is to be able to compete with the financially strong, multinational corporations that sometimes use aggressive marketing techniques (Laki and Szalai 2013). Béres has been able to do that so far, but the challenge is still significant. Especially that in the field of health promotion, new technologies spread such as gene therapy and nanotechnology which do not fit into the philosophy and practice of Béres. The question is, whether despite these challenges, Béres can maintain its value-oriented practice of gentle medicine. While in the middle run the strength of the Béres brand and its impressive market share will probably last, the new technologies and multinational companies may pose a serious challenge in the long run. A possible strategy might be to further capitalize on the "naturalness" of its products, nurturing a niche market of traditional, natural health products. The responsible image of the company may serve as a valuable asset in this respect.

In the short run, however, the company defined the low-cost East-Asian competition as the main challenge. The European regulation on medical products is rather strict and this is not easy to meet by East-Asian competitors. However, health promotion products and nutritional supplements are much less regulated, and this opens a possibility for low-cost producers to enter a market where consumers may have difficulty differentiating between the different categories and qualities of the products. Again, the strong brand and image of the company may help it to meet this challenge too, as confidence and trust are key factors in shaping consumer behavior on the market of health products.

Another challenge is related to innovation. Under the dual pressure of big multinationals on the one hand, and the low-cost producers on the other, Béres is forced to undertake continuous product innovation. Will it be able to maintain momentum and develop further products attracting customers? And how much will it be able to extend innovation to the fields of technology, organizational operation, or marketing activities? Béres is a progressive company being value-oriented but not necessarily so regarding its business model. Will this "old-fashioned" value-oriented family company with traditional structure and operation be able to renew its core activities if necessary, or will this tradition act as a barrier to its future development? The answer may well be positive, as recently the company has proven to be able to develop new marketing strategies based on inter-firm cooperation, which would not have been possible without a good reputation. This is an example showing that ethical values can provide a competitive advantage as well: cooperative strategies are easier to follow with a good reputation.

Finally, a challenge concerns the progressivity of Béres' business model. The company has devoted considerable energy to develop the terms of dealing in a responsible manner with social stakeholders; it has also been keen on improving the environmental standards of its operations. However, the company has failed to assume a true global ecological responsibility. It has not aimed at accounting for its ecological footprint and has not set sustainability targets in terms of the ecological share that could be fairly allocated to a company of its size. We believe that progressivity in a genuine sense would require steps in this regard as well.

4 Conclusion

Béres is a success story, as a family business built on an original invention, which has established a valuable brand, continuously grown over the past 27 years, and in addition began to expand its activities beyond pharmaceutical industry to other fields of operation. As a medium-sized company, Béres stood the strong competition in a market where multinational corporations are also active. Meanwhile, it was able to remain true to its original values and constantly improve its ethical performance. The business model of this value-oriented company can shortly be characterized as an operation founded on care and responsibility. Béres has successfully capitalized on its initial endowments and has been able to develop along its foundational values which guide every aspect of its operations. This genuine commitment to its values has resulted in a strong brand and a responsible company image which may serve as a fundamental asset facing the challenges of competition. The main question for the future is whether Béres would be able to change and continue innovation without losing its core identity, or the framework of the family business based on traditional values would gradually become constraints on its future success.

5 Questions to Address

In what sense can we call Béres a progressive company?

What is the value proposition of Béres?

Which are its main stakeholders and through which means is Béres assuring ethical stakeholder relations?

What are the strengths and the weaknesses of the Béres model from a business perspective?

What are the strengths and the weaknesses of the Béres model from an ethical perspective?

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Caffee Making as Art: illycaffè

Antonio Tencati

illycaffè, the family-owned Italian company located in Trieste, produces and sells a unique single blend of premium-quality coffee (i.e., the illy coffee) worldwide. Its blend is sold in more than 140 countries in all continents. In 2015, at the consolidated level, the operating revenue (turnover) was 448,305,897 Euros (+12.98% compared to 2014), sales were 437.1 million Euros (+11.85% on 2014), net income reached around 3.7% of turnover (16,570,614 Euros: +38% in comparison with 2014), and employees were 1177 (+8.58% compared to 2014). Exports accounted for more than 60% of total sales (Amadeus Database 2016; illycaffè 2016a, pp. 6–7 and p. 102; illycaffè 2016b; Scarci 2016a, 2016b).

Thus, thanks to a real "obsession" for quality, from coffee beans to coffee cups (Illy 2015a), illycaffè has advanced a winning and innovative business model, which has contributed to radically change the entire coffee sector (Fontevecchia 2013; Illy 2015a, p. 91 and p. 203).

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E. O'Higgins and L. Zsolnai (eds.), *Progressive Business Models*, Palgrave Studies in Sustainable Business In Association with Future Earth,
DOI 10.1007/978-3-319-58804-9_4

1 Profile of the Company

Francesco Illy (in Hungarian, Ferenc Illy) was born in 1892 in Temesvár (currently, Timişoara in Rumania), at that time part of the Austro-Hungarian Empire. When he was sixteen years old, he went to Vienna seeking his fortune and there he started his business activity. After the First World War, he decided to live in Trieste where also one of his sisters lived. Thanks to its port, Trieste, which was annexed to the Kingdom of Italy at the end of the war, was a leading city from the cultural and commercial standpoint and cafés and coffee were grounding institutions of its cosmopolitan milieu. In Trieste, Francesco Illy married Doris, a piano player, born in Johannesburg from an Irish mother and a father from Trieste: she was the teacher of his sister's daughters. Furthermore, he started to work in the spice, then cocoa and later coffee trading sector (Andriani and De Toni 2008: 87; Illy 2015a: 27 and 48).

In 1932 Francesco Illy introduced a first innovation, which is still crucial for the success of the illy blend: the pressurization process. In particular, via an exclusive technology patented all over the world, the roasted illy coffee is packaged under pressure, together with inert nitrogen. In this way, essential flavors and aromas are trapped and protected far better than through the still prevailing vacuum packaging method. Moreover, thanks to this solution, the roasted coffee starts a maturing process similar to what happens with the finest wine in *barriques* (Illy 2015a: 32–33 and 48; illycaffè 2016a: 10; illycaffè 2016c). A second innovation is strongly related to that: in fact, the best way to extract the precious oils and aromas from the coffee is the "espresso" technique and, in 1934/1935, Francesco Illy developed *Illetta*, the prototype of the modern espresso coffee machines, where separate heat and pressure functions are employed, in order to avoid that the taste of the coffee could be burnt, by extracting oils and aromas through high-pressure water at a controlled temperature of no more than 90 Â°C degrees (Illy 2015a: 30–33 and 48; illycaffè 2016a: 10; illycaffè 2016d and 2016e).

In the meantime, in 1933 illycaffè was founded by Francesco Illy thanks to a 50/50 partnership with Hausbrandt, a recognized roasting company located in Trieste (Hausbrandt 2016; Illy 2015a: 28 and 48–49; illycaffè 2016a: 10). When Francesco Illy died in 1956, his son

Ernesto took the lead and, at the beginning of the '60s, got the 100% ownership of illycaffè (Illy 2015a: 49).

Ernesto Illy studied chemistry at University of Bologna, in a certain sense to complement and strengthen the knowledge base of the firm. In fact, his father was an inventor and had accounting and managerial skills but no scientific background, which was badly needed to improve the quality of coffee.[1] So, after his graduation in 1947, Ernesto joined the family business and his role was fundamental for the illy success (Illy 2015a: 35–40 and 49).

Ernesto Illy was chairman of illycaffè from 1963 to 2005 and honorary chairman from 2005 to his death, in February 2008 (Andriani and De Toni 2008: 87; Illy 2015a: 35). He was, at the same time, a scientist and an entrepreneur, and an unstoppable promoter of the culture of coffee all over the world (Illy 2015a: 35; Prince 2008). He had a dramatic impact on the evolution of the coffee sector, especially in the US, where, thanks to his efforts, was affectionately known as "Papa Bean" (Illy 2015a: 39–40; Prince 2008).

> Ernesto Illy… was widely known as a perfectionist of coffee, an evangelist of espresso and one of the world authorities in the science, technology and business of espresso coffee… Corby Kummer, author of *The Joy of Coffe*e, said of Ernesto Illy on the New York Times: 'He ran what amounted to the Bell Labs of coffee in Trieste' and 'he was an international leader in the science of grading and choosing the coffee; in promoting research on how coffee should be grown; on engineering the machines and the way it's roasted and brewed.' The tireless work of Ernesto Illy has made people all over the world realize that a cup of espresso is the most sophisticated way of drinking coffee… .(Andriani and De Toni 2008: 87)

When he died, the Illy Family decided to establish the Ernesto Illy Foundation to nurture his cultural and scientific legacy. The Foundation is chaired by his wife, Anna Rossi Illy (Ernesto Illy Foundation 2016; Illy 2015a: 140).

The third generation of the Illy family, that is, the children of Ernesto and Anna Rossi, married in 1952, is comprised of complementary talents.

Francesco, the creative of the family, in the '80s and '90s launched three very important initiatives in the field of art and design: the introduction of the photograph as an important communication vehicle for the illycaffè's identity and values, which later, in the new century, led to the collaboration with Sebastião Salgado; the illy Art Collection project for the development of special sets of coffee cups (and, since 2006, cans) through the involvement and the engagement of international leading and emerging artists, and the production of the Francis Francis stylish coffee machines (Illy 2015a: 40, 50, 132, 140, and 154–156).

Riccardo, who started to work in the family business in 1977, brought an innovative approach to strategy, marketing, and distribution, which also led to the establishment of a marketing department within the firm and a strengthened sales force in Italy and abroad. His efforts allowed illycaffè to become the leader in the Ho.Re.Ca. (Hotels, Restaurants, and Cafés) channel, opened new marketing opportunities in the grocery and office sectors, and reinforced the market positioning of the firm via a clear differentiation strategy focused on the "one-blend-one-brand" concept and a related prominent premium price. Riccardo Illy was elected mayor of Trieste in 1993 and 1997, member of the Italian Parliament in 2001, and governor of the Friuli Venezia Giulia Region in 2003. He ceased his political activity in 2008; he is currently the chairman of Gruppo illy SpA (that is, illy Group joint stock company), the holding company of the family (Andriani and De Toni 2008: 85; Andriani et al. 2015; Illy 2015a: 50–51 and 62; illycaffè 2016a: 8 and 10; Mura 1993; Sacchi 2016)

Anna has been working in the purchasing department and has developed a direct and personal relationship with the local coffee producers, especially in Brazil, where she lives for one-third of the year. Thanks to her work on field, the Illy Prize for Quality Coffee was established in 1991 in Brazil and, since then, was coordinated by her (Illy 2015a: 40–41, 51, and 63; illycaffè 2016a: 10).

Andrea, the youngest son and the current chairman of illycaffè, started to work in the quality control department of the family firm in 1990, where he introduced the total quality principles, after a stay at Toyota in Japan. Graduated in chemistry at the University of Trieste, he developed the unique illy blend through the support of the illycaffè's team and the entire family (Illy 2015a: 62–63). Andrea Illy was appointed chief executive officer (CEO) of illycaffè in 1994, after his brother Riccardo, and chairman in 2005, following his father Ernesto (Illy 2015a: 34, 42, and 51; Possamai 2014). He fostered the global success of the firm via an unstoppable process of innovation and improvement affecting products and processes, and a deep strategic thinking focused on the real drivers of the family firm, that is, its culture, identity, and values (Fontevecchia 2013; Illy 2015a; illycaffè 2016a: 10–11). In line with his grandfather's and father's legacy, his life project is helping make a better world through coffee (Illy 2015a: 12; Illy 2016).

The results achieved by illycaffè are impressive (Amadeus Database 2016; ctPRESS 2016; illycaffè 2016a, 2016h):

- It operates in more than 140 countries, throughout all continents.
- illy coffee is served by about 100,000 retailers (bars, cafés, and so on). In more detail, 1764 (of which 1500 in Italy) "Artisti del Gusto" (*Artists of Taste*), that is, top baristas, promote a fitting consumption experience all over the world. Artisti del Gusto is a network fostered by illycaffè to enhance, support, and value the professionalism and the artisanal expertise of the best coffee bars in preparing and serving a perfect espresso (illycaffè 2016i).
- 29 new mono-brand (i.e., illy) stores has been opened in 2015 and, worldwide, they are now more than 230 (with different formats: espressamente illy, illy caffè, illyshop, and illyteca), in franchising or directly managed. Around 40 stores are expected to be opened in 2016 (Scagliarini 2016; Scarci 2016a).
- More than 13,000,000 people visited the Coffee Cluster during Expo Milano 2015. The pavilion was coordinated by illycaffè, Official Coffee Partner of Expo 2015, in collaboration with ICO (International Coffee Organization): it was the "greatest celebration of coffee ever" (2015). On October 1, 2015, during the first International Coffee Day and the Global Coffee Forum held at Expo, the Milan Coffee Legacy, conceived as an addendum to the Milan Charter (2015), was presented. In Andrea Illy's words, "it affirms that Coffee brings well-being and pleasure in consumer countries as well as social and economic development in producer countries, in a

virtuous circle that both the public and private sector must continue to promote" (illycaffè 2016a: 4; see also: Illy 2015b; illycaffè 2015b, 2015c).

- The *University of Coffee* ("Università del Caffè") has 25 campuses all around the world. Founded in 1999 in Naples and now headquartered in Trieste, the University aims at spreading the culture of coffee: it provides all players of the coffee supply chain, from coffee growers to baristas and fans, with comprehensive academic education and practical training covering every aspect of the product. Around 180,000 people have been trained since 2000 including more than 30,000 trainees in 2015: 190 producers, 15,810 professionals, 3662 consumers, and 11,800 Expo visitors participating in the courses organized in the Coffee Cluster (illycaffè 2016a: 23–24; illycaffè 2016g).
- The leading illycaffè Research & Technology Development is composed of 2 departments for research on quality control (one in Trieste and one in São Paulo, Brazil) and of 5 specialized laboratories: AromaLab, SensoryLab, BioLab, TechLab, FoodScienceLab. As of 31 December 2015, illycaffè patent portfolio included 338 registered patents (illycaffè 2016a: 89). 2.4 million Euros have been invested in R&D activities in 2015 (illycaffè 2016a: 88). With regard to quality control, every day 550 tastings are carried out to guarantee the excellence of the product (illycaffè 2016a: 35).[2]
- Over the years, illycaffè has got five certifications/registrations: in 1992, Qualité France on the compliance of products; in 1996, ISO 9001 on the quality management system; in 2003, ISO 14001 on the environmental management system; in 2004, EMAS (Eco-Management and Audit Scheme) registration, and, finally, in 2011, the Responsible Supply Chain Process certification released by DNV, which recognizes the sustainability of the policies and practices adopted by illycaffè along its entire supply chain. illycaffè was the first company in the world to obtain this very demanding certification[3] (Illy 2015a: 79–81; illycaffè 2016a: 21).
- As of December 31, 2015, at the consolidated level, illycaffè had 1177 employees (+8.58% compared to 2014) (illycaffè 2016a: 102);
- As of December 31, 2015, sales were 437,138,053 Euros (+11.85% on 2014).

In reference to the key financials, the operating revenue (turnover) increased from 254,032,375 Euros in 2006 to 448,305,897 Euros in 2015, with a CAGR (i.e., compound annual growth rate) of 6.51% over a nine-year period. (Amadeus Database 2016).

We can better understand the remarkable expansion of illycaffè if we consider that in 1977, when Riccardo joined the business, sales were less than 5 million Euros, and in 1990 when Andrea started to work in the firm, they were around 30 million Euros. So, in the following two decades, they have been decupled (Illy 2015a: 41–42; Mura 1993).

Furthermore, in the ’90s exports accounted for 20% of total sales (Scagliarini 2016), now they are at 68% (Scarci 2016a): therefore, illycaffè has become a real global player. In particular, in 2015 sales in the EMEA (i.e., Europe, Middle East, and Africa) region grew by 8%, in the North American region, which is the most important market after Italy, they increased by 23%, and in China, which is the region with the fastest growth for illycaffè, by 60% (ctPRESS 2016). illycaffè aims to reach a 20% of its sales just in the US market (Scagliarini 2016): in 2015, Italy accounted for 38% of illycaffè sales, EMEA for 37%, USA and Canada for 15%, and the rest of the world for 10% (illycaffè 2016a: 37).

In 2015, the value added created by illycaffè’s business activities amounted to 149,878,000 Euros (increased by 9% if compared to 2014) (illycaffè 2016a: 102).

With regard to Italy,

> According to data provided by IRI, the institute which measures Italian Modern Trade market data, illycaffè has a quota equal to 4.1 percent of the overall coffee total (stable, compared to its percentage in 2014) and 10.7 percent in the sector of ground espresso beans. According to … Databank Cerved Group, illy is the number one roaster in the Ho.Re.Ca sector, … with a 2014 quota of 8.8 percent (in 2013 it was 8.9 percent). (illycaffè 2016a: 16)

On May 2, 2016, for the first time in the history of illycaffè, an external manager, that is, Massimiliano Pogliani, was appointed CEO of the firm (ctPRESS 2016; illycaffè, 2016f and 2016g; Polizzi 2016; Scarci 2016b).

Massimiliano Pogliani comes to illycaffè after two decades of leading positions, especially in marketing, commercial and retail areas, in premium and luxury brands companies, such as Saeco/Gaggia (coffee: 1998–2003), Nespresso (2003–2008), Nestlé Super Premium (a division of Nestlé established to foster the growth of some company brands in the super-premium consumer segment: 2008–2012), and Vertu (the luxury mobile phone brand: 2012–2015) (illycaffè 2016f and 2016g).

Moreover, Andrea Illy was confirmed as chairman, the sister Anna was confirmed as member of the Board being responsible for Corporate Reputation and Strategic Purchasing, the brother Francesco joins the Board as responsible for Brand Equity, while Riccardo left the Vice-Presidency of illycaffè, taken over by Marina Salamon, a well-known Italian entrepreneur and manager. He remains on the Board as representative of the sole shareholder, that is, illy Group, of which he is chairman. Finally, the mother Anna Rossi Illy is still honorary chairman of illycaffè (illycaffè 2016f and 2016g).

In this way, new managerial competences are going to integrate and support the efforts of the third generation of the Illy family, in order to address the challenges related to the increasing complexity and size of the firm, and to guarantee a successful transitional phase toward the emerging fourth generation, composed of nine cousins (ctPRESS 2016; illycaffè 2016f and 2016g; Polizzi 2016; Scarci 2016b).

2 Illycaffè as a Progressive Business

As defined by the grandfather Francesco when the company was founded, the ultimate goal (that is, "the dream": Illy 2015a: 12–13) of illycaffè is offering the best coffee in the world/to the world (in Italian: "offrire il migliore caffè al mondo", where "al mondo" means, at the same time, in the world and to the entire world) (Illy 2015a: 13).

This is like a mantra and a sort of "mission/passion/obsession" (Illy 2015a: 11) that shapes the Illy family and its business.

In more detail, the mission of illycaffè is the following:

> To delight all those people, throughout the world, who cherish the quality of life and beauty, through the best coffee nature can provide,

> enhanced by the best available technologies and by art. (illycaffè 2016a: 9)

The vision of the firm is as follows:

> Our objective is to become a worldwide reference point in the culture and excellence of coffee: an innovative company offering the best products together with the best locations to enjoy them, thereby becoming a leader in the top-quality sector. (illycaffè 2016a: 9)

And, finally, its values are the following ones:

> illy is a stakeholder company with the intention of improving the quality of life through ethics and excellence.
>
> Therefore, the fundamental values are:
>
> Excellence. A passion for quality, beauty and continuous improvement.
>
> Ethics. The creation of long-term value through transparency, sustainability and personal growth. (illycaffè 2016a: 9)

All these elements are deeply rooted in the Illy family and its story, culture, and identity. As Ernesto Illy said: "…Ethics is the common thread. We are Waldensians"[4] (Andriani and De Toni 2008, p. 87). Thus, in the value proposition advanced by illycaffè, pleasure, quality, and ethics are closely intertwined.

The top-quality *Arabica* blend, at the basis of the growth and competitive success of illycaffè, is deeply rooted in strong, progressive, and collaborative relationships with farmers (Illy 2015a; Perrini and Russo 2008; Tencati 2011).

illycaffè buys green coffee directly from the farmers that produce the highest-quality coffee beans in South and Central America, India, China, and Africa. The production of this kind of coffee requires great personal, economic, and managerial efforts to the local farmers. illycaffè remunerates these efforts by paying Arabica coffee beans about 30–35% more than the market price (illycaffè 2016a: 101; Perrini and Russo 2008: 90).

Therefore, illycaffè and the local suppliers develop long-term, mutually beneficial relationships and build robust partnerships according to a virtuous cycle of sustainability based on four principles (Perrini and Russo 2008: 112; see also Andrianiet al. 2015):

- Sustainable development and quality are an inseparable pair;
- 100% of illy coffee is bought directly from local producers;
- Quality is a tool for improving the living conditions of farmers over time;
- A fair price is always applied.

Supportive linkages, mutual respect and listening, know-how transfer and ad hoc training to enhance and strengthen the skills of the selected producers, fair margins to ensure profits and resources for improving the overall quality of life of the local communities: these are the key features of the supply chain management policies deployed by illycaffè (2016k; see also illycaffè 2013, 2014a, 2015a, 2016a).

This collaborative attitude (Tencati 2011; Tencati and Zsolnai 2009) has been complemented by specific actions on the environmental side (illycaffè 2016a: 66–85), addressing ecosystems' health, energy, water and waste management, and reduction of the carbon footprint in order to fight climate change, which is one of the most important threats to the agriculture, and, in particular, to the coffee production (Illy 2015a: 216). With regard to this point, illycaffè is working to improve its performance in the transportation and logistics area, also through the adoption of the Life Cycle Assessment (LCA): more specifically, "[t]he most significant volumes of weight in overall incoming transportation is represented by green coffee. All incoming material is transported by sea, which has the lowest environmental impact" (illycaffè 2016a: 82 and 83). The extensive use of LCA has also allowed to improve packaging features, for example, by introducing an important solution affecting the preservation and distribution of ground coffee, that is, *Refilly*, "the innovative system to refill the classic 250-gram tin can" (illycaffè 2016a: 90).

Especially because of these efforts and the innovative sourcing policies developed by illycaffè, the company has received several international recognitions and awards. For example, since 2013 illycaffè (the only Italian company selected) has been included among the World's Most Ethical Companies by Ethisphere, and in 2014 the independent association ICRT (International Consumer Research & Testing), which groups over 35 consumer organizations, has identified illycaffè as the leading company in the world with regard to the commitment to social and environmental responsibility toward coffee growing countries in Latin America, Africa, and Asia (Ethisphere 2016; ICRT 2016; illycaffè 2016a: 11; illycaffè 2016l; R.I.T. 2016).

These policies are at the core of the overall value proposition provided by illycaffè, which aims to develop and spread the culture of coffee through several initiatives, including a continual interaction with the world of contemporary art[5] (illycaffè 2014b; Zsolnai and Wilson 2016).

In the Illy's view (Illy 2015a: 119–122; illycaffè 2016m), a cup of coffee is a clear symbol of the concept of *kalokagathìa*, which was used by the ancient Greeks to identify the ideal of the perfect union of beautiful and good according to an integrated, harmonious ethical and aesthetical perspective. And via that cup of coffee, it is possible to reach a condition of "*eudaimonia*" ("happiness," "flourishing") (Kraut 2014) (Illy 2015a: 164–168). In fact, an espresso is a complex product, which requires passion and devotion for its preparation, provides pleasure, and fosters conviviality, sharing, and reciprocity: "… the pleasure of food should be shared, and dining is mainly an expression of sociality" (Tencati and Zsolnai 2012: 349), and coffee is a fundamental component of this view, like in the Italian tradition.

According to this perspective, for sure, coffee is not a commodity, is a specialty, or, even better, is excellence (Illy 2015a: 28, 199–205, and 214).

Moreover, excellence is the *trait d'union* among all products offered by illy Group (Gruppo illy 2016; illycaffè 2015a: 8; Sacchi 2016):

- of course, the illy blend, composed of nine different top-quality Arabica coffees (Illy 2015a, p. 63, p. 65, pp. 68–71; illycaffè 2016n), but also
- the Domori chocolate, which is the best chocolate in the world according to *The Chocolate Tester*, the reference standard in the chocolate world (The Chocolate Tester 2016);

- the tea by Dammann Frères;
- the wine by Mastrojanni, and
- the fruit preserves by Agrimontana.

All these products are characterized by what Riccardo Illy calls "a disruptive quality" (Sacchi 2016).

3 Emerging Challenges

The coffee sector is passing through a profound transformation called the "third wave of coffee:"

> The first wave of American coffee culture was probably the 19th-century surge that put Folgers on every table, and the second was the proliferation, starting in the 1960s at Peet's and moving smartly through the Starbucks grande decaf latte, of espresso drinks and regionally labeled coffee. We are now in the third wave of coffee connoisseurship, where beans are sourced from farms instead of countries, roasting is about bringing out rather than incinerating the unique characteristics of each bean, and the flavor is clean and hard and pure. (Gold 2008)

Drinking coffee is becoming more than a fast, substantially poor, habit, calling for a deeper care and knowledge by baristas and their customers. This means an increasing demand for specialty (i.e., high-quality) coffee vs. a parallel, considerable reduction of the commodity (i.e., "bulk") coffee consumption (CBI 2016; D'Costa 2011).

illycaffè is one the best representatives of the Italian "pocket multinationals" (Colli 2002), that is, global, successful players but with a limited size if compared to the prevailing corporations. Despite its dimensional limits, illycaffè was an innovative first mover and changed the entire coffee sector, playing a crucial role in the "third wave" transformation through its pioneering initiatives: starting from its entry in the US market in 1980 (Andriani and De Toni 2008: 86; Illy 2015a: 39 and 202) to the Ernersto Illy's search for quality coffee in Brazil since the end of '80s (Andriani and De Toni 2008: 86–87; Andriani et al. 2015; illycaffè 2016a: 10), to the introduction of the Illy Prize for Quality Coffee in Brazil[6] in 1991 (Andriani and De Toni 2008: 87; Andriani et al. 2015; Illy 2015a: 63–65; illycaffè 2016a: 10), to the establishment of the University of Coffee in 1999 (illy 2016a: 10) for the knowledge transfer toward the local farmers and the promotion of the culture of coffee, to the partnership with Coca-Cola to launch in 2008 *illy issimo*, a range of ready-to-drink coffee beverages (Fontevecchia 2013; Illy 2015a: 92–93; illycaffè 2016a: 11), and so on.

However, this evolution has mainly benefited real giants[7], like Starbucks, Nestlé with Nespresso, and Jacobs Douwe Egberts (JDE) and Keurig Green Mountain, both recently bought by JAB Holding, a privately held investment firm (Key 2015).

So, the challenges illycaffè is facing are the following:

- Confirming the uniqueness of the illy blend worldwide, by fostering the superior Italian quality and tradition in the coffee field (Possamai 2014);
- Addressing the competition of the market leaders (such as Nestlé's Nespresso or Starbucks), avoiding the "mainstream" trap;
- Addressing the competition of niche/local coffee roasters, which, also thanks to specialized traders (see, for example, Olam Coffee, 2016), are trying to reproduce some components of the illycaffè's business model/value proposition, such as high-quality coffee, and direct relationships with farmers (Various Authors 2014).

The change in the illycaffè's governance can be explained also taking into account this strategic perspective.

4 Conclusions

illycaffè aims at offering the best coffee in the world/to the world and, in order to do that, sustainability and innovation have characterized all its efforts (Illy 2015a: 103–112). Therefore, it has been crucial to develop direct relationships with local farmers, share knowledge with them and all players along the supply chain via the Università del Caffè, and involve artists with the goal of making espresso a unique and multisensory experience, "to create an emotional and intellectual involvement of its customers" (illycaffè 2016a: 44; see also: Illy 2015a: 19, 119, and 136–137; Zsolnai and Wilson 2016).

All these elements make illycaffè unique but, at the same time, its innovative policies and practices have fertilized the entire sector and contributed to change the coffee market worldwide.

However, what is, now, the future for illycaffè? The only possible answer is continuing to strive for excellence in a global market, which will continue to expand and which will become more and more sensitive to quality and sustainability (Fontevecchia 2013; Illy 2015a: 213–218).

Every day 3 billion cups of coffee are served (Illy 2015a: 90); 25 million families work on coffee production in more than 70 coffee growing countries (Illy 2015a: 19), and between 600 and 800 million people worldwide depend on coffee (from production to final delivery) for their full or partial daily survival (Wallengren 2016).

Every day over 7 million cups of illy coffee are consumed (illycaffè 2016a: 37). This means that there is still room enough for an increasing impact on the quality, that is, the sustainability (Tencati 2015), of the entire sector, and, given its importance, of the global development.

5 Questions to Address

What is the idea of quality behind illycaffè and the illy Group?
Is innovation a crucial lever to foster the illycaffè's competitive success?
And is the quality of the relationships with the different stakeholders important to support the unique value proposition of the firm?
What is the role played by the "Università del Caffè" in the illycaffè's business model?
Is the role of the Illy family essential to understand the history of the firm?

Notes

1. "A chemist was needed in every generation to continually improve the coffee" (Illy 2015a, p. 44).
2. The current illycaffè's headquarters and the related first laboratory were opened in 1965 in Trieste. This site is still the only production plant for the illy blend in the world (Illy 2015a, p. 38, p. 49; illycaffè 2016a, p. 10). Thanks to the strengthened focus on R&D introduced by Ernesto Illy, illycaffè launched the third radical innovation (after the pressurized packaging and the modern espresso coffee machine) in the coffee sector, that is, the single-serve coffee pods. "The system, called ESE (*Easy Serving Espresso*) became an industry standard" (illycaffè 2016j: see also: Andriani and De Toni 2008, p. 87; Illy 2015a, p. 38; illycaffè 2016a, p. 10).
3. Therefore, illycaffè "goes *beyond* the principles of *Fair Trade*" (Zsolnai and Wilson 2016, p. 1535). According to Andrea Illy, "[w]ith fair trade, companies pay premiums for the sake of altruism, but you don't get extra value,… with a certification, we seek that extra value for the price we pay, this stimulates improvement and raises the bar, we expect this to be enduring" (Fontevecchia 2013).
4. "Waldensians… are Christians who belong to the family of Protestant churches. Waldensians have been present in Italy since mediaeval times: repressed by the civil and religious authorities until the mid-nineteenth century, only from then onwards were they able to express their faith throughout the whole of Italy. There are currently about 45,000 members of the Waldensian churches of Italy and America" (Chiesa Evangelica Valdese 2016a). Their view is characterized by strong moral rigor and caring (Chiesa Evangelica Valdese 2016b; Encyclopædia Britannica 2016).
5. The same illy logo was reframed by James Rosenquist, one of the founders of the Pop Art movement, in 1996, and the illy original white coffee cup was conceived by Matteo Thun, one of the best Italian designers, in 1991 (Illy 2015a, pp. 129–130, pp. 137–139; illycaffè 2016a, p. 10).
6. Over more than twenty years, more than 10,000 producers participated in the contest and over 2 million Dollars have been awarded. Since autumn 2016, the Prize has become the Ernesto Illy International Prize, in order to select the best coffee in the world and involve the illycaffè's farmers in Latin America, Africa and Asia (R.I.T. 2016).

7. In a certain sense, some of them have tried to imitate some components of the illycaffè's business model: consider, for example, the Italian sounding of Starbucks' products (Scagliarini 2016) or Nespresso, which, thanks to the targeted use of the shared value concept (Porter and Kramer 2011), defines itself as "The Sustainable Quality Coffee Company" (Nespresso 2016).

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Staff Inclusion: DKV Integralia

Marc Vilanova and Silvia Agulló

DKV Integralia Foundation (hereafter, *Integralia*) is a nonprofit foundation, which was established in 1999 by the health insurance company *DKV Spain*, with the objective of fostering the integration of handicapped people into society and the workplace. Integralia is the contact center for DKV Spain and services over 2.5 million contacts using 437 employees distributed in eight different call centers around Spain (as of 2016). The Foundation provides high-quality call center services with extremely low employee turnover. Integralia was launched in 1999, started operating in 2000 with only nine employees, and has been growing steadily ever since. Integralia currently not only services DKV Spain, but also other clients such as American Express, Unilever, Novartis, Clariant, Ferrero, Foxy, Intermón-Oxfam, Sant Joan de Deu Hospital, and Europe Assistance, among others.

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E. O'Higgins and L. Zsolnai (eds.), *Progressive Business Models*, Palgrave Studies in Sustainable Business In Association with Future Earth,
DOI 10.1007/978-3-319-58804-9_5

Extensive interviews with Josep Santacreu, the President of Integralia and CEO of DKV Spain, and other members of the leadership team have allowed us to gain insight into the philosophy and operations of DKV Integralia's progressive business model. According to Josep Santacreu, *"Integralia is the stepping stone of DKV's commitment to social responsibility*, to combining economic development and sustainable *growth and, above all, is an opportunity to construct a more just society."* Integralia is a key element of DKV Spain's competitiveness, not only because it promotes a positive corporate reputation, increases employee engagement and customer loyalty, but also because it drastically increases the quality of the company's contact center services. Most of Integralia's employees are extremely engaged (and thus highly productive) because working at Integralia is the first real job they have been had as handicapped employees. Furthermore, being long-term users of health services because of their severe health problems, they are able to sympathize and better service DKV's customers.

Josep Santacreu defines this initiative as *"a dream come true, a collective dream turned into reality by all of us."* The goal of Integralia is not only to hire handicapped people, but also to train them and help them get jobs at other companies, as well as to disseminate the culture of integrating handicapped people into business. Over the years more than 250 people have moved from Integralia to other companies such as the Guttmann Institute, Nespresso, Advance Medical, Interpartner, and Memora Group, and this does not include the work done at the Integralia school, or at Integralia international operations, as discussed later. Today, DKV has the highest proportion of handicapped employees of any company in Spain, representing 33% of the workforce. Aside from increasing contact center productivity, Integralia has also improved the image of DKV in Spain, which has won several awards as a responsible and innovative company, and as a great place to work. Ultimately, at DKV Spain they understand that Integralia is perhaps the single thing employees and customers are most proud of.

1 Munich Re, Munich Health, and DKV

DKV Spain is the Spanish affiliate of *Munich Health*, the leading European Health Insurance company and the insurance division of *Munich Re*, one of the largest reinsurance companies in the world which generated revenue of over 50 billion euro and made 3.2 billion euro profit in 2015. Munich Re operates in almost all lines of insurance and has over 43,000 employees worldwide. Munich Health is the division of the company that deals with health insurance, and is present in almost 30 countries, with premiums of more than 5.5 billion euros in 2015. DKV Spain has been in operation for 18 years after DKV entered the Spanish market in 1998 by purchasing a Spanish insurance company located in Zaragoza that was called Previasa, and formally creating DKV Spain. As of 2015, the net earnings of DKV Spain exceeded 26 million euros, with total premiums of almost 710 million euros. DKV Spain has been growing steadily in a country in crisis, is established across Spain, and has a wide network of offices and consultancies, with almost 780 employees servicing over 1.7 million clients as of 2015. DKV Spain is currently the fifth largest health insurer in Spain, with a market share of about 7% in a very competitive market in which the largest company has a market share of only 20%.

DKV Spain is based in Zaragoza. According to the current strategic business plan, DKV's business model revolves around the central idea of generating value for key stakeholders, with whom the company is seeking to be engaged in open, participative, long-term collaboration, sharing the DKV Dream. To achieve this objective, DKV Spain has established four objectives: (1) to be the best company on the market, co-responsible for the health of its clients; (2) to offer a service that surpasses customer expectations; (3) to be an exemplary organization; and (4) to be an innovative, open, and responsible company.

Munich Health has a decentralized management strategy, according to which each of the company's subsidiaries is responsible for developing their own strategy using the group guidelines and framework. In this regard, DKV Spain's CSR strategy is not the result of a top-down worldwide corporate strategy designed by headquarters. Rather, CSR at DKV Spain is the initiative of the Spanish subsidiary, which has a bottom-up influence on the rest of the group. In fact, the European Munich Health Group established a task force of experts in 2013 with the goal of developing group-wide CSR recommendations, and asked the Spanish subsidiary to be one of the leaders of this task force.

DKV's Corporate Responsibility Plan is called 360° Responsible Enterprise, and involves a comprehensive way of understanding health from a holistic perspective, in the sense that health is defined as "well-being," meaning having what is needed for a fulfilling life (e.g., health, time, a good job, income, etc.). In this context, the goal is to increase the well-being of clients, healthcare professionals, and society in general. The strategy is completely aligned with and embedded into their business model. DKV Spain's CSR activities focus on improving the health and well-being of its self-defined strategic stakeholder groups: policyholders, healthcare professionals, insurance agents, suppliers, and society as a whole. As DKV Spain's website states: *"our strategy is about how we can make our dream come true through responsible management."* In management terms, this translates into: (1) creating value for key stakeholders; (2) contributing to sustainable development; (3) fostering ethical management and responsible innovation; and (4) engaging employees. These objectives are pursued through specific policies and practices whose goal is to integrate CSR into company strategy and daily operations by taking into account the sustainability of management in relation to both society and the environment, while behaving ethically with company stakeholders.

With regard to customers, DKV uses CSR to transform and develop its products and services. Examples include the establishment of partnerships with consumer groups that prevent problems with understanding the language used in policy contracts, raising the maximum age at which applicants can contract insurance (thereby ensuring insurance cover for older people), waiving the right to rescind insurance contracts as long as the customer fulfills their obligations after spending three years with the company, and providing insurance health care for adopted children through parents' policies that is equal to that offered to their biological children, among other things. These are all examples of CSR policies that have a direct impact on their business model, and which most competitors do not offer. As for the healthcare professionals that work with DKV, the CSR plan focuses on increasing and improving the services that are provided, especially in terms of the payment system (every year DKV reduces the time it takes to pay their healthcare professionals). Additionally, within the CSR plan, DKV has launched its own Authorization Centre (CAP in Spain) in the form of a portal which allows suppliers from its clinical teams to submit invoices and carry out the other administrative operations that are needed to deal with DKV and its customers.

With regard to employees, DKV has clear and robust policies about issues such as work-life balance, training, equal opportunities, and development. For example, as part of the noncommercial training plan for 2015, a total of over 30,000 hours of training was provided to staff, representing an investment of almost one million euros. DKV also has a major program for community involvement and volunteering among employees, while DKV Spain publishes an annual sustainability report using GRI (Global Reporting Initiative) standards. DKV Spain's ultimate goal is to create an embedded ethical management system through which all stakeholders are fully aware of DKV's working principles, with processes in place to make sure that these are enforced. This is achieved through maintaining stakeholder dialogue, and especially through integrating some key stakeholders into the strategic reflection process. Integralia is the perfect example of how this 360° Responsible Enterprise strategy works at DKV Spain, as Integralia is a project that: (a) fits with company culture and values; (b) produces a positive social impact; (c) generates value for the key stakeholders of DKV Spain; and (d) is competitive and adds business value to the company.

2 Organizational Culture as the Basis of the Business Model

Understanding the culture and identity of an organization is complex, and usually starts with an examination of the values, principles, and vision of the people who are involved in creating it. In this regard, in order to understand why Integralia was created it is important to understand the corporate culture of DKV Spain. The personal vision and approach of Josep Santacreu, the CEO of DKV Spain and President of Integralia, appears to be the main factor behind both the culture of DKV Spain and the creation and launch of Integralia. To understand the CEO's approach to management it helps to understand his background: Santacreu is a medical doctor by profession who managed several hospitals and served as an executive at Doctors Without Borders (www.msf.es) before joining Previasa, the Spanish insurance company that DKV purchased when they entered the Spanish market in order to create DKV Spain, which means that Josep Santacreu has lead DKV Spain since it began operating. He states that he has always had a strong belief in acting responsibly as a cornerstone of professionalism. In fact, the CEO is a firm believer in the idea that a responsible company is a more competitive company in the sense that in the long run it always pays off to have integrity, and to stick to company values. Josep Santacreu explains how, because of his medical training, he tends to see organizations as biological organisms, where a company *"is an organic system with communicating vessels, so that you cannot manage each part independently."* His idea is that good managers should see the connections between these different parts—the "big picture"—because if one of the vessels empties, it can destabilize the whole system. This translates into the idea that a company needs to generate value for key stakeholders, but also the understanding that these stakeholders are also connected. Santacreu's perspective is that the key to good management is not necessarily technical knowledge, but the passion and motivation, which come from being proud of what you do. The idea is that it is not enough that a manager has technical knowledge: they need to make sure that people are happy, motivated, and proud of what they do if a company is to succeed. Perhaps this is why in 2015 Josep Santacreu was awarded the Ernst & Young Social Entrepreneurship Award, marking the first time that award has gone to a company executive (until 2015 the award had been given to other types of organizations such as NGOs). Josep Santacreu is, thus, a social entrepreneur who considers social innovation to be key strategic asset.

The individuals involved in the conception and launch of Integralia in 1999 explained to us that when they first considered the idea of starting a foundation fully staffed with handicapped people to provide a key business service everyone thought they were crazy. In fact, initially even they themselves were not sure that the initiative could be financially sustainable, but they decided to go ahead anyway because they believed in the idea that even if the company was not financially profitable, it would generate value for the firm in other ways, and would provide a good service to society. When the idea of Integralia was conceived back in 1999, contact centers in Spain were mostly outsourced and competing based on the lowest price possible. This is why it sounded so strange that this German insurance company which had just entered the Spanish market would create a new structure for their contact center instead of outsourcing services, with all it entailed in terms of cost, employees, resources, and processes; and not only that, but that this new company would be staffed and managed by handicapped people.

Other key components of the culture and success of Integralia are the leaders Cristina Gonzalez and Javier de Oña who have managed the project since it was founded. Cristina, who is currently General Director of Integralia, was working at DKV Spain in 1999 when she was asked by the CEO to establish the Integralia Foundation and launch the first contact center. That first seed, as Cristina puts it, *"explains why and how we do things at Integralia."* The first contact center started with nine employees, all handicapped and with no previous experience. Among these employees was Javier de Oña, a young man who had worked at the Barcelona airport, handling luggage before suffering a motorcycle accident which left him a quadriplegic at 26. He was, in fact, the last person hired for the initial contact center, but it quickly became apparent that he was a natural leader and had great passion and ability. He is now the Deputy General Director of Integralia, in charge of all operations (Cristina focuses on new projects such as international operations) and has managed Integralia through its process of growth. Javier de Oña also represents the Integralia model well: the company's model of development relies on steady and consolidated growth because members believe that the key to success lies in giving opportunities to people who have never worked in a contact center before; people who do not usually have such opportunities and who may believe that they will never get one. Accordingly, Integralia does not look for experienced employees, but rather for individual passion and commitment, because this is their value proposition.

When Integralia finally started operating in 2000, it became the first contact center in Europe fully staffed by handicapped people. At that time there were very few companies in Spain which would offer regular jobs to people with disabilities, so when Integralia was launched it quickly attracted interest through media and word-of-mouth, following which inquiries from handicapped people and their families started pouring in. Javier de Oña explains how one day his father received a phone call from the CEO of DKV telling him *"not to worry, because your son will join us at Integralia and we will take care of him…"* He joined as a phone operator, quickly became a supervisor, and worked his way up to his current position as Deputy Director for Integralia, as well as the director of the Barcelona contact center in el Prat del Llobregat, the largest of the eight operating contact centers currently operating in Spain, with over 200 employees. In some cases, like that of Elena Jacinto, personal contacts were involved. Elena's grandfather was from the same hometown as the CEO, who quickly decided to get her on the team after hearing about her story. When Elena was a teenager she tried to commit suicide by jumping in front of a train and was left paralyzed from the waist down. Today she is a key figure in the quality department and is also studying for a bachelor's degree in statistics at a Barcelona university. Another example is Manuel Ragel, a native of Andalucía who traveled to Barcelona for rehabilitation after being paralyzed in an accident. On the plane back home, entirely by chance, he met Javier de Oña, the Deputy Director of Integralia, who was flying to Jerez de la Frontera to develop new contacts. Javier offered him a job on the spot.

Integralia is full of stories such as this: tales of tragedy, but also of how challenges were overcome, of helping one another, and of making it through. The life narratives illustrate the fact that handicapped people are forced to change their mindsets and focus on all the things they can do, rather than on all the things they can't. The process of transformation may give handicapped people skills and qualities that most regular people lack. This is one of the main factors which helps Integralia and DKV Spain create a culture of seeing challenges as opportunities, having patience, and perseverance; and more importantly, always working as a team. This has created a sense of community at Integralia that goes well beyond the contact centers and involves DKV Spain and most key stakeholders. Integralia has created a culture in which employees are engaged with the organization, work as a community, and have a long-term perspective. Due to this attitude, Integralia is not interested in the degree of disability of an individual, but rather in their attitude. They look for fighters, and prefer to spend two years training someone who will be fully committed than to have an employee who can immediately be operational but who has a lower level of engagement. Integralia has learned that people like this will, in the end, give back to the organization much more than Integralia gives them. The company understands that the benefits they provide to employees go far beyond salaries, health coverage or pensions: they provide a sense of belonging, of pride, and of self-confidence.

It is for this reason that Integralia has grown steadily and impressively, going from nine employees in 2000 to 50 in 2004, then to 100 employees by 2006, 150 employees in 2008, 230 employees in 2010, and almost 450 employees in 2016 (not taking into account the international expansion of the company, the Integralia School or the consulting services they offer, which are discussed later). A virtuous circle exists, as illustrated in Fig. 1. DKV Spain's values, along with the CEO's personal values, have created a culture that fostered the coming-into-being of Integralia, which lead to a strong sense of community. This environment created very engaged and passionate stakeholders, which in turn generated a high-level of quality and productivity. This had positive implications in terms of Integralia's superior business performance and value, as well as a positive social impact. This, at the end of the cycle, reinforces the values on which the organization is based, legitimizing and strengthening its culture and demonstrating to the organization and its stakeholders that a value-based culture is a key factor in creating a competitive business model.

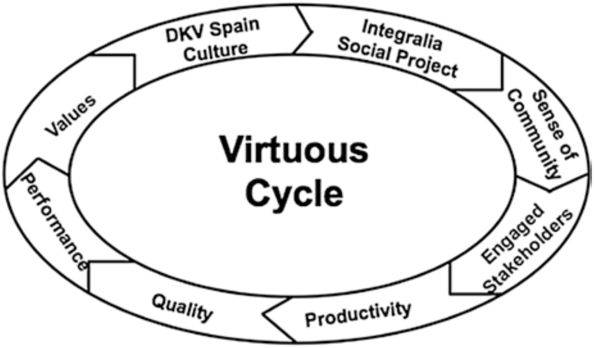

Fig. 1 Organizational culture as the foundation of the business model

3 Integralia's Business Model

For a services company such as DKV, a contact center is a very strategic element. It is the way most customers interact with the company to access services, ask questions, or submit complaints or suggestions. In other words, the contact center is the direct link between the company and customers. According to a report (*Global Contact Center Benchmarking Report, 2015*) covering 12 sectors and 72 countries, 75% of companies say that the contact center is a key differentiating factor with regard to competitors, and 57% of companies observe a direct link between call center performance and company revenue and profit. However, this same report shows that for the past five years the degree of satisfaction of customers with contact centers has decreased. This may be because companies are moving toward outsourcing contact center services, and the fact that there has been a 23% drop in direct ownership models and 80% of contact centers currently say that their current systems and structure will not meet the future needs of their organizations.

Working at a call center is often perceived by employees as a low value-added proposition, which is the reason why contact centers usually have problems with both recruiting and retaining staff once they have joined an organization (most importantly, because of employees' lack of engagement with and passion for their jobs). People who work at contact centers usually do so because they have not been able to find other jobs, or use these jobs as stepping-stones to other jobs, explaining the high turnover and low level of engagement. A study conducted in 2007 of more than 2500 call centers in 17 countries with over 475,000 employees by Cornell University (Holman et al. 2007) showed that the average turnover rate of employees at call centers worldwide is above 20%. As labor costs usually represent about 70% of the total costs of a call center, high turnover creates an increase in cost equivalent to 15% of the total gross annual earnings per worker. This significant financial burden is caused not only by the expense of recruiting more employees but also, particularly, by the cost of training (there is typically a seven-to-fourteen-day training period for new employees, as well as some on-the-job learning). On top of this, according to the same Cornell report, many call centers are offering low-quality jobs, which explains why training and recruitment costs are some of the largest expenses for a call center, and why engagement is so low, with absenteeism rates above 10% across the industry. In sum, looking at the industry, most contact centers focus their business model on improving the customer experience through two main factors: (1) using advanced technical tools (TIC, digital, etc.); and (2) having a productive workforce.

Integralia's business model revolves around a very simple value proposition: create a high performing contact center that is financially sustainable and which generates strategic value for DKV Spain. The way the company delivers this value proposition is not so much described in the "what," as in the "why" and the "how." As we have seen, traditional contact centers in the industry are difficult to manage effectively. However, at Integralia employee turnover is 10% and absenteeism is around 6%. This represents a 50% reduction in key labor costs compared to the industry average in terms of training, recruitment, and productivity. The result is that Integralia's call centers have an average response time of about 24 seconds, with over 93% of calls serviced and a level of customer satisfaction of over 94%, according to the last survey in 2015. These metrics leave Integralia in first position among call centers in the healthcare sector in Spain, and with a top-ten position among all sectors (Lombardia and Fontrodona 2013). To achieve this level of success, Integralia is very active at innovating both in terms of technology and processes, but the main differentiating factor is corporate culture, both at Integralia as well as DKV Spain.

Integralia's business model is built on a culture that engages employees and increases innovation and productivity, as well as produces high-quality services. To create this culture, Integralia uses a social entrepreneurship approach. As Mohammad Yunus, Founder of Grameen Bank and Nobel Peace Prize winner, said, *"one of the deep-rooted characteristics of human beings is the desire to do good for other people. It is an aspect of human nature that is totally ignored in the existing business world. Social business satisfies this human craving, and that's what people find inspiring"* (Yunus and Weber 2007). In other words, what Yunus argues is that embedding a social project in a business model that is self-sustainable can have a huge impact because it is by definition both sustainable and replicable. In this regard, most social businesses are the result of social entrepreneurs creating new organizations. However, more and more multinationals are using this same system to create new and sustainable initiatives; a phenomenon known as social entrepreneurship. Integralia follows this model because DKV Spain does not collect dividends or other financial benefits from the company (although it does benefit from improvements in corporate reputation, customer loyalty, employee engagement, innovation, and so forth), meaning that Integralia is managed as an end in itself. In other words, DKV Spain maintains a certain level of control over Integralia with some seats on the board of the foundation, but it is managed as a separate organization. This means that Integralia is a social business that has the mission of fostering the integration of handicapped people into society and the workplace, and which uses the benefits it obtains to increase the impact it has in terms of achieving its mission, as any other company does. The difference between Integralia and other call centers is that Integralia's call center services are the means of achieving the mission, not the ends.

As of October 2016, Integralia had 437 employees in Spain, 98% of whom were handicapped. Of these 98%, 31% were severely disabled. More than 95% of Integralia employees have stable jobs, and almost all executive positions (and internal growth) are managed through internal promotions. The model is based on slow, steady, and consolidated growth that is very much built on the capacities of Integralia employees. Integralia also has a well-developed outplacement process, so that employees at Integralia have a career development plan according to which they can be promoted within the company, or potentially move to “normal” companies (since the year 2000 more than 1700 handicapped people have found permanent positions within Integralia or in its ecosystem of companies in Spain alone). In many cases, Integralia places employees with company clients after these companies have experienced the professionalism and quality of the services that these employees can offer. This generates a culture where workers feel part of something; they feel that the company cares about them, which explains the low turnover and absenteeism rates. Integralia’s business model is not based on retaining a group of employees with no other alternative, but rather on the opposite idea: on giving these employees alternatives and the opportunity for advancement. Moreover, while over 70% of the contact centers in the world offer either customer service or sales services, but not both (2015 Global Contact Center Benchmarking Report), Integralia does, and then more, as this is one of the main sources of service innovation, according to DKV Spain. This means that Integralia is a high value-added unit for DKV Spain. It appears that the level of job quality and complexity at Integralia is higher than at most competing contact centers. Integralia employees know that the more productive they are, and the more they grow, the more they can help people like themselves, so they are highly motivated and engaged. Growing the business by definition means helping themselves and others like them. On top of this, Integralia is investing quite a lot of money into training (one of the pillars of the business model) and provides more than 4000 hours of training to employees on an annual basis.

People at DKV Spain believe that the mistake most people make is thinking of Integralia only in terms of a social project. They believe that it should instead be seen as a valuable business project that makes sense in itself; it just happens that the company succeeds in large part because it is a social project. This is what makes the Integralia initiative so interesting: DKV Spain does not see it as a social project that has been successful, but rather as a business endeavor that has been highly successful in large part because of approach to social entrepreneurship. The perception of DKV executives and stakeholders reinforces this idea, as we explained in the previous section, that social innovation can be a source of successful business innovation. As the CEO explains, *"Integralia has helped us a lot in terms of giving us the legitimacy that allows us to try different things in other areas of the company."* One of the areas in which Integralia has generated a lot of value for DKV Spain is corporate reputation and image, having won many awards. It also appears regularly in the press and has been discussed at different forums and universities. DKV Spain has seen that the level of public exposure of the company does not correspond to its size, or the investment they have put into advertising, and this is largely the result of their responsibility-linked practices, and particularly the work of Integralia. However, they also explain that creating a positive impact on corporate reputation is not the objective, but rather one of the results of this way of doing business. In other words, it is not that they do these things to improve their image, but rather that their image is good because they follow the specified business model.

Integralia generates a lot of different benefits for DKV, but the main one is not reputation but the fact that it is a great contact center and that their customers are happy. DKV understands that for many companies it is difficult to launch a project like this because they do not understand the value it can generate for different areas of the organization. Instead, most companies only look at the initial investment and drastically underestimate the potential benefits, in part because many of these benefits are intangible. Nevertheless, Integralia has been a very profitable initiative, regardless of how one looks at it. For example, one of the areas in which DKV Spain has generated value from this initiative is management innovation, as it has forced managers to rethink and reframe most processes and assumptions. DKV Integralia is in this regard an example of a very successful business venture, and DKV Spain affirms that if the cost of Integralia outweighed the value it generated from a business perspective, they would eliminate it, reinforcing the claim that for DKV Integralia is not a social project. In fact, although we have stated that most of the benefits of Integralia are intangible, DKV Spain believes that they get much more out of it than they put in, even in terms of tangible benefits that can be recorded on balance sheets. One of the most important contributions of Integralia seems to be how it facilitates the creation of a sense of shared culture and identity at DKV Spain, where no one argues whether it makes sense to have initiatives such as Integralia; it is accepted as the way things should be done. This culture has evolved partly because of the success of initiatives like Integralia, despite the fact that many people in the company initially expressed doubt about whether they should engage in these types of projects as an insurance company. However, today there seems to be a shared culture where these sorts of doubts no longer exist. In fact, some of the people who at the beginning did not support this initiative have now become the strongest defenders of Integralia and related corporate responsibility policies, according to employees to whom we spoke. The power of this culture lies in the fact that Integralia's impacts are positive for both company and society, allowing managers to feel that they are significantly contributing to both the firm as the community, thus creating both meaning and purpose.

Thanks to the success of Integralia, it soon became apparent that the business model had significant potential to grow and be replicated. For this reason, in 2012 Integralia and DKV Spain carried out a process of strategic reflection to examine how they could leverage the success of the Integralia model, and particularly the knowledge acquired over the years about the process of selecting, training, and developing people with a variety of abilities in order to expand their model. With this in mind, for the past few years Integralia has been working to increase its impact in four areas: (1) expanding internationally; (2) through the innovation of products and services; (3) by creating the Integralia School to train employees and help them find jobs in other companies; and (4) by providing consulting services to other companies who are interested in starting initiatives such as Integralia.

The international expansion of Integralia has developed along two separate lines: expansion within Munich Re, and expansion in developing countries through the initiative of Integralia itself. Expansion within the group is more passive in the sense that Integralia provides the know-how, and helps with company set-ups, but does not actively seek to promote or manage these initiatives. So far, one such foundation has been created in Poland; a contact center for an insurance company that belongs to the same group as DKV Spain called Ergo Hespia. This company was created in 2004 as a foundation called Integralia Poland. It exactly replicates the business model of Integralia Spain, and has also been successful, both at servicing the mother company as well as integrating handicapped people into the company. Integralia Poland has helped over 500 people with disabilities obtain a permanent job since it was created. However, Integralia Spain does not directly manage this company, and mainly provides the know-how, technology, and training. International expansion in developing countries by Integralia Spain, on the other hand, has been managed directly from Integralia through the creation of a Department of International Projects. The seed of what today is this department was planted in Egypt in 2012 during an incentive trip for DKV Spain personnel when the CEO Josep Santacreu saw a severely handicapped man in the middle of a road being passed by countless cars, motorcycles, and people. At that moment he realized that the lives of handicapped people are even harder in developing countries, and had the idea to start a project to improve their lives. This initiative tries to build on Integralia's mission of bringing creative solutions to developing countries and always trying to partner with a variety of organizations, including companies, governments, international organizations, and NGOs. To manage this project a new concept was created called Mundo Integra (which can be translated as Integration World), which guides this process of expansion through the leadership of DKV and Integralia Spain.

Integralia started its first international projects in Peru, in the desert of Pachacútec, an area in Ventanilla del Callao in which many people live in extreme poverty. Since then, Integralia has developed two projects in Peru, involving (1) directly integrating handicapped people into companies; and (2) training and developing the skills of people with disabilities. To integrate people with disabilities into companies, Integralia identifies organizations that are socially responsible and which want to incorporate handicapped people into their organizations and helps them through the process. One example is IBT Group Peru, which is a Spanish company that belongs to Eurofinsa, a construction company that built the first two privately managed public hospitals in

Latin America. Integralia created a contact center for IBT Group Peru staffed with 65 professionals. Another example is Konecta BTO Peru, a long-term strategic ally of DKV Spain. Konecta is a Spanish multinational company that provides technical and outsourcing solutions for services such as contact centers. In collaboration with the Konecta Foundation, this company designed a tailor-made project and trained 75 people with disabilities, 41 of whom now have permanent jobs. With regard to training and development, Integralia helped create the first professional degree of contact center in the desert of Pachacutec in partnership with the Konecta Foundation in Spain, which has trained 175 people, 109 of whom have obtained contract-based work. In 2015, the organization obtained official certification from the Ministry of Education of Peru. Along the same lines, a collaborative project was established in 2014 with the Spanish Agency for Cooperation and Development (AECID) to help finance the project Peruintegra (within the Mundointegra project), which has given Integralia the opportunity to obtain more resources and therefore have a bigger impact. As of October 2016, they had trained 315 handicapped people, 207 of whom have now obtained stable jobs.

In 2015, Integralia started working in India in collaboration with the Vicente Ferrer Foundation/RDT Rural Development Trust Anantpur, which is an organization that tries to help groups at risk of exclusion, such as people with disabilities. Integralia helped them create a training program that has reached 33 people with disabilities, 23 of whom have now secured stable jobs. Also in 2015, and again with the help of the Spanish Agency for Cooperation and Development (AECID), Integralia started the project Colombiaintegra (again within Mundointegra), which is a very innovative project that uses an alliance of a network of different public and private organizations to improve their situation of people with disabilities in Colombia. The project is based in Bogotá and is designed to help in resolving the long-term conflict that has been going on for more than 50 years between the government of Colombia and FARC (the guerrilla movement the Revolutionary Armed Forces of Colombia) by providing training to victims of this conflict. It takes the form of an alliance of organizations: the government of Colombia officially certifies the training which is provided by Integralia; Corporación

Matamoros is an NGO which helps policemen and soldiers who have been injured while on duty; while Konecta Colombia provides jobs for all those who finish the training. Currently, Colombiaintegra has 30 people in training, most of who have been mutilated by land mines. Aside from these ongoing projects in Peru, India, and Colombia, Integralia has already begun discussions with different organizations in Vietnam and Cambodia to further the objective of integrating people with disabilities in the developing world into work. Finally, as of the end of 2016, Integralia is also conducting some preliminary studies for projects in Mexico and the Dominican Republic.

With regard to innovating products and services, Integralia works in two ways: finding innovative ways to identify work for people with disabilities, and developing new tools that can help people with disabilities work better. Regarding the first goal, Integralia looks for creative ways to help people with disabilities find jobs. Many companies have problems hiring people with disabilities because their offices are not suitable for this purpose, and many people with disabilities have issues with mobility. They may have problems, for example, using public transportation, and often have to reject job offers because they cannot travel to and from work on their own. With this in mind, Integralia is participating in the Discatel Project in partnership with other organizations such as the Spanish Association of Experts in Relations with Clients (AEERC) to promote telework in contact centers to allow disabled people to work from home. Again, Integralia sees this idea as a win-win for companies and society, as the chance to telework gives people with disabilities opportunities, while also helping organizations to provide quality contact services to customers or users. One of the lines of work Integralia is involved in is providing contact centers for city councils and town halls, which often have problems with providing good quality services. Integralia provides a subcontracted service to city councils by creating offices of attention to residents, which use the services of people with disabilities working from home. To help with this, Integralia is also investing in innovative technologies that can improve service quality and increase flexibility. Thus in 2014, Integralia purchased 51% of a technology company called Anobium, which develops innovative solutions to manage information more efficiently. As a part of this project, Integralia also created a contact center at DKV Spain's headquarters in Zaragoza, which is currently staffed with 22 handicapped employees. The idea is for Anobium to keep creating new tools that will support Integralia's strategy of helping handicapped people find ways of working.

The Integralia School is designed to put its capacity, knowledge, and experience at the disposal of other companies who are open to understanding the fact that people with disabilities can bring value to an organization, and who want to participate in this process by integrating such values into their business models. Since being created in 2013, the Integralia School has delivered 37 training programs to 477 students, of whom 277 have found permanent positions both within and outside Integralia. The school operates by selecting 120 people with disabilities every year for one of two types of training: (1) courses on banking, insurance, telecommunications, and utilities for individuals who have prior advanced experience or knowledge about working in contact centers; and (2) courses for contact center employees who have had some training but who do not yet have the required experience. Finally, the Integralia School has also launched an online initiative called Talento sin Límites (Talent without Limits) in collaboration with a number of organizations that support entrepreneurship initiatives. This project is designed to support the entrepreneurial ideas of people with disabilities. The motto of this initiative, according to their website, is *"learn to entrepreneur,"* and it is free. Participants are only required to have a certificate of disability and a good business idea.

Another area in which Integralia has been working is offering consulting services to other companies and organizations that wish to start projects similar to Integralia. As Cristina Gonzalez, General Director of Integralia, explains *"our consulting services are aimed at supporting other organizations by sharing our experience and helping them develop solutions using the same model we have created at Integralia."* Integralia helps contracted companies through a very specific process: it (1) analyses the company environment, and identifies opportunities for handicapped people; (2) creates an internal communication and awareness plan; (3) defines with the client's HR department descriptions of the positions to be filled by handicapped people; (4) recruits handicapped people;

(5) trains new recruits; (6) creates internships with the client organization; (7) hires some of the trainees as full-time staff; (8) trains internal mentors for the company who can lead the project; and (9) supports the mentors, but makes sure that projects can be fully self-managed by the organization. Several successful projects have already helped other organizations develop projects using the Integralia experience, creating over 200 additional jobs for people with disabilities in the process.

Ultimately, Integralia is trying to grow in order to more effectively fulfill its mission. It does this by growing (nationally) in Spain through innovation-based processes (introducing telework, promoting entrepreneurship, creating a school, etc.) as well as by expanding internationally (Mundointegra). Although it may seem that some of these initiatives are not directly connected to Integralia's work as a contact center in Spain, it should be remembered that the key to Integralia's business model is its development of an organizational culture which motivates and engages employees, thereby creating a positive customer experience. In this way, international expansion, the innovation of services and the creation of the training school reinforce the mission and values that are the foundation of Integralia's model. Integralia is a company that places a lot of trust in people, which teaches them to work, and which is highly committed to employees both at a professional and a personal level. These factors translate into an engaged workforce that goes the extra mile.

4 Problems and Challenges

Integralia is facing four main challenges: (1) how to sustain and manage growth? (2) How to increase social impact? (3) How to innovate, grow sustainably, and increase impact? and, (4) How to work with a multitude of partners with different strategies and objectives? First, as already explained, Integralia is growing both in Spain as well as internationally. It is already taking on new clients and innovating in terms of service. Any company that goes through sustained periods of growth encounters significant challenges in terms of governance, management, and services, but most importantly, culture. As the CEO explains *"we should never forget where we come from and what our mission is."* It is a challenge to keep growing without deviating from the values and culture that are the foundation of the business model. As Pere Ibern, Director of Strategy and Development at DKV Spain, explains, *"Integralia will only make sense as long as we can provide a great customer service, offering a top quality and competitive contact center."* It remains critical to maintain a high-level of quality and productivity, and low levels of turnover, absenteeism, and disengagement.

Second, in order to fulfill its goals, Integralia is seeking to increase its social mission of increasing the number of people with disabilities who are integrated into regular jobs, which means increasing the turnover of employees at Integralia so that jobs for employees can be found to make room for new trainees. Herein lies a paradox, and one of the main challenges for Integralia in the future: as an organization, Integralia wants to keep turnover to a minimum, but in order to fulfill its mission and to grow it needs to increase the number of employees who find jobs at other companies, start new projects and move on to other activities. In this regard, finding the balance between maintaining the current levels of quality and productivity and increasing the number of employees that are trained and placed at other companies will be a major challenge. Supporting outplacement at Integralia, as with many service companies, is not only a goal in itself, but a source of customer loyalty (as mentioned, most employees go on to work with clients or partners of Integralia). Also, finding permanent positions for employees in companies transforms these firms and raises awareness of the situation of people with disabilities. Companies who hire handicapped people need to adapt, and their existing employees have to learn that their new handicapped colleagues are just as professional and efficient as they are—and sometimes more so. Thus, the paradox is that managing the turnover of Integralia employees represents both a threat and an opportunity. Because of this fact, Integralia needs to identify more and better ways of finding jobs for employees with disabilities at other companies and organizations using a process that is not detrimental to Integralia in terms of its impact on culture, productivity, and costs.

Third, one of the main challenges Integralia is now facing is how to keep innovating in terms of products, services, technology, processes, and business model. As demonstrated, Integralia has been very active in trying to find new ways to increase its impact (through teleworking and offering new solutions to different organizations in need of customer support, for example). This requires innovation not only in terms of new services but also in the form of employee training and technological development. Accordingly, the challenge in terms of technological innovation not only arises from the need to offer new products, services, and processes, but also from new industry trends. As some studies suggest (2015 Global Contact Center Benchmarking Report), most contact centers are working on creating models that employ multiple channels of communication, including social media, apps, and other technologies, and are moving away from the use of phone services and personal contact. This may put a strain on service provision and change the types of skills and training Integralia has to provide. Integralia will, therefore, have to innovate in terms of balancing the need for an increase in service provision per se (as well as its flexibility) with the need to continue to provide a high-quality customer experience.

Fourth, as we have seen, Integralia always collaborates with other organizations. For most projects—both international and domestic—Integralia is required to identify partners who can make a useful contribution. These partnerships tend to be complex as they often involve different types of organizations, such as private companies, public organizations, foundations, community groups, and associations and NGOs. These organizations are required to identify the project-specific common ground for their work, but each of them ultimately has a different agenda, objectives, and organizational values. These differences sometimes create complex situations and tensions that are difficult to manage. Thus, one of Integralia's challenges in the future may be finding ways to establish more permanent, long-term strategic partnerships with other organizations.

Finally, the main challenge Integralia will face is finding the balance between the tensions that will be generated by growth, the desire to increase impact, the need for collaboration, and the demand for incremental as well as radical innovation of products, services, and ideas. In the future, Integralia will need to remain true to its values and culture, which are the foundations of its competitive advantage, while simultaneously changing and reinventing itself as an organization that can fulfill its mission and keep growing through a complex network of relationships. The coming years will be very interesting times for Integralia.

5 Conclusions

Cases such as Integralia show that companies can find ways to design projects that have significant business value and which positively impact society. These types of projects are the very definition of sustainable, not only because they make sense financially, but because they are strategic for firms and are, therefore, the kinds of projects that are not susceptible to being abandoned during times of crisis, or denounced from an ideological perspective. Projects such as Integralia simply make business sense. DKV Spain has created one of the most productive call centers in Europe by engaging and integrating a group of people who are largely excluded by the rest of society. In this regard, both DKV Spain and Integralia serve as inspiring examples of how social innovation can be a very powerful business tool that can generate strategic competitive advantage.

When we see such clear examples of success such as Integralia, the following key (and connected) questions often arise: (1) can this example be replicated in other organizations? and, (2) why has this initiative not been replicated yet? The example of Integralia can be replicated, but it is not as easy as might seem. As we have explained, the key to Integralia's success is the culture that has been created at both DKV Spain and Integralia through leadership. This is a culture of efficiency, productivity, professionalism, creativity, and innovation; but at the same time, it is also a culture of patience, flexibility, tolerance, sensibility, and vision. It is a culture that embraces the idea that working with people with disabilities requires a fundamental change in the mentality of employees. It requires the acceptance of different types of learning curve, different resources (both physical and technological), different ways of measuring costs, investment, and success. It is not as simple as deciding to hire people with disabilities. This response also partially answers the second question, as initiatives like Integralia, while admired and impressive, tend to not be replicated because it is exactly the innovation of ideas, mindsets, and cultures that is most difficult to stimulate. When people, organizations, and societies are faced with fundamental change, there is a strong tendency to resist because of a feeling that identities are being threatened. One example of this is the present growth in political parties and candidates who thrive on fear and promote the reactionary idea that we need to remain just as we are.

In order to learn from cases such as that of Integralia, we first need to understand what turned these projects into reality. It is easy, in hindsight, to see Integralia as a project destined for success, but when the idea of the company was conceived it was considered crazy, the whim of a company CEO who had a personal desire to create social projects. Integralia was not understood and accepted as a valid business initiative. It was created by a local and relatively small subsidiary (DKV Spain) of a large German multinational company (Munich Health from Munich Re) through the initiative of one visionary individual whose idea was embraced by a few "crazy" people. Integralia has not been replicated systematically even within Munich Health, except for in Poland, and again because of the personal initiative of individuals at a local group company. This leads us to conclude that the development of a project like Integralia requires two main ingredients: (1) leadership, in terms of someone who can push the project forward; and (2) a culture that embraces innovative ideas and empowers people so that ideas are actually put into practice. Some research has indicated (Jaruzelski and Dehoff 2010) that the most innovative companies are not those which invest the most in R&D, but are companies that create a culture and an environment in which people are engaged and motivated, and where creativity is embraced. In fact, these same studies show that an average of 25% of all innovation in organizations is not formally planned or assessed. This confirms the idea that the key to organizational innovation is the existence of a culture that simultaneously allows people to be creative and motivated, as motivation is one of the key drivers of creativity (Amabile 1998).

In conclusion, the main takeaway from a case like Integralia is that the desire to make a social impact can be a powerful tool in the hands of business, but also that the implementation of such ideas requires a particular set of values—values that may not be considered desirable at all companies. Integralia was developed using the basic idea that investing in people who were at risk of exclusion would generate a return down the line in some form; that a company could engage in social entrepreneurship and still create significant strategic value; that a private firm could be competitive through collaboration and partnership with all sorts of organizations; that dialogue and empathy could represent a very powerful competitive advantage; and that the most important and radical type of innovation is innovation of culture and identity. The opportunity to solve challenges through working with people with disabilities has always been there, but the problem is that most people do not see this approach as a relevant business issue, much less an opportunity.

According to an anecdote when Albert Einstein was a professor at Princeton he received a visit from an old student who saw some tests on Einstein's desk waiting to be corrected. The student asked Einstein, *"Professor, why are the questions in the test exactly the same as when you were my professor?"* to which Einstein replied, *"the questions are the same, but all the answers are different."* Cases such as Integralia help us reframe responses to classic management challenges that we may have thought we already had answers to, such as "what is business for?", "what is success?", "how can we measure what we do?", "who owns the firm?", "how can we innovate?", "how can we fundamentally transform an organization?", and "how can we grow?"

6 Questions for Use in Class Discussions

Case-specific questions

- Could Integralia have developed under a different CEO? Can its unique culture survive the departure of its current CEO?
- In what ways does DKV Spain generate value from Integralia?
- How can one measure the value generated by Integralia?
- Why are DKV and Munich Re not replicating the Integralia model, if it so successful?

Broader case-related questions

- How can companies integrate social innovation into their corporate culture?
- What are the key challenges in developing a social initiative within a large corporation?
- How important is meaning and purpose for companies?

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Economy for the Common Good: Sonnentor

Michael Muller-Camen and Jutta Camen

Sonnentor—a name which translates directly as "Gate of the Sun"—is an Austrian company which produces and sells about 800 items, of which 85% are organic teas and spices. The firm was established in 1988 and is still privately owned by its founder, Johannes Gutmann. The company's headquarters are in a small village in an economically disadvantaged region in Northern Austria with a subsidiary in the Czech Republic.

In recent decades the annual turnover of Sonnentor has risen steadily, 10–20% annually, to €35.9 million in the financial year 2015/16. One of Gutmann's main aims has been to create employment in quality work in the region (Gutmann and Gnaiger 2013). The number of employees in Austria has increased from 23 in 2001/2 to 285 in 2015/16. In November 2016, the firm had 304 employees in Austria and 110 in the Czech Republic. Moreover, it employed 74 people in the region for packaging jobs. Also, 205 organic farmers in Austria and 10 in Germany were engaged in direct production for Sonnentor (Standard 2016). Today, Sonnentor, with an estimated market share of 50%, is

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E. O'Higgins and L. Zsolnai (eds.), *Progressive Business Models*, Palgrave Studies in Sustainable Business In Association with Future Earth,
DOI 10.1007/978-3-319-58804-9_6

the market leader in organic spices and teas in Austria. About 65% of the turnover is exported. In the German market, Sonnentor has a 25% share and is one of the top three firms (Sternad 2015a).

Sonnentor aims to maintain the small rural structures of its region by fair trade and ecological, certified farming. It has received several awards, including the Austrian TRIGOS award for CSR, in acknowledgment of its social and environmental commitment to its regional suppliers. Sonnentor was also a pioneer in the Economy for the Common Good (ECG) movement. As the aim of this case study is to examine Sonnentor as an example of the ECG, we will describe this movement in the next section, before we then outline the business model of Sonnentor.

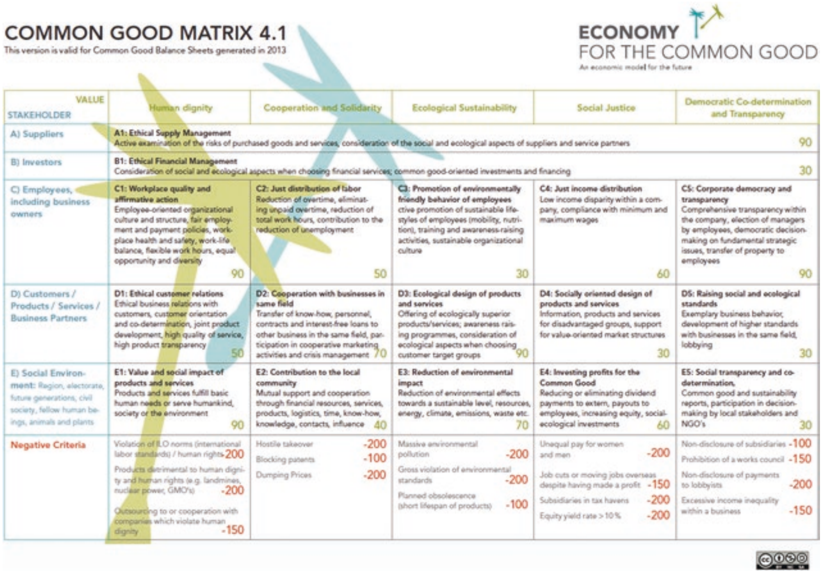
1 Economy for the Common Good

Christian Felber, who coined the term Gemeinwohlökonomie (Economy for the Common Good) in 2010, argued that the "meaning of the Common Good concept is that everyone's well-being counts" (Felber 2015: xvi). Therefore, the success of a business should not be assessed by how much profit it makes, but by its contribution to the Common Good. The ECG has three major focuses: The first is to align the values of business and society. The second is that the values and goals laid down in company constitutions should be systematically integrated into business practices. The third is the premise that the main purpose of all business should be to promote the Common Good and not to maximize profits. The ethical return of investment should be more important than its financial return (Felber 2015: xvii). The ECG movement advocates an alternative economic business model, requiring companies to abide by five values, which are: Human Dignity; Cooperation and Solidarity; Ecological Sustainability; Social Justice; Democratic Codetermination and Transparency. Although it promotes some ambitious long-term utopian principles such as income caps, limitations on private wealth and the nationalization of natural resources, its short-range activities are more pragmatic (Watson 2014). Nevertheless, this type of sustainability, which Dyllick and Muff (2016) call "truly sustainable," goes beyond refined stakeholder value management or the pursuit of a triple bottom line approach followed by most businesses with a sustainability strategy.

The movement has received widespread recognition. Arguably most important is the adoption of the ECG by the EU's European Economic and Social Committee. The Committee proposes that the ECG model should be included in EU legal frameworks. According to the Committee, the ECG "can contribute to a transition towards a European Ethical Market which will foster social innovation, boost the employment rate and benefit the environment" (EESC 2015).

The ECG movement has developed a concept for measuring whether companies contribute toward the Common Good. The core of this concept is the Common Good Matrix. It consists of the five core values described earlier and defines five stakeholders, namely: Suppliers; Investors; Employees; Customers/Products/Service/Business Partners; and the Social Environment. When the values are applied to the stakeholders, they meet in 17 so called Common Good Indicators. For example: If the value "Human Dignity" is applied to the stakeholder "Employees" this results in the Common Good Indicator *workplace quality* and *affirmative action*, which includes "employee-oriented organizational culture and structure, fair employment and payment policies, work-place health and safety, work—life balance, flexible work hours, equal opportunity and diversity" (Fig. 1).

The objective of the Common Good Balance Sheet is to assess where a company is in relation to the Common Good. Whereas other sustainability standards such as the global reporting initiative (GRI) only tell adopters what they have to report, the ECG Balance is a qualitative assessment. The maximum scores achievable for one Common Good Indicator are between 30 and 90 points. The total sum achievable for one business is 1000 points. However, the ECG movement states that no company is perfect in every aspect and that expectations should not be stacked as high as expecting that companies achieve very close to or even the total of 1000 points, as points are only awarded for voluntary achievements or services by businesses, which exceed minimum legal requirements. In addition, there are also negative criteria, which, if applicable to a business, result in negative or penalty points. Examples



COMMON GOOD MATRIX 4.1

This version is valid for Common Good Balance Sheets generated in 2013

ECONOMY FOR THE COMMON GOOD

An economic model for the future

VALUE / STAKEHOLDER	Human dignity	Cooperation and Solidarity	Ecological Sustainability	Social Justice	Democratic Co-determination and Transparency
A) Suppliers	**A1: Ethical Supply Management** Active examination of the risks of purchased goods and services, consideration of the social and ecological aspects of suppliers and service partners 90				
B) Investors	**B1: Ethical Financial Management** Consideration of social and ecological aspects when choosing financial services; common good-oriented investments and financing 30				
C) Employees, including business owners	**C1: Workplace quality and affirmative action** Employee-oriented organizational culture and structure, fair employment and payment policies, workplace health and safety, work-life balance, flexible work hours, equal opportunity and diversity 90	**C2: Just distribution of labor** Reduction of overtime, eliminating unpaid overtime, reduction of total work hours, contribution to the reduction of unemployment 50	**C3: Promotion of environmentally friendly behavior of employees** ctive promotion of sustainable lifestyles of employees (mobility, nutrition), training and awareness-raising activities, sustainable organizational culture 30	**C4: Just income distribution** Low income disparity within a company, compliance with minimum and maximum wages 60	**C5: Corporate democracy and transparency** Comprehensive transparency within the company, election of managers by employees, democratic decision-making on fundamental strategic issues, transfer of property to employees 90
D) Customers / Products / Services / Business Partners	**D1: Ethical customer relations** Ethical business relations with customers, customer orientation and co-determination, joint product development, high quality of service, high product transparency 50	**D2: Cooperation with businesses in same field** Transfer of know-how, personnel, contracts and interest-free loans to other business in the same field, participation in cooperative marketing activities and crisis management 70	**D3: Ecological design of products and services** Offering of ecologically superior products/services; awareness raising programmes, consideration of ecological aspects when choosing customer target groups 90	**D4: Socially oriented design of products and services** Information, products and services for disadvantaged groups, support for value-oriented market structures 30	**D5: Raising social and ecological standards** Exemplary business behavior, development of higher standards with businesses in the same field, lobbying 30
E) Social Environment: Region, electorate, future generations, civil society, fellow human beings, animals and plants	**E1: Value and social impact of products and services** Products and services fulfill basic human needs or serve humankind, society or the environment 90	**E2: Contribution to the local community** Mutual support and cooperation through financial resources, services, products, logistics, time, know-how, knowledge, contacts, influence 40	**E3: Reduction of environmental impact** Reduction of environmental effects towards a sustainable level, resources, energy, climate, emissions, waste etc. 70	**E4: Investing profits for the Common Good** Reducing or eliminating dividend payments to extern, payouts to employees, increasing equity, social-ecological investments 60	**E5: Social transparency and co-determination** Common good and sustainability reports, participation in decision-making by local stakeholders and NGO's 30
Negative Criteria	Violation of ILO norms (international labor standards) / human rights -200 Products detrimental to human dignity and human rights (e.g. landmines, nuclear power, GMO's) -200 Outsourcing to or cooperation with companies which violate human dignity -150	Hostile takeover -200 Blocking patents -100 Dumping Prices -200	Massive environmental pollution -200 Gross violation of environmental standards -200 Planned obsolescence (short lifespan of products) -100	Unequal pay for women and men -200 Job cuts or moving jobs overseas despite having made a profit -150 Subsidiaries in tax havens -200 Equity yield rate > 10% -200	Non-disclosure of subsidiaries -100 Prohibition of a works council -150 Non-disclosure of payments to lobbyists -200 Excessive income inequality within a business -150

Fig. 1 The Common Good Matrix

are: unequal pay for women and men (−200 points), prohibition of a works council or a nonunion strategy (−150 points), hostile takeover (−200 points); and outsourcing to or cooperation with companies, which violate human dignity (−150 points). According to the ECG movement, the companies audited by them with the highest scores achieved between 550 and 675 points. The ECG movement calculates that a company not explicitly oriented toward the Common Good would achieve between −100 and +100 points (ECG 2016).

The Common Good Balance with the Common Good Matrix at its core can be used by any kind of organization, independent of its size, industry, and legal form. There are three different ways for companies to participate in the ECG movement: The first is becoming a supporter of the movement and creating a Common Good Balance, which does not have to be published or externally audited. The second is creating a Common Good Balance, which is peer rated in cooperation with other companies. The third is creating a Common Good Balance, which is externally audited by the ECG movement. At present, in Europe and

Latin America, 250 organizations have published a Common Good Balance Sheet, which is audited by external auditors and another 250 organizations are in the process of doing so (Gemeinwohlökonomie 2017).

The ECG movement was founded in 2010. It acknowledges that there are many examples of enterprises that have in the past pursued the Common Good. Felber (2015) points to the banking cooperative model developed by Friedrich Wilhelm Raiffeisen and other well-known examples including Mondragon, Sekem, Semco, and the John Lewis Partnership. Austria, in particular, has a number of small and medium-sized firms such as the shoe producer GEA, the printing firm Gugler, and the sweet producer Zotter, that in 2010 were recognized as pioneers of the ECG movement. One of these firms is Sonnentor, which in 2011 was one of the first companies to be ratified by the Common Good Criteria and was awarded 635 Points in 2013 (Sonnentor 2015: 5).

Before we describe the business model of Sonnentor and how it relates to the ECG in the following section, we want to briefly acknowledge that there are many influential opponents of the ECG, particularly in Austria. There are academics who argue that it is not a scientifically developed economic theory (Gemeinwohlökonomie 2016) and those that argue that an introduction of the ECG would lead to a major disruption of the economy culminating in political chaos (see for example Fürst 2016).

The aim of this case study is not to argue for or against an ECG or to discuss whether it could work for the whole economy. We intend to examine the business model of a company that is a best-practice example of the ECG movement. This is particularly interesting since an explicit assumption of the ECG movement is that there will only be a decisive change in the attitudes of businesses, if governments actively support companies oriented toward the Common Good. For example, they could introduce tax reductions for those with very high scores in their Common Good Balance and impose additional taxes on those, which do not contribute to the Common Good and only maximize profits. Nevertheless, the question here is whether Sonnentor has developed a business model for the Common Good that could already be adopted by other companies without major changes in the current economic system. In the following we will, therefore, examine Sonnentor's value proposition, market segment, cost structure, value network, and competitive strategy.

2 The Business Model of Sonnentor

The definition of the Sonnentor value proposition includes a description of the products and services offered by a company to its customers. There are two Common Good indicators related to the value proposition of a company: The first is the *ecological design of products and services*. The second is *ethical customer relations*.

The *ecological design of products and services* includes "offering ecologically superior products/services; awareness raising programs and consideration of ecological aspects when choosing customer target groups." This is one of the major features of Sonnentor's value proposition, as all its products are organic, free from artificial flavors, color additives, or chemical flavor enhancers and the company does not use plasticizers or aluminum in product packaging. In addition, Sonnentor does not use palm oil. Sonnentor spends 1% of its turnover on voluntary quality tests in addition to officially required tests regarding its organic certification. Furthermore, most activities during harvesting and packaging are performed manually without the aid of machines, which is supposed to increase the quality of the products (Sonnentor 2015: 49).

Sonnentor also practices *ethical customer relations*, which promotes "ethical business relations with customers, customer orientation and codetermination, joint product development, high quality of service and high product transparency," by striving to build long-term customer relationships. This includes allowing longer times for payments if its customers encounter difficulties and with offering interest-free loans or support for its customer's company development. Furthermore, Sonnentor realizes customer wishes—half of its product range can be tracked back to customer wishes. Sonnentor places an emphasis on offering more information about its products to its customers than required legally on product packaging and its website and guarantees

100% transparency for the origin of its products to its customers. Sonnentor spends only 5% annually of its turnover on marketing, including the development of new products, product relaunches, marketing activities, and sales activities. This marketing strategy includes not using mass media for advertising and refraining from using loss leaders or multiple purchasing offers (Sonnentor 2015: 39–44).

Last but not least, Sonnentor's value proposition includes its philosophy and the impression of its products. Its brand is associated with promoting organic farming, respect and care for nature, social responsibility, and supporting small local agricultural structures. The positive feeling about Sonnentor products is enhanced by an emphasis on the farmers who produced the herbs and spices. Pictures of them and summaries of their stories are used in promotion activities and on packaging. Sonnentor increases this emotional attraction by giving their products sentimental names such as "Mystical Witch," "Spring Kiss," "Fortune," "Let It Be," or "Guardian Angel" (Sternad 2015a).

The Common Good matrix defines two indicators that are relevant for the market segment a firms covers. One calls for a *socially oriented design of products and services*, the other asks for the *value and social impact of products and services*.

Sonnentor's targeted market segment is the market for organic products. Sonnentor does not distribute its products via large mass-market retail chains, as it does not want to support what Sonnentor perceives as nontransparent and unfair price policies. Instead, their distribution channels are organic shops, pharmacies and the internet (Sonnentor 2015: 39). Furthermore, Sonnentor has created flagship stores, which target those customers who want to experience the whole Sonnentor philosophy and its range of 800 products.

By 1991, Sonnentor began exporting to Germany, as the Austrian market is so small. Today more than 70% of its sales are in these two countries and a further 20% to neighboring countries. Altogether exports go to 50-plus countries. Examples are: Switzerland, Czech Republic, Bali, Japan, Malaysia, Hong Kong, Korea, and New Zealand (Sonnentor 2015: 51).

The Common Good indicator *socially oriented design of products and services*, which includes "information, products and services for disadvantaged groups and support for value-oriented market structures" is, according to the Common Good balance sheet, only fulfilled to a minor extent by Sonnentor. Nevertheless, the company argues that concerning product design as well as its buildings, it does take care of handicapped people. Also, it looks after people who are or have to be conscious about food choices like those with allergies (Sonnentor 2015: 53).

Compared with the indicator *socially oriented design of products and services*, it is easier for Sonnentor to achieve *value and social impact of products and services*, which means producing "products and services fulfilling basic human needs or serving humankind, society or the environment." Most importantly, Sonnentor supports organic farming by producing organic products. A particular focus is on working with small farms and making a contribution to regional development. The production process emphasizes hand craft and the company is proud to have generated more than 700 jobs across the world. Of these, 334 are directly employed by the Austrian and Czech Republic firms. The remaining jobs were created in the supply chain and distribution channels (Sonnentor 2015: 9, 57–59).

There are two Common Good Indicators that are related to cost structure and profit potential, which are *ethical financial management* and *investing profits* for the Common Good. *Ethical financial management* focuses on consideration of social and ecological aspects when choosing financial services and Common Good oriented investments and financing. In this regard, Sonnentor has a high equity ratio of 55% (financial year 2015/16), which means that the majority of assets are financed by the owner and not by creditors. Investments are mainly covered by equity capital and are supplemented by funding from the Austrian federal development and financing bank AWS and by loans from regional banks. Short-term excess of financial resources is invested in conservative investment forms with the lowest possible risks. Sonnentor prefers sustainably responsible partners like the "GLS Bank" (which wants to preserve and develop the natural resources of humanity, e.g., by supporting organic farming), fair-finance Vorsorgekasse AG (which puts social responsibility first, ahead of profit maximization) or the "Bank für Gemeinwohl" (can be translated as: "bank for the

Common Good", which was founded by Christian Felber) (Sonnentor 2015: 24).

Investing profits for the Common Good advocates reducing or eliminating dividend payments to shareholders, thus, increasing equity and social-ecological investments. Sonnentor's Common Good balance sheet suggests that this indicator is fully achieved. More specifically, Sonnentor does not distribute dividends to external shareholders who do not work in the company. Johannes Gutmann with shares of 99% (financial year 2015/16) receives only a salary (Sonnentor 2015: 68). Gutmann also stated publically that he will not accept takeover bids or float the business. All profits are fully reinvested, as short-term profit maximization is the ultimate goal; rather, long-term overall development is prioritized. Gutmann is convinced that the full reinvestment of profits into the company will benefit all stakeholders, in particular customers, farmers, and employees (Sternad 2015a). In 2015, €8 million were invested in additional production facilities and in 2016 an organic model farm opened next to the company premises; this will cost almost €0.5 million over at three-year period.

The business model proposed by Chesbrough and Rosenbloom (2002) only requires a firm to define the structure of its value chain and the assets needed to support its position. The *ethical supply management* proposed by the Common Good matrix goes beyond this and requires an active examination of the risks of purchased goods and services, as well as a "consideration of the social and ecological aspects of suppliers and service partners." Sonnentor's Common Good balance sheet suggests that the firm has achieved 80% of the ethical standards required.

Generally, Sonnentor aims to establish long-term high-trust relationships with its suppliers while fulfilling fair trade requirements. One way of doing this is by buying directly from farmers and paying them fair prices. This is Sonnentor´s preference and thus 80% of all raw materials are sourced directly without the inclusion of intermediaries such as traders. The rationale for this is to have more control over the supply chain and also to leave more of the value added for the producers as well as Sonnentor. Moreover, given that regional aspects are important, the aim is to source raw materials from farmers in the region or from other parts of Austria. Examples are garlic and chili, where Sonnentor initiated production in Austria (Sonnentor 2015: 17).

Austrian farmers get a cultivation and delivery contract from Sonnentor, in which the cultivation area and the expected size of the harvest are set out. If the expected size of the harvest is exceeded, Sonnentor will buy the excess harvest as well. No consequences apply if farmers do not achieve the expected size of the harvest. The prices for the herbs and spices are fixed with the organic farmers in yearly meetings and do not depend on accessibility, so that price stability is guaranteed. Every organic farmer gets the same price for the same raw material as every other organic farmer. Thus, no competition between them ensues and collaboration is fostered. The farmers are assisted by Sonnentor employees with their technical knowledge. In order to maximize the value chain of the farmers, further steps in the production process such as drying and even packaging are done at this level. Interestingly, a significant part of the marketing focuses on the farmers, for example, showing pictures of them performing harvesting.

Only four years after the firm was founded, in 1988, Gutmann established a joint venture with a local partner in the Czech Republic. In 2013/14 the Czech subsidiary employed 88 employees. In addition, Sonnentor has founded (partly with development agencies) partnerships with farmer cooperatives in Nicaragua, Kosovo, Albania, India, and Spain. The working conditions at the producers' farms have to fit with Sonnentor's philosophy, which emphasizes employment creation, fair prices, and organic quality. (Sonnentor 2015: 18–22) In addition to its core supply chains, Sonnentor also aims at supporting regional and sustainable suppliers with other products. For example, regional carpenters produced more than 90% of the furniture of a new production hall while electrical energy is bought from renewable energy producers (Sonnentor 2015: 23).

Normally companies try to avoid large amounts of stock in order to reduce costs. However, at Sonnentor large amounts of raw material (average of 900 tons) are stored at headquarters, as raw material is bought with cash flow when its quality is very high and also in order to avoid out-of-stock situations. Most of the final processing steps, like mixing herbs or spices and final packaging, are completed at the Sonnentor premises.

On the distribution side, Sonnentor's original principal selling points to their final customers were organic food stores, health food stores, and pharmacies, which were supplied with Sonnentor products by organic wholesalers. In addition, Sonnentor has launched a franchise system of branded flagship stores in order to have a direct point of contact with the customers and because competition for shelf space in the organic food sector has become fiercer. Sonnentor's franchise system encourages long-term partnerships with 10-year contracts, requiring enthusiasm from the franchisers with an agreement that they will sell in their franchise stores in person.

Further, Sonnentor has set up an online store. However, this does not undercut retail prices in fairness to Sonnentor's partners. When exporting, Sonnentor normally has one local distributor but sometimes more, as there are no exclusive contracts. Sonnentor's exports are a major factor in their consistent growth of 10–20% annually (Sterngard 2015a).

The position of a company in its value network is one of the main elements of the Common Good economic model. In the Common Good matrix, employees as stakeholders are particularly relevant, alongside the social and ecological environment. For stakeholder employees, five indicators are defined along the five core values (see Fig. 1). These are: *workplace quality and affirmative action*; *just distribution of labor*; *promotion of environmentally friendly behavior of employees*; *just income distribution* and *corporate democracy and transparency*. All of these propose Human Resource Management (HRM) policies and practices that serve the Common Good. In addition, we will examine three indicators of the social (and ecological) environment, namely *contribution to the local community*, *reduction of environmental impact*, as well as *social transparency and codetermination*. Linking these indicators to the business model of Sonnentor, we start with the employees' position in the value chain.

The Common Good indicator *workplace quality and affirmative action* aims at applying human dignity to HRM. Sonnentor aims to offer a healthy workplace by providing free organic lunch, fruits, and tea, as well as health and yoga classes for its employees. There is also an extensive provision of further training and the firm deliberately employs handicapped employees. In regard to affirmative action, 63% of managers are women. A company-owned kindergarten offers extended and flexible opening hours. There are many different part-time models, not only for workers but also taken up by managers. This results in sickness-absence and labor turnover rates that are below the industry average. The company also takes pride in offering most of these benefits not only to those directly employed but also to independent contract workers (Sonnentor 2015: 25–33).

The Common Good indicator *just distribution of labor* aims at linking HRM to the value of cooperation and dignity. In this regard, Sonnentor emphasizes the extensive provision of part-time work options, which are taken up by one-third of the workforce. Furthermore, the company points to its impressive record of employment creation. Its sustainability report explicitly states that the aim of Sonnentor is not only to secure employment, but also to increase it. In 2013/14 the workforce at its main plant and headquarters was increased by 59 people and in 2014/15 by 60 people, which is an increase of about 25% each year (Sonnentor 2015: 34). One way in which the company achieves this is by relying heavily on manual labor on the farms as well as in its production facilities. Because Sonnentor tries to avoid replacing people with machines in order to create employment, the output per person is deliberately below that of competitors. For example, whereas in 2015 Sonnentor with a turnover of €35.9 million employed 285 people (€125.000 turnover per employee), their main German competitor Lebensbaum with a turnover of €63.6 million only employed 207 people (€307,000 turnover per employee) (Lebensbaum 2016). The owner Gutmann emphasizes this aspect when on their first day in the company he welcomes each employee by saying: “Great that you are here. Please do a good job, so that we can employ the next person!” This emphasis on creating jobs may look economically unsustainable, but with the strong growth of its business over recent decades, Sonnentor has shown that this strategy works. However, this might work only because profits are not the main goal, but the means to create new jobs.

The third HRM related indicator, *promotion of environmentally friendly behavior of employees*, links ecological sustainability to people management and asks organizations to promote environmentally friendly behavior of employees. In regard to this indicator, Sonnentor encourages an ecological lifestyle of its workforce by providing free organic food and subsidies for eco-friendly electricity. Furthermore, the company encourages employees to travel to work jointly by sharing cars and tries to limit work-related travel (Sonnentor 2015: 35).

Over recent decades, there has been an intensive public debate about management pay. For example, in the USA the ratio of the pay of average CEOs to an average employee increased from 20:1 in 1965 to 354:1 in 2012 (Kiatpongsan and Norton 2014). Bringing social justice and HRM together, the Common Good indicator *just income distribution* demands low-income inequality within the company. For this indicator, Sonnentor reports that the highest salary in the firm is only 3.4 times higher than the lowest. Furthermore, two-thirds of the workforce receives more money than stipulated in the collective bargaining agreement of the industry and there are no gender differences (Sonnentor 2015: 36). Nevertheless, salaries, in general, are not much higher than those in the region and particularly in senior management positions below the market value. Also, bonuses are not paid. According to the owner Gutmann, people do not come to earn a lot, but to support the company (Lammer and Stern 2014). Because the employer brand is so strong, the company has no problems finding well-qualified employees. One indicator is that the company receives around 800 unsolicited applications every year (interview with HR Manager).

The Common Good indicator linking HRM and democratic codetermination and transparency is *corporate democracy and transparency*. This Common Good indicator demands "comprehensive transparency within the company, election of managers by employees, democratic decision-making on fundamental strategic issues and transfer of property to employees." This is only likely to be achieved by employee-owned firms, but more difficult to achieve by a privately owned company such as Sonnentor. Therefore, it is perhaps not surprising that out of all Common Good indicators, the achievement of Sonnentor as judged by the Common Good audit is the lowest here with only

30% achievement. One reason is that the firm has no works council yet, which can be established with the initiative of employees in any Austrian firm with more than five employees. Nevertheless, the firm claims that there is extensive two-way employee communication and that all managers are involved in strategic decision-making (Sonnentor 2015: 37). An example was mentioned in a newspaper article where the owner Gutmann mentioned the company policy that all strategic decisions are taken by him in a joint monthly meeting with his 12 most senior managers. He has veto power but had not used this yet. For example, in 2014 a majority decision was taken not to produce for brands of large retailers where Gutmann was in the minority, but accepted this decision (Lammer 2014).

Besides the previously mentioned employee-related standards, there are also three standards linked to the social and ecological environment, which are relevant for Sonnentor's position in its value network. Starting with the social environment, one Common Good indicator asks firms for *contribution to the local community* the other for *social transparency and codetermination*. For the first indicator, Sonnentor lists various social causes and NGOs, which it supports financially. In addition, its management and in particular its owner Gutmann provides advice for start-ups and actively supports the Common Good movement with talks and speeches. For the second social indicator *social transparency and codetermination*, Sonnentor suggests that it contributes to this goal by publishing its sustainability report as well as being in constant contact with its local community (Sonnentor 2015: 60–62, 70).

The final Common Good indicator linked to Sonnentor's position in its value network is *reduction of environmental impact*. Sonnentor regards the earth as an important stakeholder and thus works hard to reduce CO_2 emissions. Its production process does not generate any direct carbon emissions, while the carbon emissions from transportation are controlled and continuously reduced, and those remaining are offset by supporting forestation programs. Moreover, Sonnentor's headquarters have a climate-friendly, zero energy design with photovoltaic modules on the roof and additional electricity from renewable energy providers (Sonnentor 2015: 64–67).

There are two major features of Sonnentor's competitive strategy and positioning vis-à-vis competitors. The first one can be explicitly linked to the Common Good Indicator *cooperation with businesses in the same field* which proposes the "Transfer of know-how, personnel, contracts and interest-free loans to other business in the same field, participation in cooperative marketing activities and crisis management." Sonnentor's efforts in this regard will be outlined in the following paragraph.

The indicator *cooperation with businesses in the same field* mirrors Sonnentor's competitive strategy, which does not focus on putting other competitors out of business. Abiding by its motto "live and let live," Sonnentor does not register any patents and does not enter into exclusive contracts with suppliers or other business partners. Sonnentor supports local and regional businesses by entering into product cooperation. Working with its competitors, Sonnentor has initiated a round table for their industry, where knowledge is exchanged and cooperation is planned. An example is the topic of pyrrolizidine alkaloids, which are hepatotoxic, that is, damaging to the liver and may find their way within weeds into the production chain. Furthermore, Sonnentor places an emphasis on giving its knowledge to society: Sonnentor has a visitor center, which receives about 40,000 visitors annually, and offers guided tours through its premises. Also, tours are conducted for students, plus discussions with staff and Johannes Gutmann. Moreover, Gutmann offers his support and knowledge to young entrepreneurs (Sonnentor 2015: 46).

However, even without an explicit competitive strategy, Sonnentor has kindled enthusiasm and loyalty in its consumers and has achieved a connection between positive emotions and its brand. This is due to its socially and environmentally responsible behavior in addition to selling high-quality organic products with a transparent origin. This successful corporate branding may be attributed to corporate social responsibility, which is embedded in the deepest core of Sonnentor's philosophy. Thus, this is perceived as genuine, not as green washing which can often be the case with corporate social responsibility approaches (Sternad 2015b).

Another important factor in Sonnentor's position versus competitors is its charismatic founder Gutmann. In order to keep the company for its stakeholders, he holds 99% of Sonnentor Austria and 80% of the sister companies in the Czech Republic, Romania, and Albania. This strategy allows Sonnentor to make decisions independent from outside shareholders, creating a competitive advantage in being able to act intuitively and independently. In addition, Gutmann is an iconic figure, with his grandfather's lederhosen and red brimmed glasses, holding speeches at conferences, being interviewed or appearing in radio talk shows frequently talking about his philosophy behind Sonnentor. These public relations activities of Sonnentor's founder are another important factor in the firm's advantageous position vis-à-vis competitors (Sternad et al. 2016). At this point, it is worth mentioning that, according to their HR director, Sonnentor has no explicit growth strategy and no turnover targets.

3 Problems and Challenges

Sonnentor is a pioneer in the ECG because of its founder Johannes Gutmann. He created a business model that was already in line with the ECG philosophy before the term was established. "When they introduced me to this idea," Gutmann recounts, "I told them, that´s the way we´ve have been working right from the beginning!" (Watson 2014). It is also worth reemphasizing that he is a very charismatic leader who is able to create an authentic story behind his rather uncommon approach running a business. Therefore, one challenge in this particular case, which is similar to those faced by other Austrian ECG pioneers, is whether it can ever survive without the close involvement of the founder.

So far, Gutmann has run his company as a family. It is expected that employees value and respect each other and that every employee is an ambassador of the firm. However, given that the company has seen a rapid growth of employee numbers the question is whether the rather informal leadership style and commitment of the workforce to the ECG principles may not work anymore if this medium-sized firm becomes a large company. A critical role in this regard is played by middle-management that has to embed the culture in the organization.

As explained earlier, there were 26 Sonnentor stores in Austria as well as in Germany in 2016. Ten of these are owned by Sonnentor and the others are run by franchise partners. One challenge is to integrate those not owned by Sonnentor with the rest of the business. Given that a large part of the business is outside Austria and as an important part of its business case is to emphasize the embeddedness of Sonnentor in its region there is a challenge to sell this to foreigners who have no knowledge about this particular part of Austria.

A further issue that may become problematic in the future is the sourcing of herbs. The organic quality needed involves a lot of manual work. It is more and more difficult to find farmers who are prepared to invest the time and physic effort needed. Related to this point may be a stronger price pressure from consumers. Currently, most Austrian and German supermarkets are increasingly targeting the market for organic food. The low prices they can offer are only possible because they are able to put pressure on farmers to offer their products relatively cheaply. So far the organic market is growing strongly enough so that both large retailers as well as independent producers such as Sonnentor can survive. However, it is uncertain whether this may not change in the future.

4 Conclusions

The main question the present study has tried to answer is whether there is a real-life business model compatible with the ECG? Gutmann developed his company without the guidance of a prewritten concept like the ECG. However, Sonnentor shows that a business model, which works toward the Common Good and is based on cooperation, can work and even thrive.

The example of Sonnentor also shows that the ecological, economic and social aims of the triple bottom line are not contradictory. Economically, the firm invests all profits in creating employment and sustainable growth in the regions where it operates. Furthermore, it refrains from automatic production and emphasizes manual work in order to give stakeholders (employees and farmers) a greater part in the value chain. Ecological aims are achieved by reducing energy consumption in the production process, environmentally friendly products and the reduction of chemicals in packaging. Among the social goals are fair working conditions throughout the supply chain, using social enterprises as suppliers as well as donations to NGOs.

One argument of the ECG movement is that it needs tax interventions and subsidies in order to thrive. Sonnentor shows that this may not be needed, but given the high-quality high-price organic product it sells, it may well be that without state support this model may not be transferable to other industries in the private sector.

5 Questions to Address

- Why has Sonnentor been economically successful so far? What is the contribution of its unique business model and what is the impact of its charismatic founder and owner?
- How can a company that deliberately restricts productivity survive economically? Can a business model that emphasizes job creation be transferred to other for-profit organizations that have at least the size of Sonnentor?
- Sonnentor is selling products where the unique business model contributes positively to the image of the company. Can commercially oriented businesses that do not produce explicitly sustainable products directly for end-consumers follow the business model in cases where competition is fiercer and/or where buyers are not interested to pay a premium for sustainable products? In other words, do companies that work for the common good depend on a supportive framework by the state or ecologically minded consumers?

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An Inclusive and Circular Value Chain: Armor

Benedicte Faivre-Tavignot

Armor is a French medium-sized company specialized in printing consumables. Based in Nantes, and with 25 sites across the world, the company has 1800 employees and had a turnover of 245 million euros in 2016.

The overhaul of Armor was driven by a simple observation. When Hubert de Boisredon joined the company in 2004, he stated, in clear terms, that the business would die unless it completely overhauled its model.

de Boisredon found a company dogged by a tense social environment and stifled by a vertical management structure. Its financial information was so opaque that it was difficult to identify the profitable areas of the business. Its *Thermal Transfer* ribbon business, named Armor Industrial Coding and Printing—one of the company's key revenue drivers—had received no investment for three years. Its ink cartridge business, meanwhile, was making a significant loss. The advice from banks and investors was to shut down this area of the business, putting 800 jobs at risk. The shareholder family intended to sell the company in the medium term.

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E. O'Higgins and L. Zsolnai (eds.), *Progressive Business Models*, Palgrave Studies in Sustainable Business In Association with Future Earth,
DOI 10.1007/978-3-319-58804-9_7

Through a combination of personal conviction and economic necessity, a decision was made to transform the company's business model to secure its long-term survival.

Additional investment was needed in the core business, Thermal Transfer. A 50 million euro investment plan was launched, against a backdrop of the total Group turnover of 140 million euros. Several directors were replaced in order to build a team that would support this long-term project. The company's international focus was strengthened, and work was undertaken to promote and resurrect its ink-related business.

This was at a time prior to the French government's environmental roundtable discussions, when the concept of the "circular economy" had not yet been popularized. Armor was already making "remanufactured" ink cartridges, but these products were almost treated with embarrassment by sales staff, who failed to promote their potential benefits to customers. The new idea was to make sustainable development, a central component of the company's strategy, focusing on transforming a process that could be seen as a source of costs into something that was economically profitable.

Many companies treat CSR as entirely separate from or an accessory to their main business. Instead, Armor leaders prefer to use the term "societal innovation," with the understanding that these activities play an important role in improving society as a whole, and can potentially transform every aspect of a business. So the intention of Armor's leaders is to make societal innovation an integral part of Armor's business model, driven by a strong belief that this innovation is critical to its long-term future, as well as to the human race, the environment, and the profitability of the economy in general.

1 The Company's Profile

Armor was built on a series of technological breakthroughs in printing technologies, and a creative, diverse approach to its business activities.

Galland et Brochard was founded in Nantes in 1922 in response to growing demand for carbon paper. The business rapidly expanded to become an industrial enterprise, opening a factory at the Chantenay site in 1956. Less than 10 years later, the company (now known as Armor) was already France's leading film and carbon paper manufacturer. Armor went on to develop ink ribbons for typewriters, followed by fax rolls.

In 1983, Armor became the first company in Europe to use Thermal Transfer ink film technology, the world's most widespread product identification and tracking system used in applications such as barcode labels, use-by dates on food products and washing instructions on clothing labels. A new factory was opened in La Chevrolière near Nantes in 1990 and doubled in size in 2006. Armor is now the world's leading supplier of Thermal Transfer consumables. This business, Industrial Coding & Printing, accounts for around 70% of its turnover.

Armor also invested in inkjet and laser cartridges technologies in 1992. Inkjet cartridges are produced in Poland and are destined primarily for retail customers, whereas black and white and color laser cartridges are produced in Morocco and are mainly sold to business users. This area of its business representing the other 30% of its turnover is consolidated under Armor Office Printing activity. Armor has become the leading European producer of compatible consumables for printers, offering cartridges that comply with original patents. The decision that has been made within the transformation of the Group is to focus the production of laser cartridges only on remanufacturing, instead of new-built cartridges. This is part of Armor commitment toward the protection of the environment as within the European market, only 20% of laser cartridges are remanufactured. Today 140 million laser cartridges are sold every year in Europe, amounting 140.000 tons of materials. Only 20% are recycled, then more than 100.000 tons are sent to garbage dumps or incinerated.

Beyond the remanufacturing of printing cartridges, Armor's know how is based on two strategic competences: *chemical formulation* (more than 40 tons of ink manufactured each day) and *thin-film coatings*. These skills have been traditionally used for the thermal transfer activity. Hubert de Boisredon, at his arrival at Armor, invited the team to innovate beyond the traditional printing consumables. Following several brainstorming sessions, two new business areas appeared: coated collector films that improve the performance of electric batteries; and photovoltaic films.

Battery manufacturers and their customers have extremely demanding requirements. *En' Safe*^{TM} offers a practical solution to these requirements. The product is an innovative new type of current collector, made from coated aluminum thin-film. This technology boosts battery performance and lifetime and has potentially new applications for laptops, electric vehicles, etc. With the release of this new type of technology in 2015, Armor is setting its sights on high-growth markets. Armor develops individual products tailored to its customers' specific requirements, with all products designed for industrial production. A total of 15 million euros has been invested in this new activity. An additional 30 staff will be recruited by 2020, with an expected turnover of 30 million euros.

Armor has developed a new organic photovoltaic film technology capable of converting light into electricity. This new technology does not use any rare metallic elements, avoiding the need to consume mineral resources. The aim of the *Beautiful Light Project*© is to develop photovoltaic films and solutions capable of transforming any surface that is exposed to light into a source of energy. This new development unit is expected to reach a threshold of profitability in around 2025. The first modules of flexible photovoltaic films, called *ASCA*©, are already available for industrial applications. Armor has invested 40 million euros in this new activity and is expecting a turnover of 30–50 million euros by 2022–2025.

"By developing innovative, practical solutions to support the energy transition, Armor is seeking to promote 'made in France' cutting-edge research and technology." (Hubert de Boisredon)

Armor's growth model is based on the concept of coindustrialization, according to which the Group's international expansion drives the development of its French production facility. At its site in Nantes, Armor manufactures vast jumbo rolls of semifinished products for its Thermal Transfer business and has 24 logistics and industrial cutting facilities that transform these semifinished products into ribbons designed for various types of industrial printer. With sites on every continent, this ensures that the company is able to meet the needs of local customers while limiting the environmental impact of its logistics activities. Emerging countries are also a major driver of the Group's growth. Export sales account for 80% of Group turnover outside France, and around 50% of its turnover outside Europe.

After graduating from HEC in 1986, Hubert de Boisredon set off for Chile where he worked for *Banco del Desarrollo*, founding Chile's first venture capital company. He then joined forces with a friend to found *Contigo*, a microloan company that he led until 1993. He then embarked on an international career at the chemical company *Rhône-Poulenc*, which later became *Rhodia*, then *Solvay*. Keen to take on a long-term entrepreneurial and industrial challenge, he decided to lead a medium-sized enterprise, joining Armor first as managing director in 2004, then chairman and CEO from 2008 onwards. He believes that Armor combines the enterprising spirit of Contigo bank and the multinational experience of a major industrial group. He set about introducing a participatory management culture, founded on the principles of trust and entrepreneurial dynamism. Hubert de Boisredon was chosen as *Entrepreneur of the Year* for the Western France region in 2013.

As part of the overhaul of the business, a major shake-up occurred at the top of the company in 2008. A total of 13 people were replaced. The former 16-member management committee was subsequently replaced with a smaller governance structure, featuring a five-member general management committee, plus specific executive committees for each business and three cross-functional committees (a sustainable development committee, a communication committee and an innovation committee).

This new governance structure is designed to be closer to the front line and to foster greater responsibility among staff. Executive committee members are responsible for the overall management of their business, in particular, through developing internal partnerships between departments. Some 90% of decisions are now managed directly by operations teams.

Moreover, the introduction of a general management committee has created a more collegiate management structure which is responsible for defining the Group's future direction and overseeing areas of joint responsibility.

In 2013, majority shareholder *Orfite* was preparing to sell its stake. Given the real risk that the Group could be taken over by a foreign competitor or a speculative investor, the management team decided to purchase Orfite's shares in 2014, with the support of the Group's banking partners.

The adopted model, known as *Capital Management and Industrial Innovation (CMII),* combines both investor-based and social capitalism and is underpinned by a family business model. From the investor-based model, Armor has adopted the requirement of being a profitable business, communicating regularly with its financial partners, and supporting growth through investment. From the family business model, it has adopted the need for long-term investment in innovation, as well as staff involvement.

This model is founded on the long-term, personal financial commitment of the management team, a decision to make shares available to employees through the company savings plan, and the support of regional private equity investors. The management team and employees (including 300 employees who became shareholders in January 2015) now own a total of 57% of the Group's shares and 73% of its voting rights.

Armor has also received a vote of confidence from several new capital investors, with *Arkéa Capital Partenaire* investing 25 million euros, alongside *Ouest Croissance, Siparex,* and *Amundi PME Partenaires*.

Because Armor uses solvents in its activities, the Group addressed the question of site and personnel safety, as well as the impact of its activities on the environment, at a very early stage. Hubert de Boisredon deploys a strategy that is supposed to be adopted and reflected at local level by all employees. Armor's Vice-President, Industrial and R&D Operations, Christophe Derennes, is also a keen advocate of safety and societal innovation.

Responsibility for implementing Armor's strategy rests on the collective shoulders of its employees. In 2009, all Group employees were involved in a participatory process of selecting four core values to guide their professional conduct. The four values selected were humanism, innovation, commitment, and customer focus. Working groups within each subsidiary review day-to-day practices against these values on an annual basis, identifying areas for improvement and establishing practical action plans.

The Group has adapted its governance and procedures to reflect the challenges posed by sustainable development and local issues specific to each site. This decision was taken under the authority of the *Quality Assurance, Societal Innovation, and Sustainable Development Division*, under the same Director, Annabelle Guillet, who is part of the Executive Committee. The Group's CSR governance structure comprises the following entities:

- The quarterly *Sustainable Development Committee*
- A network of coordinators within subsidiaries
- *Dec@plan* and *Alternative Print Program* project managers, who coordinate the steering committees for these two programs in France.

According to Armor leaders, CSR aspects are connected and have a combined impact on the quality of human relationships within the company. These relationships, in turn, foster stable human resources and drive profitability.

Improving the social status of its 1800 employees across all of its sites is one of the objectives defined by Armor leaders. It is seeking to achieve this aim by focusing on providing high-quality jobs, with 96% of its global workforce on permanent contracts. The need for balanced social dialogue through effective employee representation is also taken into account. In addition to the statutory representation bodies, there are also a number of local initiatives designed to encourage discussions on socioeconomic themes with management.

Thus, two participatory programs for continuous improvement have been deployed since 2008: Dec@plan for the *Armor Industrial Coding & Printing* activity, and the Alternative Print Program (APP) for Armor Office Printing activity. In both cases, the objective is to work on various themes involving employees, and some staff representatives: responsible purchasing, waste management, human development, eco-design, environmental impact, territorial integration, health and safety, energy, sustainable transport and social life for the Dec@plan; eco-design, responsible production, engaged collection, material recovery, human development, and societal involvement for the APP. Each axis can lead to the implementation of several development groups to address specific topics. Thus, the Human Development Axis is divided into several working groups: the integration of disabled workers, retention in employment of older workers. For instance, the group *Maintaining the employment of seniors* has contributed to the implementation of several initiatives: the reorganization of end of career planning, and the tutoring of younger employees.

In 2011, the Group signed the *Diversity Charter* in France. This charter encourages businesses to promote diversity within their workforce.

In terms of access to employment for disabled people, some 6% of Armor's workforce was disabled in 2013, which is the legal minimum. According to the latest data available from AGEFIPH[2], the direct employment of disabled workers in France was 3.1% in 2012 (compared to 3.0% in 2011). The objective of Armor leaders is to fully integrate these employees into the company.

The company has produced a *Comparative Status Report* on gender equality, in line with statutory requirements, and has established a monitoring mechanism for the *Equality Agreement* signed in 2011. The first step was to make changes to the recruitment process to ensure genuine equal opportunities at every stage. Following the extensive consideration of inter-generational employment matters, the Group may well introduce a new age management policy with a view to simplifying the retirement process and introducing a mentoring system to encourage knowledge transfer.

Training needs are identified during annual performance appraisal meetings, as well as through so-called later-stage career meetings in France. In 2012, the ongoing training budget accounted for 3.1% of the total wage bill in France (i.e., 2.5 times the statutory requirement under French law). The Group is also developing separate training programs in the USA, Brazil, Poland, and Morocco. The launch of *Armor University* in France is the first stage of a more ambitious project, under which the Group is aiming to become a training organization in its own right. This will ensure that it is able to boost the skills of its employees. In 2010, new facilities were installed at the La Chevrolière site to enable employees to obtain vocational qualifications, including *Facility* *and Automated Machine Operator* certificates—a higher level vocational award whose training is delivered during working hours. Armor handles all the associated administrative formalities and ensures that the necessary human resources and equipment are in place.

In light of the nature of its activity, Armor has recognized the need to mitigate the environmental impact of its activities at an early stage. These considerations are incorporated into its corporate strategy, along with detailed action plans.

An environmental management mechanism for the Group's subsidiaries is currently under deployment. In 2012, Armor's site in the USA obtained ISO 14001 certification (ISO 14001 is an international standard which specifies the requirements for an environmental management system that applies to those environmental aspects that the organization identifies as those which it can control and those which it can influence), following in the footsteps of its French, Polish, and Moroccan sites. Activities in this area include regulatory compliance, waste collection and treatment and, at certain sites, significant reductions in energy and water consumption and ecosystem preservation.

Two of the Group's businesses are continuing their efforts to reduce the environmental footprint of their products:

- Armor Industrial Coding & Printing focuses its efforts on ink ribbons and the associated production process. Through concerted R&D work, a range of *Solfree* solvent-free ribbons has been launched. Armor is the only company in the world that manufactures this type of ribbon.
- Armor Office Printing focuses its efforts primarily on the second lifecycle of ink cartridges, through collection and recycling, the production process and the selection of components.

In November 2011, Armor became a signatory to a voluntary national agreement covering the collection and processing of cartridges. Under this agreement, companies undertake to increase the volume of cartridges that are collected by 5% per year. This is primarily achieved through the provision of user information and the development of the collection point network. These waste cartridges are then used to produce remanufactured cartridges or are dismantled and the materials recycled. 100% of cartridges are recycled.

Since 2009, French sites have conducted regular assessments of the greenhouse gas emissions associated with their activities with a view to measuring and reducing their climate impact. Significant reductions have already been achieved through more efficient use of raw materials, significant reductions in energy consumption, and the promotion of the use of public transport among employees. For instance, an incinerator has been installed at the Chevrolière site which, through acting as an energy recycler, reduces gas consumption by 80%: the energy released by the combustion of solvents is reused in the process of heating water. Armor has made a firm commitment to supporting France's leading role in the COP21 Conference (the United Nations Framework Conference on Climate Change that took place in Paris in December 2015, at which nations presented their commitments to restricting climate-change-related temperate changes to less than 2° Celsius).

By acting in line with these values, Armor also seeks to improve its day-to-day practices toward both its customers and society as a whole.

Armor has a quality management system which helps to make its production sites more competitive. A total of 28 staff work exclusively on quality inspection. Customer satisfaction is said to be at the very heart of the system. Armor conducts regular surveys to measure the impact of its activities. In 2012, 93.7% of Armor's customers worldwide stated that they were satisfied or very satisfied.

By developing high-quality relationships with its suppliers, Armor wants to deliver impeccable products that comply with all patent and intellectual property requirements, while limiting the impact of its purchasing activities on the environment. In France, its suppliers undergo annual performance reviews which include meeting CSR criteria. The Group's subsidiaries are encouraged to select local suppliers with a view to supporting the local economy and limiting the distance over which goods are transported. Audits and visits of all suppliers are undertaken throughout the year. Through its relationships with local partners, the La Chevrolière site injects yearly more than 1 million euros of investment into the economy of France's Loire Atlantique region.

Responsibility is likely to become a determining factor in customer decision-making. In line with this vision, the Group's marketing campaigns are supposed to be now more transparent about issues such as customer guidance, product usage, and the selective sorting of end-of-life products. Moreover, Armor is working closely with public authorities to improve transparency within the ink cartridge market, including environmental labeling. For example, Armor was involved in the government's printer cartridge environmental labeling project under the environmental roundtable laws. As a result of this project, Armor Office Printing was able to demonstrate the feasibility of measuring the environmental footprint of its products, and subsequently produced a methodology reference guide, which was formally approved by the French Environment Energy Management Agency (ADEME) in April 2014.

2 Armor's Business Model

Armor is a profitable company that posts substantial rises in turnover year-on-year. This strong financial performance is critical to the Group's ability to fulfill its social commitments. In other words, Armor leaders consider that there is a direct correlation between its economic and societal performance.

The company's societal innovations are intended to benefit its employees, its customers and partners, the company itself, and society as a whole.

The main priority of the circular economy is to reuse products without additional processing. Where that is not possible, all cartridge materials are recovered and processed. Furthermore, the provision of the materials assessment report to companies and public authorities helps to support the Group's CSR policy, particularly in respect of ISO 26000 audits (an international standard that provides guidance on how businesses and organizations can operate in a socially responsible way) and the annual CSR report. Armor is a member of the *Institute of Circular Economy* that helps economic actors leave the current linear system (extracting, producing, consuming, and dumping) behind, and develop more circular business models.

In 2009, at the height of the financial crisis, Armor saw laser cartridge sales rise by 40% following the introduction of the Alternative Print Program (under which 100% of laser cartridges produced by Armor are remanufactured). This is a prime example of an environmental decision that has delivered financial success. It is because of this differentiation factor that the business returned to profit, having seemingly been doomed to failure 10 years previously, prior to the shift in focus toward sustainable development. We should also mention the situation of 2008. At this time, companies faced two challenges: an economic one in terms of the need to reduce their costs in times of crisis, and an ecological one, since the *Grenelle Environment Forum* ("Grenelle de l'environment"), an open multi-party debate in France that defined French ecological ambitions in 2007, raised awareness of the importance of sustainable development. This is also the year when Armor decided to communicate about the remanufactured cartridges.

From a purely economic perspective, the OEM business is the most profitable activity, since it is less expensive to manufacture new cartridges than to produce remanufactured cartridges. The strategy in this segment is clearly based on the concept of "new," with the aim of generating the maximum possible margin on consumables (80–90%). Armor sells its recycled cartridges at 30–40% less, for the benefit of its customers, and therefore has a reduced margin on these products. However, this model delivers sufficient profit, provided that there is a high volume of sales.

Wouaid Nouri, Director of Management Control, clarifies this approach: "Yes, our prices are lower, our costs higher and our margin is lower than that of our competitors. But it is enough because we do not have the weight of the OEM's structure or the need to fund the development of printers. This is a margin that we call "reasonable" to the extent that it is important for our identity to maintain this link to sustainable development. Our products [have] interested the major French banks and major groups - including the CAC40 listed [ones] - which environmental concerns continue to increase. It is our heart target, especially since they are accountable to their CSR. We bet that the consciousness of environmental issues will continue to increase, including in small structures."

The model, therefore, has a dual positive impact:

- For Armor, recycling is an important sales argument, as proven by its turnover: the company currently supplies products to six out of ten French banks and various CAC 40 listed companies,[3] and has become a key player in the printer cartridge sector.
- For customers, this model delivers savings, enabling the company to promote this activity as evidence of their own societal commitment.

Customers seem to value the three different characteristics of Armor Office Printing System, which thus appear as factors of differentiation and competitiveness:

- The quality of the cartridges, due to Armor's industrial expertise
- The low cost of the products
- The environmental dimension and the limitation of carbon footprints.

Having been in fourth place in 2004, Armor is now the world leader in thermal transfer (industrial coding & printing), having 25% of the global market share and more than 50% of the European market share. (Table 1)

Table 1 Thermal transfer business: Market share by volume and competitors (2014)

Company	Country	Market share (%)
ARMOR	France	25.6
DNP	Japan	19.4
IIMAK	USA	16.8
ITW	USA	8.6
Ricoh	Japan	6.4
Zhuorim	China	3.7
Dynic	Japan	3.1
Fujicopian	Japan	2.9
Others	Others	13.5
TOTAL		100.0

In environmental terms, the major challenge facing the Thermal Transfer business is to reduce the volume of material used in product design. Engineers are focused on designing products that have the minimal possible impact on the environment. For example, reducing the volume of materials that is used helps to drive down oil consumption, reduce production costs, and therefore keep product retail prices down. As a result of these efforts, a finished roll of the same weight can be longer and therefore cover a larger surface area, resulting in a 10% reduction in material consumption on a like-for-like basis. This, in turn, enables industrial customers to increase the time that each roll lasts by 10%, thereby helping to improve their competitiveness.

As with the Solfree process (that eliminates solvent usage in the production process), there is a dual environmental and economic objective: to create a beneficial impact and help to keep costs down over time, despite fluctuations in the price of oil.

The aim of Armor University is to develop the Group's personnel and transform skills into qualifications. It also helps to meet employees' needs in terms of career progression. The investment made in Armor University is designed to ensure that the Group has well-trained and skilled personnel and to develop support and loyalty among employees and labor relations partners.

Working conditions have improved significantly as a result of the management changes. "Tensions may still arise, but conflicts are a thing of the past, since decisions are now made on a consensual basis," explains Christophe Derennes, Director of the Thermal Transfer Industrial and Expertise Centre. By making shares available to employees, Armor has enabled each individual staff member to take a more proactive role within the business. These measures generate measurable positive impacts, with minimal staff turnover, participatory recruitment, infrequent resignations, and a low absenteeism rate. This, in turn, helps to boost the company's profitability. The numbers speak for themselves (Table 2)

The company has increased in value as a result of this new strategy. The Rufenacht family would have been unable to sell the company in 2008 on such beneficial terms without the extensive program of investment that put the company back on the right track 4 years earlier,

Table 2 Absenteeism and Resignations since 2004

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Absenteeism (%)	780	788	490	453	570	540	423	325	288	297	312
Resignation	15	14	31	22	18	4	5	9	4	4	4

despite the negative and uncertain economic environment. In a similar vein, in 2008 (just 2 months after the collapse of Lehman Brothers), industrial private equity firm *Orfite* demonstrated its faith in Armor's business model by acquiring an 85% stake in the business. This event suggests that, at least in the case of Armor, societal innovation has a demonstrable positive impact on a company's value and its ability to generate profit in the future. During a period of crisis—and perhaps even *because* of the crisis—the company's decision to adopt a different approach to its competitors generated interest within the market for its value proposition. In short, businesses are now more sensitive to cheaper, environmentally friendly, high-quality printing solutions.

Armor has 90 years of experience in innovation and expertise within its sector. As a result, it is a recognized specialist in printing technologies. Armor has been involved in several technological breakthroughs in the printing industry, whether in the driving seat or in a supporting role. Armor's engineers, for example, have designed robots to boost the company's productivity.

Armor is positioned as a company that offers a very high level of service quality. It is able to do so through its coindustrialization system, under which rolls are processed on-site, on-demand, and to exact printer specifications. Armor is, therefore, able to deliver to 84 countries in no more than three days.

R&D is a key driver of each and every one of Armor's businesses. It is through this constant effort that the Group is able to remain competitive. The decision to support R&D is first and foremost an investment decision, with the Group allocating 5% of its annual turnover to this activity. A 65 million euro investment plan is also scheduled for the 2015–2018 period, of which 50 million euros will be invested in France. The aim of this ongoing investment program is to continually fine-tune the Group's industrial facilities. Armor has a team of

36 people (engineers, Ph.D. students, and technicians) working full-time on R&D activities.

Armor is located in those areas where its customers are seeking to develop their businesses (i.e., where growth opportunities can be found). The Group is building on this strategy by opening three new Thermal Transfer subsidiaries in 2015 in India, South Africa, and Mexico. It also plans to open at least one new subsidiary each year, as close as possible to its customers. Although different cultures have varying approaches to sustainable development, some elements of sustainable development are truly universal. These include the use of solvent-free technology and ongoing efforts to save raw materials, especially given growing tensions over supplies.

Between 2009 and 2014, Armor's turnover rose from 143 million euros to 224 million euros. Non-EU sales rose from 20% of total turnover in 2004 to around 50% in 2015. The Group reinvests around 10% of its turnover each year—a substantial percentage for a company of this size. Despite persistently poor growth across the European economy, Armor's turnover rose from 7 to 76% in 2015, reaching €240 million. (Table 3)

A company's Return on Equity (ROE) figures provide a wealth of information. In 2004, Armor's ROE stood at 2%. The 2005–2008 investment plans heralded a major change. In 2008, despite the crisis and falling turnover, ROE was positive, signaling that the company had

Table 3 Financial data of Armor

€m*	2004	2008	2013	2014
Turnover	100	92	141	145
% export	81%	78%	75%	80%
% employees abroad	62%	51%	67%	65%
Foreign operating income	100	148	563	523
Investment	100	75	210	320
Investment in France	100	101	302	432
Production in France (million m^2)	100	145	195	204
EBITDA	100	127	260	272
Operating income	100	166	509	494
ROE (net income/shareholders' equity)	-2%	6%	16%	15%

*Base 100 (2004)

returned to profit. The subsequent rapid rise in turnover (between 2008 and 2013) was driven by international expansion and the launch of the Alternative Print Program for printer cartridges. Following a four-fold increase in investment both in France and abroad, and a five-fold increase in operating income since 2004, ROE increased by 10% points (ROE of 15% or more is sufficient to secure investor confidence). In 2014, the company continued on its upward trajectory with a strong emphasis on investment, thereby securing its long-term sustainability.

Armor's business model tends to create both financial and societal value-added. This value-added is shared by the different stakeholders. Each new project that the Group launches illustrates the profitability of this business model.

In 2006, for Amor Thermal Transfer activity, the Group decided to install robots in its cutting and packaging workshops for Thermal Transfer ink film rolls at the La Chevrolière site—the first time that robots have been used to perform these tasks[4] in the sector. The installation of robots in its production facility marked a genuine technological breakthrough, with the company combining its reputation as a roll manufacturer with its expertise in designing and developing automated robotics units. These technologies are *covered by a multi-invention international patent.*

Far from leading to job cuts, the introduction of these robots meant that it was possible to retain the cutting and packaging operations associated with the French branch's activities in France. The robots also took over responsibility for repetitive tasks from human resources. A number of senior employees were subsequently redeployed to manage the automated units. These changes represented a major opportunity for career progression, with operators reassigned to automated unit management posts and enjoying greater responsibility and a more varied workload. The company also benefited from the acquisition of new skills, creating a more highly qualified workforce. From 2004 to 2014, the quantity of products made in the Armor industrial plant in France increased by a factor of two thanks to investments and robots, while around 50 new jobs were created. Robots and productivity investments supported the competitiveness of the French site. Without such industrial policy, the plant would not have succeeded in remaining competitive and many jobs would have disappeared.

The cutting workshop significantly increased its output, amounting to a three-fold increase in productivity when compared with that of a traditional cutting machine. This increase in productivity also helped to meet implicit customer demand for shorter lead times. Between 2006 and 2010, production lead times fell from ten days to 3 days as a result of the new, ultra-efficient production facility. Moreover, the greater flexibility offered by the automated units in terms of cutting settings meant the company was able to expand its product range, offering 120 high-quality ink products and 15,000 roll products. These changes have also had a positive impact on the company's profitability, with operating income increasing three-fold since 2008. These impressive economic results also help to maintain jobs in France.

In environmental terms, automation helps to optimize floor space usage, limiting the need to expand the production site. This, in turn, reduces the site's environmental impact. An automated production facility consumes more than 30% less electricity than a traditional cutting machine.

In Armor's case, this approach presents, therefore, the two following advantages:

- the company gains in terms of competitiveness, productivity, and innovation
- employees gain new skills, become more flexible, and have less physically demanding jobs.

For Armor office printing activity, situation is different as it is a work intensive, low margin and low investment activity, the business has always been in Morocco since its creation in 2002. The *Birjdid* factory is located 50 km from Casablanca and produces remanufactured laser cartridges. When the new logistics platform was launched in September 2012, particular emphasis was placed on quality of life in the workplace, with 150 square meters of space allocated to communal facilities and 250 square meters assigned to green spaces at a total cost of €800,000 in the first year. More than 400 people work at the factory, and these measures have helped to reduce staff turnover while boosting the local economy. (Table 4)

Table 4 Staff in Morocco

	2013 (%)	2014 (%)
Turnover rate	15.67	9.06
Leavers	23	29
New hires	77	33

By locating its business in Morocco, the company is able to remain competitive while focusing on the quality of life of its employees and the attractiveness of its pay (which is above the Moroccan minimum wage). In fact, the Group's growth helps to protect jobs in France and also in its subsidiaries abroad. This production activity in Morocco has led, indirectly, to the employment of 200 people at the Nantes site in the logistics warehouse and commercial activities—jobs that would not be financially viable without the remanufacturing business in Morocco. Armor is France's number one employer in the printer cartridge sector.

"Armor is open and transparent about its locations abroad," explains Hubert de Boisredon. "This strategy helps to boost financial profitability, employment in France as in Morocco, and create[s] a virtuous, win-win circle."

Moreover, at a time when European nations are struggling to cope with mass immigration by poor, unemployed people from North Africa, initiatives such as Armor's development of stable jobs in Morocco are also helping to tackle the problem of uncontrolled immigration at its root.

In June 2015, Armor created a brand for its office printing activity under the name: OWA (*One Way Ahead "Our Way to Act"*). This involves the sale of remanufactured laser cartridges, including an environmentally friendly free collection and guarantee that the whole cartridge will be recycled Customers can go online and request free collection of cartridges. In return, they receive a materials assessment report with details about the used cartridges that they have returned.

While 140 million laser cartridges are sold in Europe each year (representing 140,000 tons of material), barely 20% of these are recycled by remanufacturers or original cartridge manufacturers. The remainder are left for local authorities to deal with. This represents a loss of 100,000 tons of material each year, with no transparency for users.

OWA is an "all-in-one" offering, combining the product with a range of other services (personalized collection, sorting, dismantling with personalized reporting about used cartridges, a materials assessment report, and recycling). Armor's OWA offering also delivers savings of 30% for business customers when compared with the price of new cartridges. As such, sustainable development is helping to deliver economic progress for users. Additional services amount to 10% of the sale price, so Armor relies on volume to make up for this potential decline in margins.

Many CAC 40[5] and SBF 250[6] companies, medium-sized enterprises, SMEs and public authorities have expressed strong interest in this responsible printing solution.

3 Challenges and Areas for Improvement

As with any business model, Armor's model has both weaknesses and risks. In order to ensure the long-term sustainability of the model, certain aspects are closely monitored by the Group's personnel.

Financial investments in new societal innovation activities create long-term value but do not always deliver an immediate return on investment. As a result, the initial cost of these new activities must be offset by the profitability of traditional activities. For example, Solfree is an innovative solution that took 10 years to develop and is only now delivering financial rewards. Similarly, return on investment in flexible photovoltaic films will only be achieved between 2020 and 2025; i.e., 10 years after the project was launched. We face here again the well-known tension between exploration (of new businesses) and exploitation (of current and profitable businesses).

Armor's competitors may be more successful in achieving short-term profitability since their business model is not based on long-term investment strategies. The Group must, therefore, be careful not to hamper its traditional activities through its investment in other innovative fields. Armor's business model focuses on delivering value in the future through anticipation of forthcoming market and social trends.

Societal commitment requires a demanding and rigorous approach to management. Armor must secure the support of its investors and avoid a drop in its revenue and profits. The Group must post rising profits year-on-year in order to reassure its banks and investors that its societal innovation strategy is effective.

Waste-related regulations may pose an obstacle in the future. For example, empty cartridges are imported into Morocco for recycling. The Moroccan government is seeking to limit waste imports since this waste is a source of local pollution. However, from a circular economy perspective, this waste is, in fact, a raw material for the cartridge recycling business. As a result, educational efforts are necessary to explain that the company manufactures products in Morocco, as well as collecting and recycling Moroccan cartridge waste. In other words, the firm has to demonstrate that this activity positively benefits the host country.

Ongoing care must be taken to ensure that societal innovation is properly exploited. "CSR must remain more than just a system, more than an impressive set of figures. We must not lose sight of its true meaning, nor must we overlook innovation and creativity." Says Annabelle Guillet, Quality Assurance, and Sustainable Development Director.

In other words, pursuing societal innovation for marketing and image-related purposes doesn't make much sense. Armor direction believes that this model is critical to every aspect of the business (R&D, production, sales, finance, and HR).

For thermal transfer-related activities, many initiatives have been developed to limit the environmental impact of production. The eco-design of new products, however, is a point of constant improvement. Limiting environmental impact is taken into account from the beginning of the project, as is currently the case with the development of photovoltaic films.

Ink polyethylene terephthalate (PET) film waste on ARMOR's production sites represents a significant proportion of all waste that is generated. Previously treated as an ordinary industrial waste, waste is currently transformed into SRF (Solid Recovered Fuel) to produce energy as an alternative to oil fuels, or goes through material recovery processes.

The energy consumption is still decreasing, especially at the Nantes site where the incinerator, which is used as energy recycler, is continuously optimized. It is according to the logic that the consumption of energy must be limited that subsidiaries were created. Goods are delivered by sea container, and transport to the final customer is locally done by truck.

Nonetheless, driving down energy expenditure remains a priority for ARMOR. Many activities have been taken to improve energy efficiency. ARMOR received ISO 50001 certification in 2012 (an international standard that aims at supporting organizations in all sectors to use energy more efficiently through the development of an energy management system) and has established a *Centralized Energy Management system* to quantify the expenditure of energy in the new activities that are being developed. Products related to these new activities (En' Safe®, ASCA©) have been specially designed within this logic of efficient and "clean" energy consumption.

ARMOR also uses a lot of solvents and is making efforts to reduce this consumption. As a result of the initiatives, the quantity of solvent consumed for every square meter of the coating has been cut by half since 2003. Incinerating solvents is also a way of producing steam that replaces the need for the use of a conventional natural gas boiler. Combustion residues and diffuse losses are the subject of permanent monitoring and an improvement plan.

It is important to ensure that all personnel is kept up-to-date with changes within the Group. This means that managers must be attentive and considerate of staff needs. Financial investment into internal communication tools is also needed. Christophe Derennes spends several hours each week discussing the Group's industrial strategy and projects with all employees within the industrial plant.

HR managers must listen to those employees who are not yet prepared for change and require additional support. Labor relations partners also need to be involved in societal innovation proposals (including employee well-being) as drivers of change.

Deployment of the *Decaplan* (an on-site ten-point CSR plan) has helped to improve the quality of life for employees through the introduction of rest areas, the opening of a nursery, the creation of new sports clubs, etc. However, these initiatives risk taking power away from labor relations partners. It is therefore important that the company's management respects their role. This respect is reflected in the fact that four union representatives sit on the board of directors.

The Armor Office Printing business is based on the production of new cartridges by OEMs. These OEMs may create entry barriers to limit the development of cartridges that are compatible with the printers that they manufacture. The weakness of Armor's model in this respect stems from the ability of OEMs to "suffocate" the market by collecting their empty cartridges and destroying them, thereby preventing them from being remanufactured.

Armor is able to produce at a low cost without compromising on basic environmental safety principles. This ability is demonstrated through its Armor Industrial Coding & Printing facility in China. As for Armor Office Printing, Armor's current remanufacturing process is designed to prevent any infringement of the intellectual property and patent rights of OEMs, in particular, and of third parties in general.

There is a risk that a Chinese competitor could potentially develop the same products at an even lower cost, with little regard for intellectual property and patent rights or environmental protection rules.

Responsible innovation delivers commercial success because it responds to needs. However, it is important to ensure that this type of innovation does not lead to rises in product prices. From a marketing perspective, it is dangerous to believe that customers are prepared to pay more for higher quality product underpinned by a commitment to sustainable development.

The main purpose of societal innovation is not necessarily to earn more money per product that is sold. Instead, the aim is to differentiate. In other words, customers are more likely to choose an Armor product at an equivalent price because Armor is able to deliver financial savings on volume. A product designed with sustainable development in mind must be attractive, of at least equal quality and cheaper than a new product that has built-in obsolescence.

In conclusion, the challenge for Armor's societal innovation model is more to make sure that their main activity—Armor Industrial Coding & Printing (Thermal transfer ribbons)—maintains stable, with high-level profitability to support both innovation into new businesses and investment into CSR.

The other challenge is to monitor on regular basis the market pressure coming from OEM manufacturers (like HP, Canon) and Chinese competition and its negative impact on the Armor Office Printing (inject and laser cartridges) business profitability.

4 Conclusions

Armor traditional businesses have been concentrated in printing consumables. Thermal transfer ribbons industry going into the barcodes printing is still growing. However, the inkjet cartridges business is jeopardized by the decreasing trend in printing and Asian competition. Then it became a necessity for Armor to invent the future through new business opportunities.

The option that Armor has chosen is to innovate by taking into account on the one side its strategic technical skills and on the other side the increasing environmental concern for our planet. Thus the question has been: how can we use our strategic technical skills as solutions for the environment and human challenges?

The strategic decision proposed by Hubert de Boisredon and his management team, and validated by the shareholders, has been to incorporate societal innovation into at the heart of its corporate strategy.

Today, Armor's leaders have identified four major challenges to place at the heart of the strategy:

- Protect property and individuals through product traceability
- Reduce the environmental footprint of printing by offering ingenious and responsible consumables
- Convert light into energy for all
- Improve the safety and performance of electric batteries

According to them, it is through Armor's ability to generate value for society that the company will secure its long-term future.

The company's Thermal Transfer business is now 30 years old. It is therefore essential that innovation initiatives foster societal improvement and growth for this business. This is a process that has already begun with Solfree, which is designed in anticipation of future regulatory changes that may well limit the use of solvents. This range will be extended to cover all aspects of the Thermal Transfer business. What was once a challenge has now become a driver of competitiveness and growth.

The Group's traditional businesses and activities face a number of challenges: the need to use as few resources and as many natural materials as possible, and to encourage Armor sites and customers to reuse products wherever possible. These challenges can only be met through innovation.

Armor's aim is to use its strategic resources—knowledge and expertise—to develop new activities to support the energy transition. The new *Armor Sustainable Energies* branch (collector films for electric batteries and flexible photovoltaic films) reflects this dual challenge which is both an entrepreneurial challenge and an environmental challenge. In short, Armor is seeking to be a central protagonist in the next industrial revolution.

The supply and management of energy is a global challenge. Yet the challenge that it poses differs in the industrialized and emerging markets. The Armor Group is preparing to contribute to the energy transition, offering custom solutions and proposing new practices.

For example, the flexible photovoltaic film Asca, once launched, will contain no rare, toxic or carcinogenic metallic elements. No chlorinated solvents will be used in the production process.

Innovation in new activities serves also to enrich existing activities. Chemistry experts, engineers, and researchers have been involved in developing these new activities (e.g., photovoltaic film and coatings). In the process of developing technologies for these new activities, they have also discovered new potential uses for the Thermal Transfer ribbon—uses that would never have been discovered without this innovative research. The company's different activities are therefore mutually enriching. And sustainability appears as an opportunity and a source of innovation, and transformation for the whole company.

Companies have an extremely pragmatic, grass-roots vision that the government often lacks. For example, Armor University responds to genuine needs and delivers training programs that are recognized by the

French Ministry of Labor. France has a lack of sufficiently skilled specialist workers, and the company must, therefore, step in and fill the gap left by the government, training its staff directly, in-house.

At Armor, each new subsidiary is subject to a CSR maturity study, with a view to developing its own CSR action plan.

This process is led by the Nantes head office, which communicates the results to subsidiaries. In South Africa, for example, a new social pilot project will be developed, involving the use of solar photovoltaic films to charge mobile telephones in areas with no access to electricity supply. This project will be conducted in partnership with a number of villages. In Singapore, meanwhile, a partnership has been established with the *Yellow Ribbon* program, under which Armor employs former prisoners at its production site.

Regarding the inclusion of more fragile people in business, the general belief in society is that disabled people are a burden and pose an obstacle to profitability. Philippe Pozzo Di Borgo, who provided the inspiration for the film *The Untouchables*, believes that disability needs to be seen in a new light: as an opportunity. Companies need to develop in such a manner that they are able to accommodate fragile individuals. This is reflected in the story of Patrick, who has a mental disability and was recruited at the request of his father, who is also an Armor employee.

In 2009, Patrick's colleagues raised concern about his movements within the premises, citing his potential hazard and distracting impact. They informed the site's warehouse manager. Serious consideration was given to sacking Patrick for safety reasons. The CEO Hubert de Boisredon heard about the case and asked the manager to keep him on board and offer him a genuine, meaningful, and purposeful role. At the time, Armor used Kraft paper to protect cartridges inside their packages—costing the company around €50,000 per year. The outer boxes containing the packaging were also incinerated. The team decided to invest in a shredding machine to convert packaging boxes into thin strips, which would then be used instead of the Kraft paper. The machine was suitable for use by Patrick. He is now proud of his job and the company has made genuine financial savings while reducing its impact on the environment. Other local companies now send their boxes to Armor so they can be reused.

By integrating fragile individuals into the workforce, the company has been able to develop solidarity among its staff and generate a sense of trust and confidence. In short, employees know that they will be supported if a problem arises. This trust, in turn, helps to boost financial performance.

In the same spirit, Armor has developed a partnership with *ESAT CAP OUEST* (an enterprise that employs mostly disabled people) to pad laser cartridges within the Armor warehouse. Around 10 disabled people will progressively be employed by Armor in this project.

Armor shares its vision with other bodies and organizations, taking part in clubs, networks, and collaborative projects. In particular, it is a member of *Dirigeants Responsables de l'Ouest*, a business club cofounded by Armor's CEO and two other business leaders from the western region of France.

The aim of Dirigeants Responsables de l'Ouest is to bring together business leaders from the Pays de la Loire and Brittany regions, united in their belief that CSR has a positive impact on business performance. Its objective is to promote CSR to businesses and within the region, by encouraging directors to place CSR at the heart of their strategy and business models.

The Western France subsidiary CEOs of companies such as *Fleury Michon, EDF, Audencia Group, Bel'm* and *Banque Populaire Atlantique* have signed up to a charter signaling their commitment to reduce their environmental impact, increase societal involvement and respect the interests of their customers and suppliers.

The decision to develop influence networks and lobbying strategies is based on an ambition to enhance the reputation of the model, particularly among public authorities.

Sustainable development and societal innovation are not simply marketing gimmicks. They are important strategic choices based on the relationship between personal beliefs and values and the need to listen to consumer requirements. As Hubert de Boisredon explains, "the more consistently the company behaves, the more it is aligned on core values, the greater the financial outcomes of its business model will be."

Building a progressive business model has become one of the key drivers of economic revival.

Armor's only activity report is an integrated report, mainly focused on CSR. This demonstrates its intention to take a committed and consistent approach, and its core desire to align financial profitability and societal benefit.

The initial results of this new business progressive model, which Armor launched back in 2004, are very positive. The CEO is surrounded by a management team and staff, both at head office and at subsidiaries, who support the same social and environmental values and understand their importance to company growth.

Armor's case clearly proves that an industry founded on societal innovation can have a strong future both in France, in Europe, and throughout the world.

5 Questions to Address

- What key characteristics make Armor's business model being identified as "progressive?"
- What are the main difficulties Armor's leaders have been facing in transforming the firm?
- What are the key success factors in transforming an established firm into a progressive business model? How is this transformation maintained?
- What is the impact of this transformation on the competitiveness of the firm?

Notes

1. This involves applying perfectly uniform layers of ink (0.1–1 g per m^2) to a 4.5 micron polyester film (1/15th the thickness of a strand of hair) on reels 25–55 km long, at a speed of 600 meters per minute.

2. Association de gestion du fonds pour l'insertion des personnes handicapées, or Fund management association for the integration of disabled people.
3. The 40 larger French companies that are publicly quoted.
4. In the packaging workshop, rolls which leave the cutting workshop are marked, assembled on an incoming spool (optional), bagged, labeled, boxed, and palletised.
5. Cf. *infra*, note 3.
6. The SBF 250 (*Société des Bourses Françaises*) is a stock index computed and distributed by NYSE Euronext Paris from 1990–2011.

Clean Energy: Lumituuli

Mikko Jalas and Jukka Mäkinen

1 Profile of the Company

When established in February 1998 as a joint effort by local people at the Lumijoki municipality and Finnish environmental association, *Dodo*, Lumituuli Ltd. was the first nationwide, customer-owned wind power producer in Finland. Lumituuli produces wind power and uses its profits to make new wind power investments in Finland. Its main business operations consist of commissioning and operating wind generators and financing these activities via share sales targeted mainly at ordinary people (see also Kourula and Houtbeckers 2016). Electricity produced by the turbines is sold to the firm's shareholders. Thus, Lumituuli is a customer-owned firm with more than 1200 shareholders; mostly private citizens, but also other firms, associations, and municipalities.

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E. O'Higgins and L. Zsolnai (eds.), *Progressive Business Models*, Palgrave Studies in Sustainable Business In Association with Future Earth,
DOI 10.1007/978-3-319-58804-9_8

As an innovative collaborative project of local people at Lumijoki and an urban environmental association, the firm has received plenty of media attention. It won the *Vision of the Year 1998* prize in Finland and was later granted the *Finnish Social Enterprise Mark* by the Association for Finnish Work. The mark is given to enterprises that try to find solutions to social and ecological problems and whose business operations have positive side effects that benefit the whole of society.

In the following pages, we begin our analysis of Lumituuli by first elaborating on the institutional and technological context of the company. We argue that the activity of the company can be partly understood as a form of local community energy project. However, it is evident that the company has also been from the outset an organization that is not only committed to particular localities or to satisfying the financial interests of local contributors. As corporate by-laws state, the mission of the company is to advance wind power generation in Finland. Moreover, as the company essentially emerged from an environmental NGO, it has been more committed to promoting wind power as an effective way to mitigate climate change than to supporting its potential local or national benefits.

2 Lumituuli as a Progressive Business

The emergence of Lumituuli as a progressive business is connected to an institutional change: namely, the deregulation of electricity markets, which enabled new producers to enter into the competition. In 1998, when the company was set up, wind power production across the world existed only on a limited scale and was mainly organized by cooperatives, even in the leading countries such as Denmark (Bauwens et al. 2016). In Finland, the technology had hardly been commercialized, and the few sites that existed were mainly for experimental R&D activity. In the late 1990s in Finland, wind was not regarded as an option for power production, with no companies profiling themselves as wind power producers. Yet the deregulation of the market and the rapid development of the technology created fertile ground for this groundbreaking initiative: a consumer-owned and large-scale turbine.

The business model of Lumituuli comprised two key factors: First, the company was able to raise the capital for the first turbine investment solely through the sales of shares. This was crucial, as the bankability of wind power was extremely low. Capital simply was not available through the financial markets in Finland, particularly for new ventures such as Lumituuli. Moreover, capital contributions by citizens also ensured demand for electricity as share ownership was directly linked to the right to purchase electricity. The value proposition of the company was oriented toward Lumituuli's potential shareholders who effectively acquired shares in a turbine in order to guarantee themselves a supply of wind power, a commodity which had not before existed on the market. Hence, the financial standing of the company was extremely strong after the launch of a series of successful sales of shares and allowed for investment in technology which had not earlier been tested in Finland. The company's first turbine was the largest single turbine in mainland Finland at the time of its erection, and the first one erected on an artificial island without a fixed road connection.

The second key element of the business model was a strategic partnership with an existing energy company. The delivery of power to customers through the national grid required administration beyond the ability of a small venture. The other problem was that in many cases the electricity consumption of individual shareholders exceeded their entitlement of 500-kilowatt hours/year/share. Deregulation of the electricity market had, however, also attracted the interest of another market actor, Ekosähkö, who saw the opportunity to brand their existing hydropower and biomass-based power production as green electricity. Ekosähkö launched a significant sales campaign with only moderate results. The green electricity offering by this incumbent company based on existing power plants did not offer a value proposition similar to that of Lumituuli. Hence, the partnership between Lumituuli, which lacked the volume to administer sales, and Ekosähkö, which lacked a customer base and credibility, proved to be an effective one.

Under the terms of the partnership between Lumituuli and Ekosähkö, Lumituuli plans, commissions, owns and operates wind turbines to produce power for its shareholders. Ekosähkö provides the services needed to operate on the electricity market place, including balancing power production and invoicing. In practical terms, all Lumituuli shareowners who wish to use their entitlement to electricity need to become customers of Ekosähkö. In addition to buying administrative services from Ekosähkö, in most cases, they also buy some electricity from Ekosähkö. Further benefits follow: Lumituuli is able to top-up the power produced by its own turbine with power from Ekosähkö, which lowers the threshold for individuals to get involved in Lumituuli, and ensures the delivery of electricity. On the other hand, Lumituuli shareholders constitute a large and dominant segment of the customer base of Ekosähkö. Moreover, Lumituuli's brand value as a progressive business meshes with Ekosähkö's operations, which have received less public interest. Cemented through the mutual benefits it provides, the partnership has lasted more than 18 years and remains the backbone of both operations.

The earning proposition of the company is robust because of the two, above-described key elements of the business model. The board of the company can set the electricity price for customer-owners who are committed to the company and loyal customers. Shareholders have also been found to be effective at disseminating the brand message and recruiting more members. Indeed, the marketing budget of the company is extremely modest and targeted at outlets for the progressive green movement. Yet each new sale of shares brings new customers to Ekosähkö as well.

As the company has aged, strategic responses have been required to maintain and develop the business model. First, shareowners who were initially attracted by the unique offering of Lumituuli often find that their life situations have changed, making the original offering redundant. Lumituuli has thus set up services to facilitate the aftermarket sales of company shares in order to maintain a committed constituency of buyers and support the value of the shares. Lumituuli also plans new share offerings according to the supply of and demand for existing shares.

A second development relates to changes in the subsidy system for wind power in Finland. A feed-in tariff for wind power improved the profitability of the business in 2011 to the extent that Lumituuli had the opportunity to invest in wind power without any stipulation on the consumption of such electricity. While Lumituuli had been operating using the logic of providing consumers with opportunities to acquire green electricity via the ownership of Lumituuli shares, Lumituuli bonds (launched in 2012) represented an alternative logic and value proposition. These bonds were designed to be a responsible, profitable, and progressive investment opportunity. While the original reason for setting up the company was a direct attempt to challenge the existing fossil-based energy regime of Finland, the bonds expanded the established discourse of green growth and the opportunities for investing in sustainability. In order to avoid fragmentation of the value proposition and institutional complexity, the bond scheme has been kept moderate in size compared to direct capital investments.

Progressive business, we claim, is more than about running a successful, legitimate enterprise. Indeed, by purely financial measures, Lumituuli can hardly claim to be a notable success. The profits on the company balance sheet are relatively unimpressive. What is more interesting and relevant to this chapter is to note the influence of the company on the emergence of wind power as a sector and the learning leveraged through the activities of the company, as well as the stretching of the institutional context. While citizen ownership has remained marginal in Finland and is regarded by some as a failure (Ratinen and Lund 2016), the detailed study of Lumituuli as an actor also hints at some success.

Electricity generation has been based on centralized, large production units, and distribution networks. Such a configuration was premised on both particular technologies and institutional arrangements. Large-scale power generation technologies not only include nuclear reactors, but also technologies such as combined heat and power (CHP) production in an urban setting, and large-scale hydro projects. In addition to such technologies, institutional arrangements have favored large-scale centralized production. In many countries, Finland included, power generation remained a monopoly until quite recently, which effectively blocked new actors from entering the market.

Renewable energy sources have begun to challenge centralized electricity generation. Community energy projects represent a way of broadening the constituency of energy systems. These projects involve local generation of electricity using technologies such as wind, solar, PV, and biogas. Walker and Devine-Wright (2008) propose that community energy initiatives question both the way that the benefits of energy production are shared, as well the way that such organizations are operated and managed. Community projects have indeed enabled local stakeholders to make investments in and capture value from projects within neighborhoods, as well as help, accumulate the capital needed to promote a change in the power generation mix and diversify the capital bases of energy investment (Bergek et al. 2013).

The second argument about more open governance structures remains contested. Cowell et al. (2011) claim that community benefits are mainly considered a means to roll out a pre-given agenda, such as using wind turbines as an effective way to mitigate the carbon emissions of power generation. For these authors, offering monetary compensation to offset the negative impacts of energy projects on local communities conflates a plurality of values into a unified monetary measure. While compensated, if made to accept energy projects local stakeholders can feel marginalized. Cowell et al. hence emphasize the openness of the processes and the opportunities they create for participation in project planning and execution, rather than focusing on the compensation they provide for the downsides of such projects. Progressive and effective community energy projects can thus be expected to use diverse organizational forms to open the door to distributed governance and decision-making. Indeed, community projects with different organizational forms already exist: In the UK, these include cooperatives, community charities, and development trusts (Walker 2008), whereas in Germany profit-driven local projects prevail, and in Denmark wind power generation is often organized through cooperatives (Bauwens 2016).

It seems fair to claim that Lumituuli has opened up new ways of participating in wind power development in Finland. Positions on the board of management have been open to interested shareholders, regardless of the share of ownership, and have enabled individuals to develop their own capabilities in terms of wind power. Annual assemblies have included topical discussions about wind power development, in addition to their formal roles. Perhaps more importantly, Lumituuli has increased practical engagement with and the utilization of knowledge, as shareholders have been active and effective at peer-to-peer marketing.

However, local citizens in the municipalities where the turbines are operating have showed only scant interest in investing in Lumituuli. This is despite dedicated marketing efforts and a good local reputation in Lumijoki and the other municipalities in which the company has operations and the relocation of the headquarters from the capital region Helsinki to Lumijoki. Lumituuli appears to have engaged those who are already well positioned for participating in energy debates. The empowerment of new actors is not a logical outcome of small-scale energy projects, as Schreuer (2016) has suggested. In the case of Lumituuli, a politically progressive company at the forefront of the energy system transition has been met with some sympathy by local residents, who nevertheless have only in rare cases opted to become part of such political activity.

The increase in the number of community energy projects has the potential to challenge preexisting energy systems, incumbent actors, and the institutions which govern electricity production. Bauwens et al. (2016) state that Denmark and Germany are the leading countries, each with more than 600 renewable energy cooperatives. In 2002, Danish wind power generation was dominated by cooperatives and single-owners of turbines. However, as the size of the turbines increased and the industry matured, small-scale manufacturers faced difficulties and a competitive disadvantage compared to the large wind power developers and operators, while the absolute number and the significance of local ownership drastically declined (Bauwens et al. 2016). The increase in scale has both required more professional management (Schreuer 2016) as well as multiplied the demand for capital. Policy shifts have also variously supported or undermined the opportunities for small and locally owned energy projects. Overall, while wind energy appears to have gained a better footing in terms of energy policies, the organizational form and the role of ordinary citizens in such systems remains much more open.

Small-scale energy producers have developed specific strategic responses to the technical and institutional changes which have disadvantaged them. Bauwens et al. (2016) highlight the joint marketing efforts of such organizations in Denmark, Germany, and the Netherlands. On the Finnish markets, Lumituuli has offered and acted as a market channel for the electricity produced by other small wind turbine operators via its partnership with Ekosähkö. Lumituuli has also acquired small amounts of shares of other operators and has facilitated learning through exercising shareholder rights. The company has also challenged institutions quite literally by filing complaints against utilities for setting unfair prices for grid connection and by lobbying against the administrative practices related to the feed-in tariff which disfavors small companies.

Lumituuli's role as a forerunner in the wind power business in Finland has had other manifestations as well. Lumituuli board members have served on the board of the Finnish Wind Power Association (FWPA) as the perennial voice of small-scale producers, obtained expert positions in several academic and policy institutions, given parliamentary testimonials and contributed to the promotional activities of the industry (e.g., during the annual Day of the Wind organized by FWPA).

The opportunities for wind power production have also been promoted via business networks. While concrete effects are hard to specify, it is true that Lumituuli collaborators and owners have taken up central positions in the industry: for example, PVO Engineering, which served as the technical consultant for the first turbine commissioning of Lumituuli in 1998, was later involved in setting up Winwind, the largest Finnish turbine manufacturer, which operated from 2000–2013. In a similar manner, the energy company ST1 became a major shareowner in Lumituuli in 2008 prior to starting to invest using their own capacity. It eventually became one of the biggest turbine operators in Finland. Finally, the fact that local and national green politicians (some of whom have also served on the board of the company) are also owners has policy implications and indicates strong familiarization with the emerging technology.

In conclusion, the company seems to have succeeded in its primary mission of promoting wind power in Finland as a means of mitigating climate change. Some of its success stems from good timing regarding key technical and institutional changes. Turbine development has now reached a level of technical performance and reliability unforeseen in the early years of wind power. Most critically, the deregulation of energy markets in Finland opened up opportunities for the entry of new actors who were embedded in different institutional settings than the traditional power producers. The success of Lumituuli clearly also hinges on mutually beneficial partnerships and the political legitimacy which stemmed from its origins as an NGO and its pursuit of explicitly social aims.

Lumituuli exemplifies a business enterprise which has pursued explicit political goals with some success. It also raises questions about in which kinds of political systems can such activities fit and flourish. Finland has undergone a distinct process of energy system privatization as public utilities and distribution networks have been sold off. On an international level, the failure to create global or EU-wide markets for CO_2 emissions is another obvious contextual factor which calls for more initiative and self-determination from private business. Indeed, in the remainder of this chapter, we argue that corporate political activity and progressive business models can be particularly effective in times of disruption and the rearrangement of the relationships between business and society.

To increase the analytical focus of the Lumituuli case study, we have sketched out some basic ways in which political and business goals in a society can be configured. Table 1 maps these configurations and offers an interpretation of the particular configuration of the case study environment for electricity provision in Finland.

The horizontal axis of Table 1 displays how strong or weak the public sector of a society is. The vertical axis shows the level of unity of operating logics across different sectors of society (i.e., a single and dominant operating logic which applies to public and private sectors of society versus. different operating logics).

In *Politicized society* there are no boundaries between sectors of society since the whole of society is governed by political doctrine(s). One example of this is the socialist order, where equality and democracy are overarching values, the means of production are publicly owned, and a strong democratic state is combined with firms run by labor in a democratic way. In this context, all major political, social, and economic

Table 1 Basic combinations of business and politics in society (Adapted from Goodman and Mäkinen 2016)

	Strong public sector	Weak public sector
Dominant operating logic in society	Politicized society Political doctrine applies to all sectors of society No boundaries between business and politics Example: Socialist utopia with democratically governed firms and democratic public spheres of society In the case of the environment: Electricity delivered by public utilities which are directly accountable to public policy	Business society Business logic and privatization across the board No boundaries between business and politics Society as a business venture Example: Libertarian utopia, early industrial company towns In the case of the environment: Progressive businesses in the energy sector, with segments of progressive consumers developing new markets independently of government regulation. Lock-in effects between producers and consumers
Plurality of operational logics in society	Liberal democracy Politically oriented public sector Boundaries between business and politics exist Private firms focus on business issues in a market environment More or less robust and democratically governed public sector focus on political issues In the case of the environment: Global CO2-emission markets which are as neutral as possible in terms of specific technologies, markets or actors	Mixed society Exchange regarding ends and logics of public and private sectors of society Blurred boundaries between business and politics Firms may focus on political and social issues and governments on business issues Public sector under privatization and politicized private sector In the case of the environment: Innovation policies which promote targeted solutions and seek to create niches and ultimately industries for low-carbon energy provision. Lock-in effects between business and government

issues are decided collectively through democratic processes, and there is only one dominant operating logic which applies to all sectors of society (Arneson 1993; Miller 1993). In the energy sector, public utilities which have the task of delivering fair energy services resemble this ideal type.

Business society is a network of private agreements according to which the political relations of citizens to the institutions of a minimal state are like their relations with "any private corporation with which they have made an agreement" (Rawls 1996: 264–265). In this political setting, there are no boundaries between the sectors of society, and there is no room for collective decision-making processes and democratic operating logics since the whole of society is privatively governed according to business logics. Historical examples of these systems include the early industrial company towns (Djelic and Etchanchu 2015; Green 2010). Regarding electricity provision, both the green electricity offerings by business and customer-owned companies and cooperatives which organize production for their own needs resemble the ideal types of strong link between production and consumption displayed by industrial towns.

Liberal democracies are combinations of democratically governed and relatively robust public sectors of society and the private sector, which consists of markets and business firms run according to business logics. In these settings, there is a separation between the political and the business spheres of society and between the democratic operating logic of the public sector and the business logic of the private sector. Liberal democracies represent mainstream Western ideas about the market economy and democracy. In electricity markets, international carbon emission taxation, regardless of which specific technology is used, resembles this ideal type. This example also highlights the fact that the political structures of liberal democracy require the strict regulation of single market actors.

Finally, *Mixed society* is a combination of the increasingly economical and business oriented public spheres of society, and politically and socially oriented private actors like business firms, and the mixing of these two spheres and operating logics. Even though this social order may seem to be a theoretical curiosity, in the contemporary political culture there exist interesting social orders which resemble this combination of political and business logics. For example, private firms and government representatives (along with civil society associations) may take an active role in democratically governed multi-stakeholder forums and multi-stakeholder initiatives mixing the traditional business and public sector logics (see Goodman and Mäkinen 2016). Furthermore, the drive for transition management in the energy sector indicates the need for tailored policies that support technology niches and experiments that help technologies mature, as well as those that kick-start low-carbon industries.

It can be argued that now, in the twenty-first century, the politicized society and the business society remain utopias. Liberal democracy is the prevalent way of combining business and politics since it is the mainstream idea and practice throughout the Western world. However, as effective international carbon taxation remains a distant utopia, governments are being forced to nurture alternative technologies at close range, which implies the unavoidable meshing of politics and business. Mixed society is hence an interesting alternative configuration in a globalized world in which traditional liberal boundaries between business and politics are becoming increasingly blurred (Scherer et al. 2014).

Nordic welfare states have traditionally used the strong public sectors of society to promote high levels of general welfare, social security, and equality for all members. In Finland, a representative of Nordic societies, the significant task of the public sector has been to focus on political issues like supporting social justice and general welfare. The task of the Finnish public sector has been to promote socioeconomic equality, offer fair opportunities to all, and maintain an equitable and sustainable state of societal welfare. This applies to the Finnish electricity sector as well, where energy is traditionally seen as a public good and the basic responsibility of the state has been to support legally fair and stable prices for energy across the country.

Since in Finland the majority of political and social responsibility-related tasks have been undertaken collectively by the democratically governed public sector, the role of the business sector has been to concentrate on business issues, without extensive and visible political programs and targets. Furthermore, the relatively strong economic focus of

Finnish firms is related to the fact that they are expected to pay Nordic-level taxes, create jobs and invest in Finland (Mäkinen and Kourula 2014).

The traditional Finnish welfare state system represents liberal democracy, and more specifically, welfare-state capitalism, where the major aim of the robust public sector is to increase the general level of welfare and maintain democratic equality in society via redistributive socioeconomic policies and institutions (Freeman 2007). Here, the basic responsibility of the business sphere is to create economic value so that the strong public sector has enough economic resources to further general welfare and equality over time.

However, since the 1990s Finnish society has been moving away from a traditional Nordic welfare state in the direction of more neoliberal society. In this process, the basic political ends of Finnish society are reframed. While the traditional Finnish welfare state promoted general welfare and social justice, the emerging, competitive Finnish state increasingly focuses on economic issues, and its political institutions are assigned relatively straightforward tasks related to increasing economic growth and competitive advantage. On the other hand, traditional welfare state tasks such as promoting general welfare and democratic social justice and related public responsibilities are undergoing privatization and the political roles of the business and civil sectors of society are becoming increasingly dominant (Eräsaari 2002; Julkunen 2006; Heiskala and Luhtakallio 2006; Tainio et al. 2014).

Seen from the perspective of our framework, contemporary Finland shows interesting features of a mixed society where the public sector focuses strongly on economic issues (GNP and competitive advantage), public institutions are under strong pressure to increase efficiency, and the traditional political goals of general welfare and social justice are being outsourced to other sectors of society. Simultaneously, the political role of the business sector is on the rise since the major goals of public and business sectors are quite similar, and the success of public sector actors is increasingly dependent on the activities of business actors. Moreover, the privatized public sector is creating increasing space for firms and civil society actors to take over traditional political and social responsibilities.

Furthermore, in the Finnish context, the reduced public sectors understanding of general welfare as economic growth offers business and civil society actors room to achieve broader and alternative political ends. Thus, it seems that in the setting of the emerging mixed society of Finland, the realization of political and social ends that go beyond business goals are increasingly dependent on how well private and civil society organizations combine in their activities business and political logics. In the following section, we discuss the hybrid organization of Lumituuli as a progressive business in this type of political context.

3 Challenges to Lumituuli

Lumituuli is an organization that combines progressive political ends with sustainable business activities. Its ultimate goal is to generate political discussion about the opportunities and potential of wind power and increase its use in Finland. To achieve this political end, the firm is building and financing economically profitable wind generators and communicating its experience to the public and political decision-makers. Such divergent goals and logics involve institutional complexity (Greenwood et al. 2011), and require hybrid organizations that can engage with several logics.

Hybrid organizations operate on the borderline between the private and public spheres of society and try to respond to social and environmental problems using economic means (Ebrahim et al. 2014). Generally speaking, the major challenges for hybrid organizations are often related to the problems of achieving different ends and merging the operating logics of the political and business spheres. A focus on both sustainability and economic profitability may lead to tension at the organizational level. Thus, hybrid organizations may need to engage in specific kinds of strategies to address the conflicting logics of the economic and political realms of society (Battilana and Lee 2014).

Institutional complexity is inherent in community energy projects but is also brought about as organizations grow and mature. Schreuer (2016) has analyzed the growth paths of Austrian citizen-owner wind turbines and claims that they risk being assimilated and incorporated by the existing actors and business logics of electricity generation. The increasing number of citizen-owned power producers may need to professionalize if volunteering as a key organizational element is found to be inadequate. They may also start to operate on a nationwide basis, which in the Austrian cases described by Schreuer reduced the participation of peripherally located individuals. Finally, Schreuer also refers to incorporation, through which large preexisting companies gradually take over the activities of local energy projects. This may happen when utilities begin to build, operate, and maintain citizen-owned power plants, requiring only that citizen-owners become their customers, thereby reducing the role of the consumer to capital provider and electricity consumer.

Lumituuli seems to have been set up to avoid such concerns. From the beginning, it was not only a local energy project but also a nationwide citizen-owned turbine operator. It also partnered in a mutually beneficial way with an established energy company, thus effectively avoiding the threat of incorporation. Despite this, its institutional complexity has manifested in several ways. The company started out as fully volunteer-operated and achieved important early successes without any monetary compensation for the individuals involved. Since the involvement of a professional manager, power, and expertise have certainly begun to coagulate. Yet it is obvious that this change has been needed considering the changing operating environment of the company and the professionalization of the field of wind power production in general.

Another key challenge has been to uncouple profit-seeking from investment in “own” power production capacity. Corporate bylaws and annual assemblies of shareholders have been central to maintaining the company not as a tool for making profit, but as a producer of low-carbon electricity and an example to other Finnish actors.

The credo of Lumituuli is based on promoting wind energy in Finland. Since 2013, Finland has used a feed-in tariff for wind energy which has resulted in substantial building activity, the emergence of new large-scale investors, and the scaling-up of project sizes. With the speed of new installations, the firm’s mission seems to have been accomplished. Yet another turbine by Lumituuli will not affect development to any significant extent. The feed-in tariff has also brought to the table other wind turbine financiers who are channeling private money into turbine investments.

Currently, the role of the company is perhaps clearest in terms of the call for different organizational forms in which citizens own the means of production; in the case of Lumituuli, this refers to the turbines which generate the power for their needs. However, and as international experience indicates, policy support and subsidy schemes are not stable and social goals may reemerge as more salient in the future. The feed-in tariff, which has created a wind gold rush in Finland since its introduction in 2011, is short-lived. New projects are no longer being accepted for these lucrative support schemes, but will need to find yet another logic for their existence. As political decisions are pending in 2016, subsidies will promote the further centralization of wind power production in Finland.

4 Conclusions

The institutional transitional process of Finnish society toward a more competitively oriented, mixed society seems to have supported the existence of Lumituuli. As the state withdrew from operating utilities and has failed to tax carbon, private enterprises have much to contribute in political terms. It appears that in the emerging, competitive Finnish society, the realization of political ends like promoting sustainability will be increasingly dependent on the capability of hybrid organizations such as Lumituuli to combine business and political logics.

The opportunities for progressive business depend on institutional arrangements that differently distribute political agency in society. Furthermore, it can be argued that the determination of the level of progressiveness of business is partly based on political interpretations. For example, Lumituuli challenges the mainstream liberal democratic social order in which private firms are not supposed to be openly political actors. From the liberal democratic perspective, Lumituuli hardly represents the ideal organization. On the other hand, the current crisis of the liberal democratic social order creates progressive political, social, and economic roles for hybrid organizations like Lumituuli.

The case of Lumituuli also partly reveals the features of industry internal dynamics. To the extent that progressive businesses challenge existing, incumbent actors, events which open the field to competition and entry appear to be key opportunities for progressive business. Such internal industrial dynamics may be of critical importance for progressive hybrid organizations, insofar as their business logics introduce new products and services which existing market actors fail to provide.

Citizen-ownership models have different roots and contemporary forms. Cooperatives have traditionally operated in order to raise capital and organize the shared use of products without necessarily having a progressive, political aim. Crowdfunding, through which citizens and consumers can collectively promote developments which lack market credentials, is a contemporary form of investment activism. The practices and existing platforms for crowdfunding would indeed seem to support the emergence of semipolitical actors akin to Lumituuli. Yet raising capital is only one of the challenges such organizations face. As the case of Lumituuli suggests, the successful integration of political aims and existing business practices is of key relevance.

5 Questions to Address

- How has Finnish society conditioned and supported the business of the case study company Lumituuli?
- How and to what degree has Lumituuli adapted to specific and general circumstances?
- How has Lumituuli been able to change its own operating environment?
- What are the core competences of Lumituuli?
- How was responsibility conceived by the people working at Lumituuli? What role did it play in the success of the company?
- What kinds of learning outcomes and resources has the case company been able to develop over the course of its operations (since 1998)?
- What kinds of network ties and shared interests does the case highlight?

- How do progressive businesses contribute to the development of new technology?
- Do progressive businesses follow an evolutionary path? What do you imagine will happen to Lumituuli?

Acknowledgements The writing of this paper was supported by the Strategic Research Council of the Academy of Finland, Grant Number 29340 and Liikesivistysrahasto—The Foundation for Economic Education.

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The Ethos of Partnership: The John Lewis Partnership

Eleanor O'Higgins

In 2016, the John Lewis Partnership (JLP) is an employee owned UK company which operates 46 John Lewis shops across the UK (32 department stores, 12 "John Lewis at home" and shops at St Pancras International Train Station and Heathrow Airport), 346 Waitrose supermarkets, an online and catalogue business, a production unit, and a farm. The company is owned by a trust on behalf of all its 91,500 permanent staff, known as "Partners," who have a say in the running of the business and receive a share of annual profits, traditionally a significant addition to their salary. In 2015, the Company had annual gross sales of £10.92 billion.

In 2014, JLP celebrated 150 years in business. The company is beloved of Britain's middle-class, who shop at its department stores and its Waitrose supermarket chain, and increasingly online. In 2015, it was named the most admired British company for honesty and trust in an Ipsos Mori survey. The brand is trusted because of its reputation

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E. O'Higgins and L. Zsolnai (eds.), *Progressive Business Models*, Palgrave Studies in Sustainable Business In Association with Future Earth,
DOI 10.1007/978-3-319-58804-9_9

for quality of service and value for money, including its policy of being "never knowingly undersold," i.e., the store will refund the difference if a customer can find the identical product cheaper at another retailer (excluding online only retailers). Its unique governance structure has resulted in its becoming a talisman for corporate reform, inspiring the then UK's Deputy Prime Minister in 2012, Nick Clegg, to discuss a "John Lewis economy" as the way forward for a role model for employee owned companies. It has also been called the "moral face of retailing" by consumers.

1 Background and History

John Lewis, the original founder, born in 1836 in the Somerset village of Shepton Mallet, was one of six children in a moderately affluent household, whose extended family owned various local businesses. However, the Industrial Revolution had caused the collapse of traditional businesses, so many people moved away from villages to bigger towns and cities. Having served various apprenticeships in a number of drapers in different Somerset towns, John Lewis was determined to break free and set up on his own. After a brief spell at a draper shop in Liverpool, where he was sacked for fighting, John set out to seek his fortune in London in 1856. This was opportune, as rising incomes and a growing middle-class opened aspirations for manufactured and crafted products and a desire to shop for fancy, exotic, and luxury goods.

In London, John eventually took a job with retailer Peter Robinson, where he specialized in buying silk, soon becoming a head buyer, the youngest in London. Within a short time, he was offered a partnership. However, this was not enough for his ambition, which was to make his own mark. Aged 28, in 1864, brimming with energy and self-confidence, financed by £600 from the life savings of his unmarried sisters, John bought 132 Oxford Street, now the site of JLP headquarters.

John had a hands-on style and ran his business with ultra control, prepared to fight (even physically) anyone who crossed him. His approach was to buy and sell cheap, yielding low-profit margins. He kept a prodigious amount of stock, buying nearly all the goods personally. The business grew slowly and steadily, although John steadfastly refused to advertise his business. One of his employers had taught him that “the art of pricing is to get profit where the public will not see it” (Glancey 2014: 14).

Staff wages and conditions were kept to a minimum, with long working hours. Shop assistants, mainly young women, were paid about £25 a year and many had to borrow to survive. They had to reach sales targets and were dismissed if they dared to marry. Given that the lift in the Oxford Street shop cost a penny farthing each time it went up or down, John could be seen standing by the lift gates, directing shoppers who looked fit to use the stairs.

John’s iron will was displayed in 1920, when staff took strike action, funded by the staff of rival companies, Harrods and Army & Navy Stores, and even by Queen Mary herself. However, John fired those on strike, declaring, “If I see them on their hands and knees, I shall not take them back” (Glancey 2014: 21). His determination to run his store as he, and only he, saw fit was demonstrated when he served three weeks in prison for contempt of court in 1903 in a legal dispute over what he was allowed or not allowed to do with his shop.

So, how did the Company make the journey from autocratic ownership and employer centered business practices to an employee centered cooperative? It starts with John Lewis’ own family. After a long relationship of almost 20 years with the love of his life, Eleanor “Nelly” Breeks, John was heartbroken when her parents refused to allow her to marry him, deeming him not grand enough for their daughter. When Nelly, who never married, died in 1903, he commissioned a monument to her memory.

John himself did not marry until 1884, when he was 48. He had two sons, John Spedan, born in 1885 and Oswald, born in 1887. Oswald took to the law and the army, while it was Spedan who joined the family business. However, father and son did not see eye to eye on how the business should be run. Spedan had picked up ideas about worker rights and democracy, and egalitarianism, in the sense that owners and managers should not be earning exorbitant multiples of what their employees were getting. He was inclined to renounce his wealth, while his father was determined to hold on to and augment it.

Spedan's opportunity to put some of his ideas into practice came in 1914, when he was put in charge of Peter Jones, a department store in the fashionable Chelsea area, his father had purchased for cash in 1906. It was a way for John Lewis keep Spedan out of his way, and perhaps to turn around Peter Jones, which was loss making at the time. After giving the shop a facelift, Spedan set about improving worker conditions, with measures such as wage raises, coffee and tea breaks and clean toilets. Very significantly, practices which were to become the foundation of Partnership were established, with the creation of various representative staff committees. An innovation which continues to the present is the launch of a staff journal, the *Gazette*, where he and staff aired ideas and opinions. There was/is no censorship, and staff can post letters anonymously. Thus, the contrast in working conditions between John Lewis and Peter Jones could not have been greater, as were their trading fortunes. Unfortunately, John ended up having to bail out the Peter Jones shop in 1920.

The antagonism between father and son was somewhat alleviated when Spedan and his wife had a son in 1924, as John was captivated and delighted with both his daughter-in-law and grandson. Spedan was keen to unite the two businesses, but this was not possible while his father was still active. In 1926, Spedan's brother Oswald, who was never interested in business, sold his share of the Company to Spedan, who had to take out a loan to pay for it. (Indeed, Oswald went on to serve as a Conservative MP for many years, returning to the Company, by then a Partnership, in 1951 as Director of Financial Operations, before retiring in 1963.) John Lewis never retired, only leaving the business on the day he died, June 8, 1928. "Spedan stepped into his shoes and with a spring in his step" (Glancey 2014: 25).

As the sole owner of the business, he moved to propagate his ideal of Partnership, which he had been mulling over the years. With the business valued at over £1 million, he formed the John Lewis Partnership, with a capital of £312,000, by means of the First Trust Settlement, in a document running to 268 pages. Profits were to be distributed to all Partners while Spedan would retain control, but receive no salary, fees or interest, living off a £1 million of noninterest paying loan stock repaid to him over a 30 year period. This sum would be devalued with inflation.

According to Spedan's vision, "the Partnership was created wholly and solely to make the world a bit happier and a bit more decent" (JLP Annual Report and Accounts 2015: 15). Having established the Partnership, Spedan wanted to leave some clear guidelines for his successors, so that the values which had motivated him would not be eroded. These are embodied in a Constitution for the trust written by him. The Constitution states that "the happiness of its members" is the Partnership's ultimate purpose, recognizing that such happiness depends on having a satisfying job in a successful business. It establishes a system of rights and responsibilities, which places on all Partners the obligation to work for the improvement of the business in the knowledge that they share the rewards of success. The second reason for the Constitution looks forward. Spedan Lewis was committed to establishing a "better form of business," and the challenge for Partners of today is to prove that a business which is not driven by the demands of outside shareholders and which sets high standards of behavior can flourish in contemporary competitive conditions and, indeed, to demonstrate that adhering to these principles and rules even enables long-term outperformance over companies with conventional ownership structures.

Timing for establishing the Partnership could hardly have been worse, as the Great Depression starting in 1929 took hold, reducing consumer spending power. Nonetheless and encouragingly, many out-of-work university graduates were glad to find a job, even in "trade," especially given the generous terms offered by JLP. From about 1933, Spedan began buying shops and departments stores outside London to forestall the threat of other growing multiples like Marks & Spencer (M&S), with its merchandise and grocery businesses. In 1937, Spedan decided to branch out into groceries, by buying the quality Waitrose chain. Meanwhile, Spedan had also been developing the Oxford Street flagship store by buying up adjacent properties, so by 1936, the store spanned two blocks. Sales more than doubled for JLP between 1932 and 1937, stretching the business, so no bonus was paid to Partners in 1938.

For all his generosity to his employees, Spedan was a benevolent autocrat, as a perfectionist who wanted to control events, not so different to his father. Throughout his business expansion of the 1930s, Spedan was quietly planning to give ownership and control of it to the Partners. But the outbreak of World War II was to present a challenge.

In September 1940, a German aerial flotilla of 268 bombers flew over London, hitting the length of Oxford Street, including the John Lewis shop, where some 200 people had taken protection in a makeshift shelter in its basement. Fortunately, there were no casualties. Meanwhile, upper crust customers were abandoning London for the safety of their country estates. During the course of the war, German bombs struck several other John Lewis shops in the provinces. There was much rebuilding work for John Lewis to do after the war. This was hampered by a shortage of fuel and raw materials.

On the positive side, Partners who had left to fight in the war were returning, and there was further recruitment. Notwithstanding the exigencies of war, Spedan Lewis had promised a generous pension scheme for Partners in 1941. With the election of a Labour government to provide a welfare state, the political climate was in keeping with Spedan's sharing philosophy, as in 1948, he published a 475 page book, *Partnership for All*, essentially a manifesto, summarized in the final paragraph:

> … we should begin now to see how Producer Co-operatives of this general type may be the answer to one of the great problems of our modern civilization, how to make our working lives as fruitful for ourselves and in all other ways as happy as they ought to be and so make ourselves work as well, as for our own sakes we should. (Glancey 2014: 98)

The natural outcome was that in 1950, Spedan signed a Second Trust Settlement, transferring ownership and control to the Partnership. Given that the company is owned by a trust, Partners are unable to sell their shares upon retirement or leaving the Partnership.

Spedan retired in 1955, a difficult transition, after a life's work with the Partnership. The new Chairman was Bernard Miller, a JLP "lifer," originally hired in 1927 straight from Oxford, married to a fellow

Partner. Miller's accession coincided with a buoyant economy, enabling him to turn the Partnership into a thriving retail business during his 1955–1972 tenure. Staff bonuses averaged 13.5% during the Miller years topping 18% in 1972. New retail and manufacturing units were added, alongside innovations such as computerized stock control. Miller was concerned to ensure the highest standards in design, business, and staff conditions. Staff retention was very high. Retiring in 1972, Miller left JLP in excellent condition, going on to enjoy a second career as Treasurer and Pro-Chancellor of Southampton University.

The next Chairman, Peter Lewis, was the son of Spedan's brother Oswald, who had joined the Partnership as a management trainee in 1959, despite having qualified as a lawyer like his father. While the 1970s was a time of unemployment, and strikes, nevertheless the groundwork was still being laid for the emergence of a more affluent and discriminating middle-class, who would be the bedrock of JLP custom. Although Peter had received no special treatment in his rise through the ranks, he showed himself to be highly capable in riding the waves of change in society and consumerism between the 1970, 1980s, and into the early 1990s. Selling space doubled in his two decades at the helm, as Peter undertook ambitious expansionary projects, declaring, "Our calculations are for 25 years, but our hopes are set on a hundred" (Glancey 2014: 158). Technological innovations continued apace, for example, with the pioneering introduction of electronic point of sale (EPOS) systems, as technology experts were recruited accordingly.

Stuart Hampson, a former civil servant who had joined the Partnership in 1982 became Chairman in 1993, following the retirement of Peter Lewis, further expanding the business. Hampson had to endure and counteract a movement among a minority of Partners who believed that every business could be privatized to advantage and embarked on a campaign to float the Partnership on the Stock Exchange. Hampson stood firm, declaring that the company was owned by a Trust set up by Spedan Lewis in such a way to ensure that generations would continue to enjoy the gift of his business. The well-being of a Partnership such as JLP conferred a camaraderie, social life, and economic security in pressured times not present in a private company. Further, Hampson was able to demonstrate the way that JLP had taken calculated risks for the long-term from 1972, by growing thoughtfully and carefully, and was therefore well positioned to a new world of Internet shopping, instant and global electronic communication, and intense competition. In contrast, rivals which had concentrated on short-term vagaries of shareholder demands had not done as well.

When Hampson retired in 2007, he was replaced by Charlie Mayfield, who still serves as Chairman as of 2016. Mayfield joined JLP in 2000 after a distinguished military career, followed by business training and several high-level executive and consulting experiences. In the same year that Mayfield became Chairman, 2007, Andy Street, became Managing Director. Street, an Oxford graduate, had joined JLP straight from University, undertaking a number of senior executive posts, including Supply Chain Director, Director of Personnel and Managing Director of JLP branch stores. In 2014, he was named the "Most Admired Leader" of the year by business magazine, *Management Today*. In June 2015, he was awarded a CBE for services to the economy, in his roles as managing director of John Lewis and as Chairman of the Greater Birmingham Local Enterprise Partnership. However, in September 2016, Andy Street was unveiled as a Conservative candidate for Mayor of the West Midlands, so he was predicted to step down from his position at JLP.

2 The Business Model

JLP is governed by a Constitution which serves as a framework to define the Partnership's principles and the way it should operate. The Constitution defines mechanisms to provide for the management of the Partnership, with checks and balances to ensure accountability, transparency, and integrity. Originally written by Spedan Lewis in 1929, the Constitution has been revised on a number of occasions since then, in order to keep it fresh and up to date. In 2009, in the face of the financial crisis, which was publicly perceived as a product of corporate selfishness, JLP unveiled a new Constitution. The Constitution renewed JLP's vision as a contrast to rampant "corporatism," basically reiterating the values in which the company was always grounded. These are encapsulated in seven principles:

1. Purpose. The Partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business…they share the responsibilities of ownership as well as its rewards—profit, knowledge, and power.
2. Power. Power in the Partnership is shared between three governing authorities, the Partnership Council, the Partnership Board and the Chairman.
3. Profit. The Partnership aims to make sufficient profit from its trading operations to sustain its commercial vitality, to finance its continued development, to distribute a share of those profits each year to its members, and to enable it to undertake other activities consistent with its ultimate purpose.
4. Members. The Partnership aims to employ and retain as its members people of ability and integrity who are committed to working together and to supporting its Principles. Relationships are based on mutual respect and courtesy, with as much equality between its members as differences of responsibility permit. The Partnership aims to recognize individual contributions and reward them fairly.
5. Customers. The Partnership aims to deal honestly with its customers and secure their loyalty and trust by providing outstanding choice, value and service.
6. Business Relationships. The Partnership aims to conduct all its business relationships with integrity and courtesy, and scrupulously to honor every business agreement.
7. The Community. The Partnership aims to obey the spirit as well as the letter of the law and to contribute to the wellbeing of the communities where it operates.

In addition to the Constitution, JLP is also governed by its Articles of Association, the Companies Act, and complies with the Listing Rules and Disclosure and Transparency Rules applicable to a Standard Listed company on the London Stock Exchange (LSE). As JLP has no tradable equity share capital listed on the LSE, it is eligible for exemption from corporate governance disclosure requirements of the UK Corporate Governance Code. Nonetheless, JLP voluntarily applies the UK Code Principles and publishes full disclosure in its Annual Report, so it holds itself publicly accountable. However, as the Partnership's Constitution and co-ownership model establishes its own unique governance structure, there are certain aspects of the Code with which JLP does not comply. Nonetheless, JLP claims its practices are consistent with each of the Code's principles, as appropriate, and offer the necessary level of protection to Partners and other stakeholders.

The uniqueness of JLP is its Partnership structure, whereby the Partnership's shares are held in trust on behalf of its Partners. Given that this structure defines its corporate governance, it follows that it should influence all business activities. The essence of the governance structure and arrangements is to ensure democracy, so that all Partners can have a voice in the running of the company, as per the Constitution which established the representation of the co-owners on the Partnership Board through the election of Partners as Directors (Elected Directors).

The Partnership has three top governing authorities with overall responsibilities: the Partnership Council, the Partnership Board, and the Chairman:

- The Partnership Council is deemed the primary democratic medium. It holds the Chairman to account and appoints five directors to the Partnership Board. The Partnership Council is the elected body that represents Partners as a whole and reflects their opinion. It is the voice for ensuring that the business is run for and on behalf of Partners.
- The Partnership Board is comprised of 5 appointed and 5 democratically elected Partners, 3 independent nonexecutive directors and the Partners' Counselor. The Chairman appoints five executives to the Board, including the Managing Directors of John Lewis and Waitrose respectively, the Finance Director, and the Director of Personnel. The Partnership Board is responsible for the overall management and performance of the Partnership and operates within a framework of controls, which enable risk to be assessed and managed. It is collectively responsible for the success of the Partnership.
- The Chairman has personal responsibility for ensuring that the Partnership retains its distinctive character and democratic vitality. The Partnership Board delegates management of the Partnership's business

to the Chairman and he is ultimately responsible for the Partnership's commercial performance. He is the Chairman of the Partnership Board, by virtue of his appointment as Chairman of the Trust Company. He is also responsible for the leadership of the Partnership Board and ensuring its effectiveness on all aspects of its role.

- The Partners' Counselor is automatically a member of the Board. S/he seeks to ensure that the Partnership is true to its principles and compassionate to individual Partners. S/he monitors and upholds the integrity of the business, its values, and ethics as enshrined in its constitution, performing the role of senior independent director in their interaction with Partners as co-owners of the business. The Partners' Counselor supports the elected directors in their contribution to the Board and thereby helps underpin their independence, convening meetings with the elected directors, without other executive directors being present, as appropriate and at least once each year (Fig. 1).

<table>
<tr><td colspan="2">The Partnership Council
(GA)</td><td colspan="2">The Partnership Board
(operates in accordance with matters reserved for the Board)
(MG)</td><td colspan="2">The Chairman
(MG)</td></tr>
<tr><td></td><td colspan="5">With governance and assurance from Partnership Board Committees (GA):
- Audit and Risk Committee
- Remuneration Committee
- Chairman's Nominations Committee</td></tr>
<tr><td colspan="6">delegate to...</td></tr>
<tr><td>Partners Counsellor
(GA)</td><td>Managing Director Waitrose
(MG)</td><td>Managing Director John Lewis
(MG)</td><td>Finance Director
(MG)</td><td>Managing Director Partnership Services
(MG)</td><td>Director of Personnel
(MG)</td></tr>
<tr><td colspan="6">delegate to...</td></tr>
<tr><td></td><td>Waitrose Management Board (MG)</td><td>John Lewis Management Board (MG)</td><td></td><td>Partnership Services Management Board
(MG)</td><td></td></tr>
<tr><td colspan="6">Internal Audit and Risk Management
(GA)
Provides assurance to the Board through the Audit and Risk Committee on the Partnership's risk management and controls, and the integrity of the Annual Report and Accounts</td></tr>
<tr><td colspan="6">MG = Management and Governance responsibilities GA = Governance and assurance body</td></tr>
</table>

Fig. 1 The governing structure of JLP. *Source* www.johnlewispartnership.co.uk, reprinted with permission from John Lewis Partnership

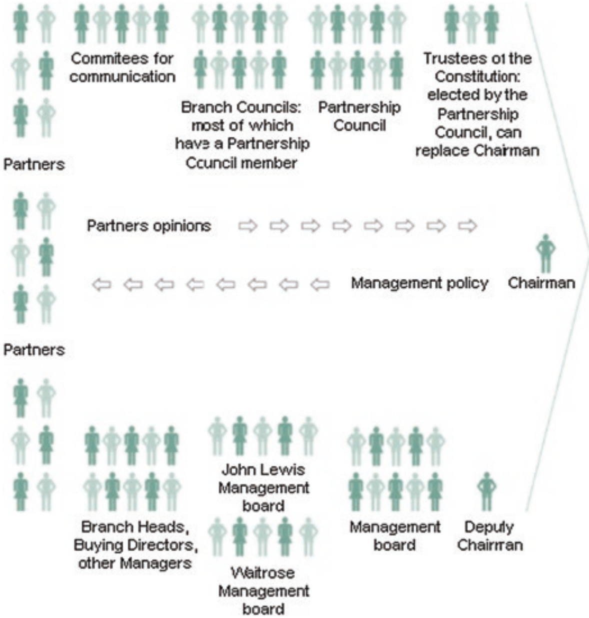

Fig. 2 JLP democracy in action. *Source* www.johnlewispartnership.co.uk, reprinted with permission from John Lewis Partnership

Figure 2 portrays how the governance arrangements translate into the implementation of policy and strategy in the company, emphasizing that it is not meant to be the traditional top-down hierarchical organization, but one where everyone is equal.

JLP applies the same value chain procedures in all of its divisions. It is comprised of four components, which JLP states to be unique among its peers as follows:

- "Careful sourcing"—JLP claims it develops and selects third-party branded quality products to meet customer needs, and develops high quality, innovative own-label ranges. It asserts that it has many exclusive and often long-standing sourcing Partnerships with suppliers for key products, thus giving greater influence over quality and provenance. In 2016 in response to the UK Grocery Code Adjudicator,

Waitrose was one of 10 supermarkets to improve its payment terms to suppliers by pledging to pay its small food suppliers within 7 days of delivery, better than other grocers like Tesco with a 14 day limit.
- "Efficient distribution"—JLP claims it moves its carefully sourced products cost-effectively to shops and customers, having invested significantly in distribution and logistics infrastructure over the past few years.
- "Convenient, excellent shopping experience"—JLP claims it serves its customers by providing a superior end-to-end shopping experience, through a market leading omnichannel service, offering customers unrivaled choice, experience, and convenience.
- "Developing enduring customer relationships"—JLP claims to provide value for money and outstanding customer service before, during and after purchase, wherever and however they shop. This is achieved through award-winning customer service and after-sale support, which leads to enduring customer relationships.

Thus, JLP maintains that its value proposition ultimately creates value with respect to financial performance, and contributes to the welfare of its Partners, suppliers, customers, communities, and the environment.

JLP's strategy aims to enable Partners successfully to add more value to the business than employees do for its competitors, and therefore earn more as a result. This will be achieved by targeting the most valuable customers who shop across its brands, thereby gaining the Company a greater share of their spend. Parsimonious about advertising in the tradition of John Lewis himself, JLP accumulated a reputation at the point of sale with the customer, deemed, "the moment of truth." There was an emphasis on superior design in all aspects of the value chain—goods, packaging and corporate color schemes—as the hallmark of JLP, with a model of clean lines, modesty, and good taste.

Knowledge sharing is facilitated through representative bodies. Through improved processes and clearer responsibilities, growth should be funded through better efficiency and operating margins. The JLP strategic approach is based on "logical incrementalism," whereby change is implemented in small steps, with lessons from each phase informing the next (Ghobadian 2013). It has applied this approach in its product offerings, store formats, online technology, and international expansion to South Korea and Dubai.

The company has been considering what it might do in the future, with a group set up to look at what the world might be like in 2028. "The reason we chose that date was it's 100 years after Spedan Lewis inherited the business from his father," Mayfield says. So what markets could John Lewis go into? "I don't look at just what markets we can see today, like holidays or hotels or restaurants," he says. "Instead what's more interesting is to think about what markets might grow from almost tiny beginnings - maybe they're not even present today—but in 20 years' time could be really significant. In which of those markets would our competitive advantage count for most?"—including further international expansion. JLP invests some resources through its JLAB unit in accelerators or incubators, i.e., start-up companies that could be the source of technological breakthroughs, also offering training and mentorship to these fledglings.

The company aims to satisfy certain ambitions through its strategy. These are to increase the advantage of its Partners through job satisfaction, gross sales and profit per average full-time employee (FTE), low staff turnover, and increased number of Partners. In the John Lewis division, the strategic priority for Partner advantage is Partners taking ownership of their success, while in Waitrose, priorities are an investment in Partner development and progression and supporting productivity.

An allied aim is to enhance market potential through increasing the number of shops, selling space, gross sales, gross sales per selling square foot, and percent of customers shopping in both the John Lewis and Waitrose brands. John Lewis prioritizes outperformance in its current markets and growing its online business, nevertheless growing its physical space. In fact, the company has discovered synergy between physical and online presence, as the presence of a department store can boost online business. About one-third of John Lewis department stores sales are online and growing in 2016, with increasing customer preference for picking up goods ordered online in the store. John Lewis became the first store to charge for "click-and-collect" for orders under £30, as a free service was deemed "a bonkers business model" by Managing Director, Andy Street (Skapinker and Felsted 2015). This is due to the fact that every item sold online carries a cost of picking, purchasing, and delivery. Likewise, Waitrose is not only building its online presence, but also intends to develop compelling reasons to visit its shops. Waitrose highlights investment in product innovation and value and deepening customer relationships through its loyalty scheme, "*myWaitrose*."

The third aim is to grow efficiently by generating sustainable returns via increased Partnership profit margins, cash flow, and return on invested capital. In John Lewis, this will be achieved by driving efficiency to exploit scale and diversifying into new products and services. In Waitrose, this means opening new retail space and investing in IT and distribution.

An important part of JLP's strategy is risk management. As can be seen from Fig. 1, the Audit and Risk Committee which reviews the effectiveness of the risk management process is one of the main governance bodies. Each Division is responsible for identifying, evaluating, managing, measuring, and monitoring the risks in their respective area. Divisional Risk Committees oversee the effective use of the risk assessment process, with assistance from the Group Head of Risk and Divisional Risk Managers. Internal Audit reviews internal controls using a risk-based audit plan.

The following is a summary of 2015 financial performance compared with 2014.

- JLP—Gross sales, a measure of sustainability and performance against the overall market was £10.9 billion, up 5.7%. Both Waitrose and John Lewis grew sales well ahead of their respective markets, increasing their market share. Waitrose outperformed the Kantar Grocery Market by 4.8% and John Lewis outperformed the BRC Retail Index by 4.9%. Operating profit before exceptional items was £442.3 million, down 7.5%; Operating profit after exceptional items was £450.2 million, up 4.7%. Gross sales per FTE (full-time employee), a productivity measure, decreased from £182,000 to 181,600, reflecting a decline in gross sales per FTE in Waitrose, where FTEs grew at a faster rate than the sales growth. This was offset to some extent, by an increase in gross sales per FTE in John

Lewis. Partnership profit per FTE, an efficiency measure, decreased to £5700 from £6700, principally due to the decline in operating profit and the increase in average FTEs. Return on invested capital, a measure of long-term value creation has decreased from 8.3 to 7.6%, principally due to the decline in operating profit in Waitrose.

- John Lewis—Gross sales £4.4 billion, up 7.5%; operating profit margin £250.5 million, up 10.4%; operating profit margin 7.1%, up from 6.9%; like-for-like sales growth 6.5% up from 6.4% the previous year.
- Waitrose—Gross sales £6.5 billion, up 4.6%; operating profit £237.4 million, down 24.4%; operating profit margin 3.9%, down from 5.4%; Like-for-like sales growth 1.4%, down from 5.1%.

Thus, we see that Waitrose is under pressure, compared to John Lewis which appears to be thriving. Further evidence is seen in an increase in gross sales per average FTE from £175,000 to £186,000, and gross sales per square foot up from £902 to £947 for John Lewis. In contrast, Waitrose suffered a drop in gross sales per average FTE from £197,200 to £188,500 and in gross sales per square foot from £1126 to £1124.

Acknowledged global and retail trend challenges require appropriate responses by JLP. Global challenges are globalization of supply chains, volatility in commodity prices, concerns about the physical environment and about health, inequality, and diversity. Retail trends are food price deflation at the highest level since the 1970s, intensifying competition, the rise of convenience shopping and technology demanding flexibility and convenience for customers. Transparency about corporate conduct and where and how products are sourced and made is a key for customer trust. An additional issue was the decision by referendum for the UK to leave the European Union, and how this might impact JLP's costs, revenues, and profits.

JLP has responded by investing in refurbishing and upgrading existing shops, installing new systems and distribution capabilities, adopting new technology, and reshaping operations to serve new customer needs. With market pressures, JLP is placing more emphasis on efficiency and less on growth to achieve profit. Above all, JLP wants to underline that Partners play a vital role in growing profitability through personal contributions as co-owners to become more productive. In some cases, this will mean role changes, with some lost and others created. It also means a greater contribution from Partners through personal development, job design and technology. “This is not about ‘working harder’. It is about our ability to offer worthwhile and satisfying jobs. It is the sustainable way to enable growth in Partners’ pay and bonus levels” (Annual Report 2015).

In the past decade or so Waitrose has doubled in turnover and trebled its profits, while JLP has both built and grown a successful online business faster than many competitors. However, profit metrics compare unfavorably to competitors. For instance, its profit margin before tax and a payout to Partners of 3.2 or 3.8% if a £60 million charge for pension costs is added back, is less than the 20% margins achieved by Next and 6.5% by M&S. Each staff member generates profits of £4000, compared to £16,000 at Next and £8000 at M&S (Guthrie 2016).

Although it is private, the John Lewis Partnership has been prepared to tap capital markets, issuing a £275 million bond in March 2014, to fund John Lewis and Waitrose.

The pressures acknowledged by JLP continued into 2016, as half yearly pre-tax profits slumped by 14.7% to £81.9 million, excluding exceptional property items. Sales rose 3.1% but profit was held back by price competition, pay increases, IT costs, and a new distribution network including a £150 million depot extension. The results came with a warning that fewer staff might be employed over time in order to tackle a soaring wage bill after it raised salaries across the company to ensure that all Partners are paid at competitive rates, entailing a £33 million jump in staff costs. The Partnership proclaimed that the higher pay depends on better productivity and greater contribution, so it anticipated fewer Partners over time.

The group wrote down £25 m relating to the value of property acquired to develop seven Waitrose supermarkets that it no longer planned to open. Chairman Sir Charlie Mayfield declared that while there had been little effect from the UK vote to leave the EU, uncertainty created by the referendum result would linger. One immediate impact of the Brexit vote was that the group’s pension deficit soared by £512 million to £1.44 billion because of falling yields on bonds used to fund the scheme.

In 2015, the Partnership bonus was 11% of pay, a drop from 15% in 2014. Of course, bonus is calculated as a percentage of salary, so higher paid workers receive significantly more than shop-floor workers. In contemporary challenging trading conditions, the Partnership must be agile and responsive in today's market place, while remaining true to its longer term Constitutional purpose and principles, and JLP has taken various measures in this regard.

First, to foster a culture of inclusivity, involvement, and contribution across the Partnership, JLP launched the "It's Your Business" movement to engage Partners in ownership, including a Partnership Day, while also establishing Pay for Performance as part of the Partner Plan to ensure a fair approach to pay awards. The *Gazette* was relaunched to strengthen independent journalism and new functionality was added to internal digital communications. A Pension Benefit Review was concluded with the unanimous support of Partnership Council and a £300 m, 20-year bond was raised to prepay previously agreed deficit reduction contributions to the pension fund. While the original Constitutions stated no one in the Partnership should be paid more than 25 times the pay of a full-time London-based Partner, in 2012, a revised Constitution increased the ratio threshold to 75 times.

The Partner pulse score, where Partners are asked if their division is a great place to work, went from 51 to 59%. However, overall Partner satisfaction went down by 2 to 72%. Cathcart (2013) has unearthed tensions in the Partnership, which has been accused by some observers of operating a pseudo-democracy which does little to address inequalities of power in what is a hierarchical management organization. Strain results from fluctuating visions of managers and workers for the Partnership and how to achieve those visions. While managers welcome frank exchanges of views, they also demand loyalty and support for their decisions. Meanwhile, the non-management staff wants meaningful input into key operational rather than strategic decisions, but indicate faith in their management. Partners appreciate their right to be critical on an anonymous basis in the letters in the staff magazine.

Alongside the better cost-cutting strategies of rivals such as M&S, Partner productivity is a concern as JLP approaches its improvement in a number of ways—"inspire" Partners to get involved in continuous improvement (CI) initiatives for productivity; "embrace" technology that enhances productivity; encourage flexibility; review sick absence arrangements, and working patterns and mix of part-time and full-time Partners

3 Problems and Challenges

Given the glowing public view of JLP, are there any challenging issues on the horizon? Chairman Charlie Mayfield explained, "I think people sometimes view the Partnership as some land of milk and honey where nothing bad ever happens," he says of staff complaints. "And it always makes me smile in a wry way because it really, really does a disservice to the vigorous and constant debate that goes on within the Partnership about how we're performing and where we need to do better. This is a very self-critical organization and that's actually an enormous strenght" (Skapinker and Felsted 2015).

Nearly one-third of Partners are not satisfied and almost half don't think it's a great place to work, so the happiness of all the Partners envisaged by Spedan Lewis is not satisfied. The new "It's Your Business" drive reflects that Partners have not taken on the responsibilities of ownership to the extent required by the business imperatives facing the company. For example, new formats, such as the Waitrose store in Salisbury will require more Partner input and skills. The idea that Partners own the business, so they are all concerned and motivated to outperform needs to be embraced more than it appears to be at present. A vicious cycle is created when profits decline, entailing a cut in bonuses, which may itself be demotivating.

Notwithstanding its egalitarian aspirations, the company is essentially run via a hierarchy, and pay differential tolerances have recently increased. In the *Gazette*, one Partner wrote that "there were too many people in charge—assistant section managers, department managers and store managers. One can almost hear Partners singing the song, 'You don't know what you're doing.'" Concerns about the nature of the Partnership in relation to JLP's productivity and cost base are expressed, partly the trade-off between investing in staff and good service and partly, inevitably, JLP's longer term focus (Skapinker and Felsted 2015). Its unfavorable profit margin and productivity metrics compared to rivals are evidence of a trade-off rather than synergy between Partnership and profit. An allied possible problem is continued replenishment of talent at the top, given the imminent departure of the Managing Director of JLP, not long after the departure of Mark Price, former head of Waitrose.

How is claimed value creation different to any other well run business? Competition in retailing is intense. The way people throughout the wealthy world shop has changed. Customers are no longer loyal to one company, however, admired it is. They are well-informed about what things cost and they expect goods to be brought to them with speed and accuracy.

Some of the problems and challenges facing JLP can be seen in its self-identified risks in its risk management operations. Risks are assessed by Divisions and Directorates half-yearly, considering the potential impact of the risk and the likelihood of its occurrence. Evaluation of impact and likelihood is made after consideration of the effectiveness of current mitigating controls in place. "Red zone" risks are considered too risky for the return and against acceptable risk tolerance, so an urgent response is required to bring the risk back to an acceptable level. In 2015, JLP identified 23 principal risks, of which 10 were "red" and 13 were "amber", i.e., considered as being managed satisfactorily, so no additional actions other than regular monitoring are required.

The ten red zone risks would be applicable in any business operating in a competitive landscape, and they fall under four headings: strategic, operational, financial, and compliance.

Competition—Aggressive price competition puts pressure on margins and profitability, especially in the current environment in the retail grocery sector. The price war in the UK was occurring in all parts of the market, of which high-end Waitrose had a share of 5.2% in 2016, compared with Tesco at the highest share of 28.2%. German grocery discounters, Aldi and Lidl are increasingly invading Waitrose territory, going upmarket, e.g., offering lobster and champagne.

Waitrose had been overtaken by German discounter Aldi which stood at 6.1% share. Amazon is expanding its offerings with own-label merchandise and groceries, as well as online grocery deliveries, in pursuit of market share, especially from affluent customers. Given its economies of scale, Amazon is a formidable rival.

Actions—Competition means that Waitrose customers focus more on value for money and less on loyalty. Therefore Waitrose responses entail: Tracking competitor impact and customer perceptions; focusing on the customer experience as a point of differentiation, including "*myWaitrose*" benefits to offer additional value to customers; implementing efficiency projects to protect margins. An example is a new Waitrose format store in Salisbury which creates the supermarket as a day out, with a restaurant, cafe and wine bar, and a centerpiece cookery school for adults and even children's parties. Waitrose has set up a loyalty scheme, "Pick your own offers," enabling customers to choose 10 products on which to receive 20% savings every three months. However, the scheme could cost Waitrose £5 million weekly.

Economic environment—A worsening external economic environment, a static economy and lack of pay increases, reduces customers' spending power and harms suppliers' financial resilience. In this respect, the UK referendum result in June 2016, to withdraw from the EU was seen as posing a real threat to the economy, from a loss of consumer confidence and more costly overseas sourcing from a weakened sterling currency. However, this would affect the likes of Aldi and Lidl, which sourced their products from outside the UK, more than JLP. Also, given its non-Limited Public Company (PLC) structure, JLP would not have been affected by the 11% drop in share values suffered by London listed retailers after the referendum.

Actions—Try to deliver the highest levels of customer service, product quality, and product innovation; securing value for customers through range selection and price matching commitments, while continually introducing new products and services to anticipate changing customer requirements; developing long-term relationships with suppliers.

Operating model strain—Changing customer requirements, a shift to online and the need to increase investment in supply chain and IT put a strain on the operating model, threatening ability to meet customer needs and grow profitably.

Actions—Significant investment in IT infrastructure and supply chain to support efficiency and continue development of an omnichannel proposition; implementing sales initiatives and continually introducing new products and services to meet changing customer requirements; all change initiatives must consider Partner impact.

IT infrastructure capability—With growth and change in customer needs change, so existing IT infrastructure becomes less "fit for purpose."

Actions—Aligning IT strategy with business strategy to enable the sustainable change required; IT restructure programs are in progress to provide resilience and protect the Partnership; system backups are in place to provide business continuity, and service level agreements are in place with IT third parties.

Change delivery—Due to the size, nature, and complexity of the change agenda, there may be issues with planning and governance, resourcing and investment, and engaging Partners.

Actions—Heads of Portfolio Management develop and manage change capability; significant investment has been made in specialist project management support through working groups, steering groups, group and divisional change boards to provide pan-Partnership program governance.

Efficiency—There is a risk that programs to optimize efficiency and productivity fail and, therefore, the required savings are not delivered to respond to a changing environment and pressures on the operating model.

Actions—Specific projects and programs, to focus on current and future efficiency and productivity; project management capability assigned to all major projects, and external specialists used when required; change Boards in place to monitor current efficiency programs and enable early identification of any issues.

Talent—In a changing and competitive market and in consideration of the Partnership model, constant assessment of talent needs to deliver business goals and how to can attract, develop, and retain talent are required.

Actions—Annual talent reviews ensure that top talent is identified, developed and succession plans exist for key roles; Leadership

Development Programs in place to support succession and capability needs of the Partnership; Benchmarked benefits and remuneration to support competitive reward.

Pension obligations—The open nature of the Partnership's defined benefit scheme could lead to a future increase in pension liabilities, with the risk of a significant pension deficit.

Actions—A Pensions Benefit Review approved by the Partnership Council and the Partnership Board and implementation of the new arrangements initiated; valuation assumptions and pension funding strategy have regular external and internal monitoring and review; a project to investigate means to further de-risk the pension fund investment portfolio initiated.

Property valuation—Continuing market shifts in the retail grocery sector, from the current channel format toward online and convenience stores, could cause a fall in freehold estate valuation for Waitrose's freehold properties.

Actions—All property acquisitions are reviewed by the appropriate Management Boards and annual post investment reviews are performed on new acquisitions for their first three years. Annual impairment reviews are performed. A review is in progress to assess the appropriateness of the property portfolio and mix between freehold and leasehold.

Data protection breach—Increasing external attempts to cause disruption or access sensitive data and the pace of technological development may cause vulnerability to a breach of Partner or customer data.

Actions—Policies and procedures to protect our Partner, customer and operational data; IT security controls in place, including network security and regular penetration testing, provide early identification of network or system vulnerabilities and weaknesses; Data and IT Security Improvement Programs are being implemented across the Partnership.

4 Conclusions

JLP's 150th birthday celebration, and the last century of it as a workers' cooperative is a testimony to its sustainability. It enjoys a singularly positive reputation among retailers in the UK as an ecologically sustainable, future respecting and pro-social enterprise, and has been in profit all of its existence. The idea is that ownership confers psychic and material benefits to workers, while also demanding responsibility and accountability to fellow Partners. Even as workers' cooperatives go, JLP is unique, as it was not formed by a group of workers, but by a capitalist owner who chose to give it away to the workers. Thus, it is grounded in its distinctive history as embodied in Spedan Lewis' strong views and radical vision. The company is very conscious of its history and its roots, as can be seen in its proud in-store exhibition and the publication of a volume to celebrate its 150th birthday in 2014. The "happiness of Partners" as enunciated by Spedan Lewis, remains its primary aim.

JLP appears to meet all four criteria of good governance in cooperatives—member voice, representation, expertise, and management (Birchall 2014; O'Higgins 2015):

Member voice—In JLP, a strong sense of identity of its members/Partners is based on its shared core purpose "the happiness of its members" as enshrined in the Constitution written by Spedan Lewis. The Partners recognize very strongly the link between job satisfaction, based on superior work performance and a successful business that results in fulfillment of the common purpose of happiness. Partners do not have the option to sell their shares and a large proportion of JLP Partners are "lifers." Thus, the employees are committed and express their voice through their everyday work, thereby building the business over the long-term. The structure of JLP shows that Partners have direct access to the highest echelons while they usually participate in committees to express themselves. If necessary, they can also air any concerns anonymously through the weekly *Gazette*.

Representation—In JLP, there is an effective formal representation system, whereby the Partnership Council (directly elected to represent the Partners) influences the policy set by the Partnership Board. This board functions as a board of directors, akin to any listed company. But it also represents, by its composition, the Partnership nature of the business with five directors appointed by the Partnership Council. Moreover, a Partners' Counselor is a member of the Board, specifically to look after the interests of the Partners.

Expertise—The necessary expertise to run the business successfully starts with the top board composed of five executive directors who understand the various facets of the business and three external independent nonexecutive directors. This level of expertise at the board increases the likelihood that the business will work effectively on behalf of its members, while the strong input from Partners who know and understand the business insures capability at all levels of running the enterprise.

Management—The senior management team is comprised of professional managers with experience in running a business, especially in a customer focused retail enterprises. This professionalism is applied to enacting the principles on which the success of the business is based: "value, assortment, service, and honesty" and "never knowingly undersold."

The management of the business appears to be able to achieve a delicate balancing act between business decisions and cooperative principles. For example, 90% of employees affected by job cuts are redeployed. A strength of the cooperative model is its long-term sustainability orientation, as opposed to concentration on short-term results to please capital markets. To that end, JLP adopts an incremental adaptive, but future oriented approach to strategy. This is seen in its many initiatives in change management at all levels of the organization and its establishment of JLABS investments in accelerators and incubators. Its recognition of and addressing of risks on the horizon demonstrates its long-term orientation. Also, JLP was an early adopter of digital media in all aspects of its value chain and the company is ahead of its rivals in fair treatment of suppliers. Another example is issuing bonds for investment and business development purposes, belying the critics of employee owned cooperatives about under-utilization of external debt despite a strong collateral position, thereby curtailing growth (Estrin and Jones 1992).

However, as of 2016, JLP is faced with challenges which may threaten its very model. Its primary aim of Partner happiness is not being entirely met, according to surveys. Many economists such as Williamson (1985) regard cooperatives as long-term inefficient because of lack of hierarchy and performance monitoring problems. JLP does, in fact, have a hierarchical management system, but there are signs of dissatisfaction with it, much as one might find griping with the hierarchy in any company. It remains to be seen how its individual "pay-for-performance" introduction will work in a context where intrinsic motivation and self-management and self-monitoring have been guiding principles. Initiatives to encourage all Partners to take on responsibilities to meet the contemporary challenges facing the company suggest that there is insufficient collective buy-in and effort, an expected mainstay of cooperation. Thus, we see cracks appearing in the Partnership Foundation. Moreover, these are appearing in an environment of severe competitive pressures, where higher productivity is needed. The threat of fewer Partners could have a demoralizing effect, especially when growth is being curtailed. Procrastination by Partners in assuming responsibility for change and carry out proposed actions could be the undoing of JLP.

We might ask whether a rise in dissatisfaction by Partners is a sign of healthy self-criticism. Are Partners unrealistic in expecting too much in the way of "happiness?" The situation also has to be seen in context, as the Partnership survived a rebellion in the past when a number of Partners tried to convert it into a public limited company.

Is a "John Lewis model" transferrable? Mark Price, former JLP deputy chairman and head of Waitrose, observed that the philosophy that underlines the Partnership could be replicable, but the specifics of how the Partnership works are probably not. Possibly companies with a more traditional structure could try to adopt some of John Lewis's three vital features: rewarding people and acknowledging that they have a life outside work, telling them what is going on, and involving them in decision-making (Skapinker and Felsted 2015). Indeed, JLP's advantages rely on its unique history which dictates inherent and often tacit attitudes, routines, and emotional and moral commitments developed over many decades. Such a context provides comparative advantage to JLP, a criterion of which is inimitability, alongside its value and scarcity or matchlessness.

However, does JLP's very uniqueness in structure, history, and culture have within it the seeds of its own destruction? The Company's awareness of the balancing act it must continue to perform is clearly enunciated in its current Annual Report exhortation/maxim, "It's

Your Business" to take personal responsibility. This is juxtaposed with JLP's Constitution which proclaims: "a better form of business, and the challenge for Partners of today is to prove that a business which is not driven by the demands of outside shareholders and which sets high standards of behavior can flourish in contemporary competitive conditions and, indeed, to demonstrate that adhering to these principles and rules even enables long term outperformance over companies with conventional ownership structures."

5 Questions to Address

- Why has JLP been successful thus far? Does JLP's unique business model and governance structure offer better sustainability than the typical retailer company structure?
- Has JLP escaped potential disadvantages of employee owned cooperatives in general, such as limitations to growth?
- Are JLP's structure and arrangements transferrable to other retailers and companies in other industries? Or, are these a once-off because of JLP's unique history?
- What are the strengths and weaknesses in JLP's business model in dealing with contemporary competitive pressures in retailing in its markets? In relation to the challenges facing JLP in 2016, and in the international context, are its responses sustainable? Can additional or alternative responses or approaches be recommended?
- Do the challenges confronting JLP constitute a threat to its very Partnership structure? Is the Partnership model fit for purpose at all in the environment of the early twenty-first century? Should JLP become a public listed company or assume some other form?

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The Danish Model of Corporate Citizenship: The Novo Group

Jacob Dahl Rendtorff

This chapter includes a description of the Danish business corporation group, *The Novo Group*. The transnational corporation Novo Group (with *Novo Nordisk* and *Novozymes*), based in Denmark, represents a Danish/Scandinavian model of corporate citizenship, corporate social responsibility, business ethics, and values-driven management (Rendtorff 2010, 2011; Jensen et al. 2013). Novo Nordisk is a pharmaceutical company that generates value by producing and selling insulin medicine to diabetes patients worldwide. It is also a major market leader in the field of the production of pharmaceutical health-care products. Novozymes is a major player in the biotechnology industry which produces and sells enzymes.

Novo Nordisk and Novozymes have developed a management strategy based on sustainability and fundamental ethical values. These corporations also integrate stakeholder communication and stakeholder management into their practices as an important part of their strategy to promote corporate self-awareness and communication. Novo Group's practices contrast with those of other companies which are not so

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E. O'Higgins and L. Zsolnai (eds.), *Progressive Business Models*, Palgrave Studies in Sustainable Business In Association with Future Earth,
DOI 10.1007/978-3-319-58804-9_10

focused on compliance, but the strategies and visions of Novo Nordisk and Novozymes can be said to be rather ambitious, going far beyond what is expected by law.

Values-driven management and business ethics are often considered to be corporate instruments for contributing to the betterment of the world and society. Fundamental values are not directly used as an instrument of compliance, but as tools for creating an atmosphere of identity, image, and self-awareness of the corporation (Pruzan 2001; Rendtorff 2009, 2012), and as components of organizational culture that help create the right atmosphere in an organization. Moreover, values are also connected with external stakeholders in the sense that they contribute to the formation and identification of ethics as a central component of the identity of an organization (Rendtorff 2009, 2012, 2013).

The major challenge to both Novo Nordisk and Novozymes is maintaining their progressive business model of corporate citizenship, stakeholder management, CSR, and sustainability in an increasingly competitive, international pharmaceutical industry, and biotechnology business environment. In addition, the Novo group is faced with the challenge of maintaining the image of pursuing a progressive business model while becoming a world leader in the pharmaceutical industry and in the biotechnology business.

1 Novo Nordisk: Values, Triple-Bottom-Line, and Balanced Scorecard

The major company in the Novo Group is Novo Nordisk, which is an independent transnational company with its headquarters in Denmark. The structure of the company is based on a fundamental division between research and production units. The pharmaceutical industry and healthcare corporation Novo Nordisk had in 2016 over 42,600 full-time employees in more than 75 countries and was making sales in 180 countries. The B shares of the company are listed on the stock exchange in Copenhagen, London, and the New York Stock exchange (www.novonordisk.com). The organization has established an office for stakeholder relations to deal with business ethics and corporate social responsibility. On the organizations' websites are details about their different stakeholders (shareholders, customers, suppliers, patients and their families, public authorities, NGOs, and local communities) (www.novonordisk.com). The company considers itself to be a healthcare company and a world leader in diabetes care. Novo Nordisk's main product is insulin for treating diabetes-related illnesses, but the corporation also works with researchers who seek a cure for diabetes and produce diabetes-related medicines and treatment procedures (for example, the company is engaged in research into genetic manipulation, the use of genetically modified organisms, stem cell research for treatment, etc.). In addition, the company is working in areas such as hemostasis management, growth hormone therapy, and hormone replacement therapy (www.nordisk.com).

The Novo Nordisk Company was founded in 1926 when the Nordisk Insulin Foundation was established. In 1941, Novo launched its first enzyme (trypsin), and in 1951 the Novo Foundation was set up to support different causes and supports the company (Novo Nordisk 2002). Novo Nordisk's industrial insulin production started following a merger between Nordisk Gentofte and Nordisk Industri in 1989. Mads Øvlesen, who has been the executive director of the organization for many years, become chairman of the board in 2000, while Lars Rebien Sørensen became the CEO. He was replaced by the new CEO, Lars Fruergaard Jørgensen, in 2016, as commercial pressure mounted on the company. In 2005, Lise Kingo, who had been responsible for stakeholder relations for many years, was also vice president for corporate relations and reputation, indicating the importance placed on values-driven management and corporate social responsibility. She later became executive director of the UN Global Compact in 2015. The corporation ranks very highly on the Dow Jones Sustainability Index.

Even at the beginning of the 1970s, Novo Nordisk was experiencing a major crisis due to media awareness of the potential environmental damage of the enzymes that Novo were at that time using to produce soap for washing. Because of the intense international criticism, the corporation lost significant market share for a while. However, this event was also a wakeup call for the organization which realized the importance of taking a values-based approach and dealing with societal expectations. At that time, the firm had no capacity for crisis management and therefore could not overcome the crisis and establish mutually trusting relationships with the public. One particular incident in which the corporation was not at fault was rather damaging, and Novo's earnings were significantly reduced. As a result of this, the firm very decided early on to follow a more proactive strategy toward the public. Because Novo Nordisk engaged in dialogue with the environmental movement so early, the corporation was one of the first to publish an environmental report (in 1994) (Novo Nordisk 2002). However, in 1993 the organization experienced another crisis due to the realization that it was not able to meet US quality standards for products. It was at this point that it started to develop a comprehensive, value-driven management program, among other initiatives. *The Novo Nordisk Way of Management* and the corporation defined a charter of fundamental values.

However, Novo Nordisk still encounters criticism, and new forms of stakeholder management are needed. The debate about the responsibility of pharmaceutical companies for sick and poor people in South Africa in 2001 challenged the corporation's legitimacy, and it was forced to emphasize that it was a commercial organization, even though it was working to promote corporate social responsibility and to fight diseases across the world. The firm felt that the international debate about pharmaceuticals and the company's responsibilities in less developed countries was being raised by interested organizations with a poor understanding of the challenges and problems of running a socially responsible corporation.

The company's vision is very ambitious. In the Novo Nordisk Charter are listed the fundamental values and commitments that follow from the company's vision. The ambitious vision contains the following goal: "We will be the world's leading diabetes care company" (Our aspiration is to defeat diabetes by finding better methods of diabetes prevention, detection, and treatment. We will work actively to promote collaboration between all parties in the healthcare system in order to achieve our common goals), "We will offer products and services in other areas where we can make a difference" (Our research will develop and market such products ourselves whenever we can do it as well as or better than others), "We will achieve competitive business results" (Our focus is our strength. We will stay independent and form alliances whenever they serve our business purpose and the cause we stand for.), "A job is never just a job" (We are committed to being there for our customers whenever they need us. We will be innovative and effective in everything we do. We will attract and retain the best people by making our company a challenging place to work), "Our values are expressed in all our actions" (Decency is what counts. Every day we strive to find the right balance between compassion and competitiveness, the short- and the long-term, self and commitment to colleagues and society, work, and family life), "Our history tells us, it can be done" (www.novonordisk.com).

The very far-reaching vision of Novo Nordisk, a leader in the search for a cure for diabetes, makes saving diabetes patients the primary purpose of the organization. The charter of values and commitments is based on this vision and seeks to ensure that the corporation contributes to improving people's lives and work. Moreover, the company seeks to be innovative and to link concern for sustainability and triple-bottom-line management to putting its vision into practice. Novo Nordisk seeks to be a competitive financial performer while adhering to the principles of ethical business conduct.

It is on this ethical foundation that Novo Nordisk defines its values. The organization and its employees should be: "Accountable" (Each of us shall be accountable—to the company, ourselves, and society for the quality of our efforts, for contributing to our goals, and for developing our culture and shared values, "Ambitious" (We shall set the highest standard in everything we do and reach challenging goals), "Responsible" (We shall conduct our business in a socially and environmentally responsible way and contribute to the enrichment of the communities in which we operate), "Engaged with stakeholders" (We shall seek an active dialogue with our stakeholders to help us develop and strengthen our businesses, "Open and honest" (Our business practices shall be open and honest to protect the integrity of the Novo Group companies and of each employee), "Ready for change (We must foresee change and use it to our advantage. Innovation is a key to our business and therefore will encourage a learning culture for the continuous development and improved employability of people)" (www.novonordisk.com).

These values are defined as the core principles of action for the organization, and are used as external and internal tools in the creation, maintenance, and development of an ethical organizational culture (a "cultural frame" for the management of the organization) (Schultz et al. 2000; Rendtorff 2009). As artificial creations, the values can be said to guide the aims and strategy of the organization, and are instrumental in the formation of Novo Nordisk's corporate identity and corporate image. They combine personal values and organizational values, and express the spirit of the corporation as a collective unit, guide the activities of employees, and should also, as an expression of corporate citizenship, shape relations with stakeholders. It is the intention of Novo Nordisk that these values should be given life through the daily practice of the management of the organization at all levels.

The vision and value charter are linked to the triple bottom line and the concept of sustainable development. In addition, the company is focused on using instruments to assess the value performance of the organization, which is linked to its performance in all the categories of the triple bottom line. Acting to promote the triple bottom line is considered an integral part of the business of the organization in terms of preserving the planet and the quality of life for future generations. The different elements of this triple bottom line (people, planet, and profit) are components of the sustainable business. Sustainability and triple-bottom-line reporting imply that the corporation acknowledges its financial, environmental, and social responsibility (www.novonordisk.com). Financial responsibility relates to the need for ongoing improvements in financial performance. Environmental responsibility means meeting the objective of maintaining an open dialogue with stakeholders, including taking responsibility for bioethical issues and animal welfare in research, production, and development. Clinical trials should also respect research ethics and medical (clinical) ethics. The corporation subscribes to the *International Chamber of Commerce Business Charter for Sustainable Development* and to the *UN Convention on Biological Diversity* (www.novonordisk.com). Moreover, social responsibility includes complying with the *Universal Declaration of Human Rights,* other international human rights standards, as well as health and safety guidelines for employees. Novo Nordisk has created a number of fundamental goals in relation to social responsibility which show its efforts to put values into practice. These fundamentals take the form of very detailed descriptions of how managers and units in the organization should comply with values and use them in their daily practice to improve the working atmosphere and quality at work (www.novonordisk.com).

In connection with the emphasis on the triple bottom line, Novo Nordisk has also made efforts to establish stakeholder reporting and corporate social responsibility practices throughout the supply chain. One important feature of the implementation of values is the way the company is entering into dialogue and communication with stakeholders, including patients and NGOs. The organization works with multistakeholder partnerships and international patients, as well as research and governmental groups, to improve the research and treatment of diabetes-related illness.

Instead of focusing on compliance, formal compliance structures and ethics offices act as guarantors for the achievement of the strategic aims of values-driven management. Novo Nordisk stresses that a number of accounting and other practical instruments are important in the implementation of values. These include financial follow-up and reporting, environmental and social reporting, organizational audits, facilitations, and succession management (www.novonordisk.com). In particular, the organization emphasizes the importance of using different external and internal auditing instruments (risk management, control, and governance) in value implementation. Moreover, stakeholder feedback is considered an important source of information about the responsiveness of the corporation. Stakeholder feedback is collected by working closely with different stakeholders such as employees and patients (www.novonordisk.com).

The firm uses different forms of alternative accounting and reporting measures in order to demonstrate its concern for stakeholder dialogue. In addition to yearly financial reporting, Novo Nordisk publishes an annual sustainability report which focuses on the social and environmental responsibility of the firm, including bioethics and animal ethics. It is the group's intention that these sustainability indicators and traditional economic indicators be tightly linked (for example, Novo

Nordisk has designed a strategy of combining balanced scorecard management with sustainability management). The corporation finds it very important to measure the progress it is making with putting fundamental values into practice and uses different instruments for this purpose.

In connection with the Sarbanes-Oxley Act that has been implemented in the USA (which is designed to strengthen corporate governance and improve the transparency of accountancy measures in the aftermath of the collapse of Enron and World Com), Novo Nordisk has also improved its corporate governance structure. The company has followed the recommendations of the *Danish Committee on Corporate Governance*, *Nørby-Udvalget,* since 2001 (www.novonordisk.com). These corporate governance goals include increasing the transparency and openness of corporate management and corporate accounting. In connection with improvements in corporate governance, the corporation has established a system for supporting whistle-blowers, although this does not play a significant role in values-driven management at Novo Nordisk.

We can see how Novo Nordisk has located stakeholder management at the center of their conception of corporate governance. (Fig. 1) In fact, in conceiving their place in the world as a participant in a stakeholder network, Novo Nordisk sees itself as a part of the web whose links are closely connected. What is particularly interesting about this stakeholder diagram is that the organization is pictured not at the center of the diagram but elsewhere. The mission of Novo Nordisk is, first of all, to cure particular diabetes-related illnesses, symbolizing its role as a contributor to society, rather as at the center. Stakeholder management involves listening and contributing, as well as using instrumental strategies to promote survival and make a profit (Bonnafous-Boucher and Rendtorff 2016).

The company's annual reports present a vision of the firm as a good corporate citizen in terms of the goal of "being there" as a responsible, honest, and accountable firm with regard to the individuals who are dependent on their products, employees, and society as a whole. This vision combines social responsibility with competitiveness: the focus of Novo Nordisk management efforts. All reports since 1999 have stressed the importance of the concept of the triple bottom line as

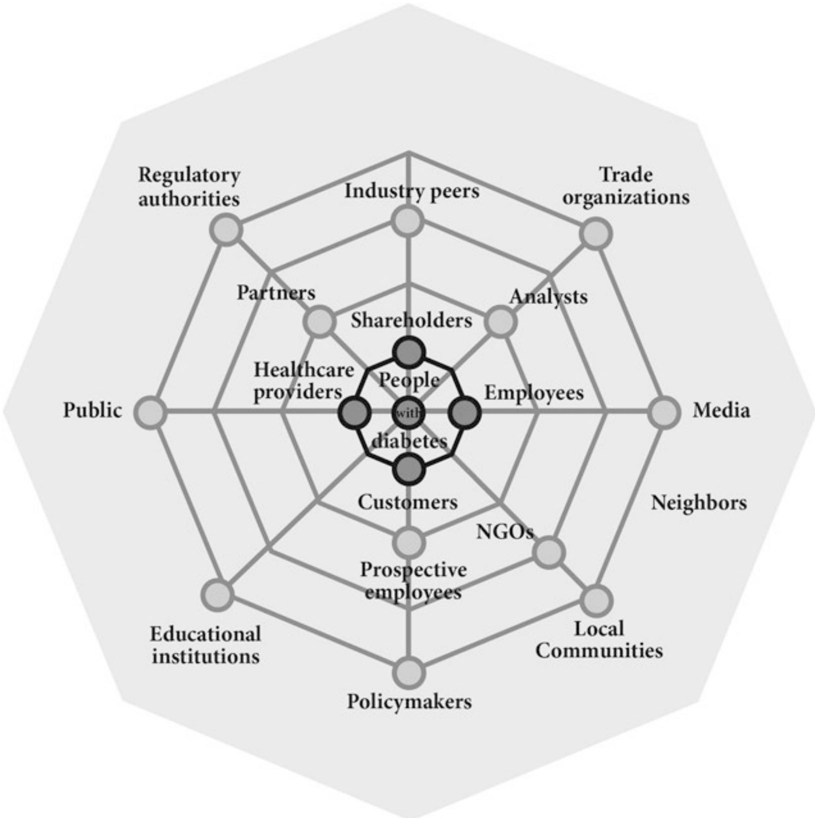

Fig. 1 Novo Nordisk's stakeholder network

an instrument for integrating the different activities of the firm. They are also very interesting reports because they focus on creating a dialogue about ethical dilemmas (www.novonordisk.com)— for example, the dilemma between profit-seeking and the task of fighting disease. In the aftermath of the crisis created by the criticism of the pharmaceutical industry in South Africa, this focus on dilemmas is relevant. NGOs claimed that the corporation was not helping sick, poor people, but was instead focused on profit-making, a claim which was supported by the executive director Lars Rebien Sørensen when he stated that Novo Nordisk was "not a Humanitarian Organization."

This statement was a response to the debate about patient's rights and the responsibilities of health-care corporations. It may have been that this pressure from NGOs and other organizations influenced Novo Nordisk to redraw their stakeholder diagram in such a way that Novo is not located at the center of the stakeholder network, but strives to present its activities as part of the contribution to common social goods and values.

In its reports on sustainability and corporate social responsibility, the corporation continues to report on human rights, stakeholder dialogue, progress in bioethics, animal ethics and welfare, respect for diversity and multiculturalism in the workplace, environmental protection, gene technology, eco-efficiency, social responsibility, and corporate governance. All the issues are described with an emphasis on the concrete efforts of the corporation to improve its activities in relation to the specific issues.

Novo Nordisk tries to place health policy at the center of the effort to create a better world. The report addresses the question "Can diabetes be defeated?", to which the corporation responds that it does not only want to be viewed as a producer of medicine, but also as a contributor to education and diabetes prevention and treatment efforts (www.novonordisk.com). The aim is "simply" to save the world from diabetes. In the report, the corporation also emphasizes its efforts to pursue an integrated approach to corporate social responsibility: "Novo Nordisk is a biotech based health care company that strives to conduct its activities in a financially, environmentally and socially responsible way" (www.novonordisk.com). The corporation represents itself as a global company that engages with global health policy according to UN goals and the *Oxford 2020* vision about global health care. It has, according to its different annual reports about corporate social responsibility, produced insulin for 11–13 million people worldwide, which it considers an important contribution to social responsibility. The strategy of the company is to make a substantial global contribution to combatting Type 1 and Type 2 diabetes in the Western World, but also in developing countries, where this illness is becoming even more prevalent. The corporation stresses how it is involved in concrete projects with local stakeholders in the developing world that are designed to promote health and human rights and decrease environmental impact. It also stresses that its annual reports adhere to globally recognized standards, including AA1000AS, ISAE 3000, and the UN's Global Compact Principles. Reporting in compliance with these standards is an indication of the company's efforts to satisfy the expectations of society.

Accordingly, from the above material we can see how Novo Nordisk functions as a company that integrates business ethics, corporate social responsibility (Rendtorff 2011, 2013), and corporate citizenship with concern for human rights in order to create a blend of integrity and economic performance (Rendtorff 2015, 2017).

2 Novozymes: Sustainability and Biotechnology Production

In 2000, Novo Nordisk decided to continue producing enzymes using a separate company and thereby created Novozymes. The reason for this decision was a strategic desire to create a company which could focus on enzymes and biotechnology, leaving Novo Nordisk to continue producing insulin and health-care products. Moreover, strategic considerations relating to the risk management of different ethical issues related to human and natural biotechnology, and an increase in market potential may have shaped the decision to operate as two companies. Novozymes has a focus on natural biotechnology, and less so on biotechnology for use in health care. The new company has a *Sustainable Development Strategy Group* consisting of top-level managers and a *Sustainability Development Center* closely connected to executive management (Novozymes 2004). These groups are responsible for improving sustainability policy and strategy. Every year, after a process of dialogue with the board, executive management, and major stakeholders, the group puts forward a revised strategy. Ever since the annual report of 2004, Novozymes has published an integrated report in which reporting on financial, environmental, and social reporting is included (Novozymes 2004).

Novo and Novozymes share a common charter of values as a part of the Novo Group, but Novozymes has also developed its own approach to sustainability and to triple-bottom-line management. Both companies have defined values and integrity as important to their corporate identity. The values are applied at both the individual and organizational level, while sustainability and corporate social responsibility is the ethical foundation of the company vision which is expressed in Novo Group's Charter. Even though it subscribes to this charter, Novozymes' vision is, due to differences in strategy, different to that of Novo Nordisk (www.novozymes.com). Novozymes' Vision is the following: "Our vision: Where we are heading: We imagine a future where our biological solutions create the necessary balance between better business, cleaner environment and better lives. To get there: We will drive a significant expansion of the market for industrial biotechnology with enzymes and microorganisms as our basis. We will find new and improved solutions to serve the market for biopharmaceuticals. We will achieve double-digit growth with a leadership position in all markets served. Customers and partners throughout the world will seek our collaboration because of what we do and how we do it. People from all over the world will want to work for us because of what we do and how we do it. Society will be inspired by our work to choose biological solutions as a key part of the future" (www.novozymes.com).

We can see that this vision, like that of Novo Nordisk, is also extremely ambitious, placing the corporation at the head of the race to create a better environment and better biological solutions to the world's problems. Novozymes' vision defines corporate action and culture and is the basis for promoting institutional responsibility in society. We may claim that the values, visions, and stakeholder dialogue of Novo Nordisk have been developed to define the "good corporate citizenship" of the corporation. In order that its vision of corporate citizenship operates in the spirit of compliance with international norms and societal expectations, Novozymes has defined a basic set of commitments in close conformity with the declarations and regulations of the United Nations, whose international agreements and conventions the company supports. These include, in particular, the universal values contained in the *United Nations Universal Declaration of Human Rights* and the *United Nations Global Compact*. Novozymes also refers to the *United Nations Convention on Biological Diversity* and the *International Chamber of Commerce's Business Charter for Sustainable Development* (www.novozymes.com). These norms and guidelines function as the basis for the sustainability policy and daily operations of Novozymes.

Moreover, this is the foundation of Novozymes' application of the concept of sustainability as expressed in the triple bottom line. Novozymes stresses its financial, environmental, and social commitments and responsibilities, which are geared to: supporting economic performance and value-creation; improving environmental performance and respecting biodiversity, and promoting stakeholder dialogue and respect for fundamental human rights, labor rights, and health and safety issues at the workplace (www.novozymes.com). In this sense, Novozymes considers values-driven management to be a tool for developing corporate social responsibility in the organization. It commits to the Novo Group Charter (which describes the values and fundamental operating principles of Novo organizations) and in addition has created a specific description of its desired personality: "Our personality: Who we are: Spark—curious, fast and enterprising. (We nurture creativity and courage because the greatest ideas are always unexpected and we must be ready to act when opportunities turn up. We are curious, fast and enterprising making us able to see things in a new perspective, step out of the routine and rid ourselves of limitation). Passion—we love what we do and make it happen. (Being dedicated and constantly fascinated allows us to realize big ideas. We love our work because it is challenging and gives access to a cleaner, greener, and easier everyday life. And we're determined to make it happen). Openness—we do what we say, and say what we do. Our stakeholders deserve a partner they can trust. We open our doors and take the time to listen because the most relevant ideas are formed in dialogue. And when ideas are good, we make sure they travel openly and are quickly acted upon). Science—good science makes for better business and better lives. (We honor a long-term commitment to science by applying a combination of discovery, experience and understanding to unlock the magic of nature's own technology to create better business and better lives)" (www.novozymes.com). This concept of company personality is designed to capture the company's scientific passion for work and express a belief in the power of science as a major contributor to creating better environmental conditions on earth. The values reflect the social position of Novozymes as a biotechnology company which is often held accountable by the wider community for the risk and potentially unintended damage of biotechnology products.

In accordance with its general principles of business, Novozymes has integrated into business practice a concern for social responsibility. This approach to corporate social responsibility not only relates to risk management and reputation management, but also includes a broader concern for corporate social responsibility as a component of the corporation's "license to operate." It is for this reason that corporate social responsibility is considered to be good for building brand value, and a way of increasing the competitiveness of the corporation. Corporate social responsibility is viewed as an expression of stakeholder commitment, which increases the triple-bottom-line sustainability of the firm. Novozymes defines its social responsibility in the following way: "[We] will work to continuously improve our social performance. We will set ambitious objectives and integrate social and human rights considerations into our daily business. We will identify and focus our efforts on issues most relevant to us at an individual, national, regional and global level in order to make a positive difference. We are all responsible for identifying and assessing areas and issues where our social performance can be improved—and act upon it. In our daily work, we must all be aware of our social responsibilities, follow best practices and respect each other. We must always listen to the social responsibility concerns of our stakeholders and respond openly" (www.novozymes.com). This mission statement and expression of commitment includes references to the responsibility to communities both local and global. It also embraces nondiscrimination policies and respect for human rights, product safety, and the development of products that do not violate basic safety standards.

In the field of corporate social responsibility, Novozymes is working on promoting supplier ethics by ensuring that suppliers respect labor standards and human rights (www.novozymes.com). Suppliers are required to respond to questions about related key indicators and to comply with the ethical standards of Novozymes. The corporation includes an evaluation of respect for human rights (which are based on international human rights norms) into supplier assessments, and which Novozymes requests that suppliers respect. Based on responses from suppliers, the corporation engages in dialogue about problematic issues so as to identify adequate measures for improving compliance.

Novozymes' environment and bioethics policy is based on the desire to integrate environmental and bioethical considerations into daily business operations. Accordingly, new technologies and new products and the use of raw materials must be evaluated from the perspective of environmental and bioethical impacts. The corporation continuously assesses environmental performance in order to use best practices and monitor performance. The bioethics policy is developed through a process of dialogue with major stakeholders, suppliers, subcontractors, and authorities in a way that promotes the responsible treatment of issues. The corporation expresses a wish to contribute through the honest documentation of problems and appraisals of its environmental and bioethical performance. This goal is promoted by a sustainability management focus at the top level of the organization.

3 Issues and Challenges: The Danish Model of Sustainability

While many European and US corporations are using a combined values and compliance approach, the Novo Group (Novo Nordisk and Novozymes) are mainly inspired by the Scandinavian, and particularly Danish, approach to business ethics, sustainability, and corporate social responsibility (Rendtorff 2009, 2011, 2013, 2017). This Scandinavian model of business is based on responsible stakeholder management that views the business corporation as a servant of its most important stakeholders (Bonnafous-Boucher and Rendtorff 2016). Moreover, the Scandinavian model of business focuses on encouraging part-ownership of companies by foundations that contribute to society, science or culture through philanthropic donations, as is the case with the Novo Group whose majority shares are owned by the Novo Foundation.

This Scandinavian business model is further strengthened by the fact that Novo Nordisk and Novozymes take as a starting point their efforts to make the triple bottom line a central part of corporate strategy. In addition, the corporations try to position values and values-driven management at the heart of corporate culture. In this context, value-driven management and sustainability are promoted so as to promote integrity and good corporate governance. The Scandinavian and Danish approach that is followed by Novo Nordisk and Novozymes emphasizes the fact that values are more important than rules, and that values rather than rules should be used to harmonize company operations and formulate business strategy, so the corporations use values-driven management and the management of stakeholder relations to create a strong corporate strategy.

The cases of Novo Nordisk and Novozymes make it evident that we cannot reduce business ethics to a matter of personal relationships, and that we must include institutional structure as a component of the strategy. This suggests adherence to genuine philosophical and ethical principles. However, doing this is only possible after deconstructing the ideological function of business ethics in a network society. We can identify in the activities of modern European corporations a genuine search for values within the restrictions of the market economy.

When such organizations define their approach to business ethics, they integrate considerations about bioethics and corporate social responsibility into them. They evaluate the responsibility of science and biotechnology companies as it concerns patents and biotechnological inventions, and consider them central to the development of corporate strategy and understanding the place of the firm in society. The need to protect humans in the process of biotechnological development is an important ethical consideration of biotechnology companies. Moreover, we argue that it is possible to also identify a desire to respect the basic ethical principles of Autonomy, Dignity, Integrity, and the Vulnerability of people, animals and nature in the triple-bottom-line management strategies of biotechnology companies (Rendtorff and Kemp 2000).

In fact, it may be argued that concern for the principles of stakeholder management (recently renamed corporate stakeholder responsibility, in place of corporate social responsibility), is a way to conceptualize the strategies of values-driven management and business ethics. In a short description of the essentials of the stakeholder approach, Freeman et al. (2006) propose 10 principles of stakeholder management which are very illustrative of the approach that has been used by Novo Nordisk and Novozymes: "(1) We need to generalize the marketing approach. (2) Everything that we do serves stakeholders. We never trade off the interests of one versus the other continuously over time. (3) We negotiate with primary and secondary stakeholders. (4) We constantly monitor and redesign processes to make them better serve our stakeholders. (5) We act with purpose that fulfills our commitment to stakeholders. We act with aspiration towards fulfilling our dreams. (6) Stakeholder interests go together over time. (7) Stakeholders consist of real people with names and faces and children. People are complex. (8) We need solutions to issues that satisfy multiple stakeholders simultaneously. (9) We need intensive communication and dialogue with stakeholders—not just those who are friendly. (10) We need to have a philosophy of voluntarism, to manage stakeholder relationships ourselves rather than third parties such as governments" (Rendtorff 2009; Bonnafous-Boucher and Rendtorff 2016).

What are the challenges that Novo and Novozymes face with respect to the development of a progressive business model? A fundamental question is whether the two companies manage to maintain their strong ethical profile in terms of commitment to CSR and sustainability. If we look at the annual reports and statements of the company, we can see a lot of buzzwords and positive statements about the CSR engagement of the companies. The key issue is whether Novo Nordisk and Novozymes manage to maintain their socially, economically, and environmentally integrated concerns for sustainability. Here, the main challenge is to demonstrate that the Novo stakeholder model actually is the focus of the Novo Group, especially since pressure on prices and profits, particularly in the important USA market forced the early resignation of progressively minded CEO Lars Rebien Sørensen.

It remains a key challenge to convince key stakeholders about the honest engagement of the companies in the Novo Group. Future challenges also include how to maintain a leading position in CSR and ethics combining this with the efforts to become a market leader in the different fields of production. The challenges for Novo Nordisk include the effort to maintain the key vision of the company, which is to combat diabetes in the world. Here the company needs to demonstrate its commitment to this vision, which defines the aim of the company to be a servant of society. The challenges of Novozymes remain to document that the company has a sound environmental profile. So the main challenge for Novo and Novozymes is to maintain CSR and sustainability as the license to operate of a progressive business with the task of discovering and developing therapeutic solutions for patients in the contemporary market economy with increased global competition.

4 Conclusion

The Scandinavian (or specifically Danish) approach reflected in the strategies of Novo Nordisk and Novozymes are a good illustration of the theory of triple bottom line management combined with stakeholder management, corporate social responsibility, and corporate governance at the heart of corporate strategy (Jensen et al. 2013). The learning outcomes from the cases of Novo Nordisk and Novozymes concern the importance of focusing on genuine stakeholder management (locating important stakeholders at the center of stakeholder diagrams and processes). An additional and important learning point is the need to position triple-bottom-line management, corporate citizenship and sustainability within the frame of the basic ethical principles of respect for autonomy, dignity, integrity, and vulnerability.

5 Questions to Address

- What major business ethics and corporate social responsibility values can you identify in the management strategy of the companies of the Novo group?
- What is unique about the stakeholder diagram proposed by Novo Nordisk?

- How does Novozymes combine sustainability and biotechnology as company values?
- What are the major risks facing the Novo Group companies as concerns their focus on business ethics and corporate citizenship?
- What are the primary characteristics of the Scandinavian model of business ethics and stakeholder management?

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Responsible Hospitality: Carlson Rezidor

Knut J. Ims and Kjell Grønhaug

This chapter proceeds as follows.[1] First, the history of Carlson Rezidor Hotel Group (CR) will be presented, focusing on the ultra-entrepreneur Curtis Carlson. We will also introduce the profile of CR: the policies—how it chooses to operate, and the activities that affect stakeholders; the assets—what resources CR chooses to own and manage; and CR's governance—how power is exercised, and how the company makes decisions.

In Part 2 of this chapter, we describe and analyze CR from the perspective of progressive business, understood as *ecologically sustainable, future respecting and pro-social* enterprising (Zsolnai 2011). We briefly focus on how value is created for customers (Teece 2010). The resulting cost structure and profit potential of Rezidor, the Swedish part of CR and a listed company, will be analyzed. Carlson's family-owned hotel business is part of a strategic partnership with Rezidor, which

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E. O'Higgins and L. Zsolnai (eds.), *Progressive Business Models*, Palgrave Studies in Sustainable Business In Association with Future Earth,
DOI 10.1007/978-3-319-58804-9_11

since 2006 has been listed on the Nasdaq OMX Stockholm. Rezidor originated in Sweden in 1960 as a Nordic hotel company, but the Carlson family became the majority shareholder in 2006. Rezidor has a *Responsible Business Program,* on which we will focus. The main source of data is Rezidor's Responsible Business Report (2013, 2015) that describes their different approaches to sustainability.[2] Rezidor's Responsible Business Program includes all the hotels which are managed, leased or franchised by the Rezidor Hotel Group. More than 80% of new hotels are developed in Eastern Europe, the Middle East, or Africa.[3] The Responsible Business program is in line with Carlson's 4D strategy (*Develop Talent, Delight Guests, Drive the Business, and Deliver Results*). The core of the program includes three dimensions: *Think Planet*—minimizing the company's environmental footprint, *Think People*—taking care of the health and safety of guests and employees, and *Think Together*—respect for social and ethical issues in the company and the communities in which the company operates.

In Part 3, CR and Rezidor's problems and challenges will be discussed. Part 4 concludes with some remarks about the innovativeness of the business model, and an appraisal of whether it may be generalized to other companies, industries, and countries.

We emphasize that we have addressed the Carlson Rezidor Hotel Group almost as a single company, even if the focus is on the Rezidor Hotel Group AB, hereafter called Rezidor. Rezidor, originally a Swedish company, started cooperating with the family-owned Carlson "travel agency" company, *Carlson Wagonlit Travel* (CWT), in 1994. This two-company partnership grew, and in 2006 the family-owned Carlson Company became the majority shareholder of Rezidor with the purchase of 51.03% of Rezidor shares.

1 History

Behind Carlson Rezidor there is one man in particular: Curtis Leroy Carlson (1914–1999), recognized worldwide as the "ultra-entrepreneur." Born of a Swedish father and a Danish-Swedish mother, Curtis grew up in Minneapolis (Minnesota), and graduated from the

University of Minnesota with a BA in Economics in 1937. In 1986, he donated 25 million dollars to his alma mater, whose school of management was renamed *The Curtis L. Carlson School of Management* as a sign of gratitude. At the time, this was the single largest gift ever donated to a public university. Curtis Carlson is remembered not only for the professional successes he achieved, but also for his love of family and community, and the integrity he demonstrated in life. His advice to others was: “Do not what I did, but seek what I sought.”

The 24-year-old Curtis L. Carlson originally created the Gold Bond Stamp Company in Minneapolis. Using a borrowed 55 dollars, his business idea was to incentivize customers to visit stores to exchange stamps for groceries and goods. In fact, this represents an early example of a customer loyalty program—a theme central to modern marketing practices. After World War II, Carlson’s business grew dramatically. The stamp program was also applied to the hospitality industry, and in the 1980s the business became a huge, diversified global company and the worlds’ biggest stamp trading company.

Mr. Carlson’s “Horatio Alger”[4] qualities were a key to the continued expansion of his business, which in 2000 was one of the largest privately held companies in the world. The company was an international leader in providing hospitality, travel, and marketing services to corporate clients and consumers. In 2010, Carlson Companies were operating in about 150 countries and employing, through its brands, about 150,000 people worldwide and generating more than 22 billion dollars of revenue.[5] Since Carlson Companies Inc. is a private company, it has not released an annual report, implying that its financial details are not open to the public. However, financial data from the annual reports of publicly quoted Rezidor Hotels itself are presented and discussed.

How did Carlson enter the hospitality industry?

In 1960, Curtis Carlson bought a Radisson hotel in downtown Minneapolis.[6] In 1980, a Radisson SAS hotel was opened in Kuwait (the first to open outside Scandinavia); a sign of the company’s entry into new global markets. In 1994, Rezidor started to cooperate with Carlson regarding the operation and development of the Radisson brand in Europe, the Middle East, and Africa. The collaboration was structured as a “Master Franchise Agreement”. Later, in 2002, cooperation continued with the brands *Park Inn*, *Country Inn*, and *Regent* in Europe, the Middle East, and Africa.

SAS is the abbreviation for Scandinavian Airlines, founded in 1946, owned by three partners, Sweden, Denmark, and Norway. It is the flag carrier of the three countries and was the largest airline in Scandinavia. Rezidor was at first the hotel section of SAS Airlines, which opened its first hotel in 1960 in Denmark. The hotel was called *The Royal Copenhagen* and was an architectural hallmark. From then onwards, the hotel line was further developed into an international company. In 2006, SAS sold the hotel business and Rezidor was converted into a limited company and went public through being listed on the Stockholm Stock Exchange with Carlson as the dominant shareholder. Rezidor has been named one of the world's most ethical companies for 6 years in a row (since 2010). (Rezidor's Responsible Business Report 2015: 3)

In 2012, Carlson and Rezidor started a *strategic partnership* for the purpose of operating the C*arlson Rezidor Hotel Group*. The purpose was to better exploit their relative advantages and benefit from the effects of synergy. Hubert Joly, President and CEO of Carlson, said this about the partnership between Carlson and Rezidor: "Going to market as one is a next and natural step. We are leveraging the strengths of two great companies to create value for all our stakeholders."

Carlson Wagonlit Travel is one of the world's leading business travel management companies, with a specialization in business travel, meetings, and events. They help clients to optimize their travel programs, provide assistance to travelers around the world, and are present in more than 150 countries (Fig. 1).

Figure 1 shows that Carlson Company is the majority owner of Rezidor Ltd (51.3% ownership stake). Rezidor operates in strategic partnership with Carlson Hotels as the Carlson Rezidor Hotel Group (7.3 billion dollars' revenue in 2016). Carlson Wagonlit Travel (CWT) is a separate business unit (24.2 billion dollars' revenue in 2016) and is owned by the Carlson Company.

One goal of the Carlson Rezidor hotel group (CR) was to grow their core brands *Radisson Blu* and Park Inn. In 2014, the group was operating over 1300 hotels in more than 100 countries, employing more than

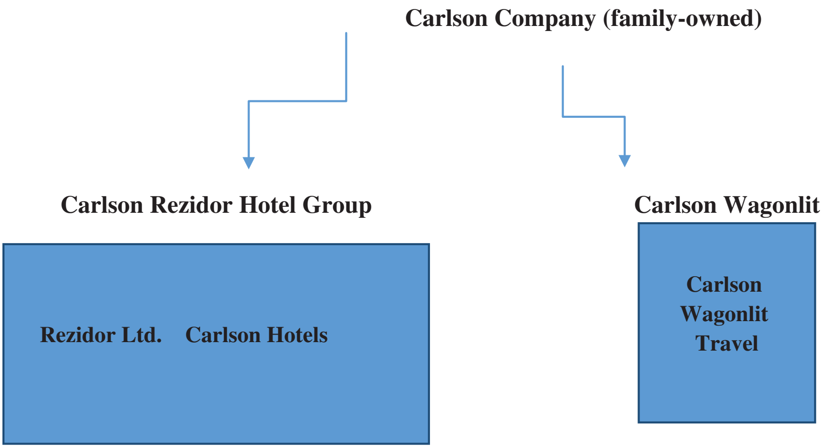

Fig. 1 The Carlson company

88,000 people, and was the ninth largest hotel company in the world. In 2016 CR reached a milestone of 100,000 rooms. Rezidor alone was operating 360 hotels (80,000 rooms in 80 countries), while 110 new hotels were under development. Moreover, 17 of the new hotels were in "new" countries, indicating that Rezidor is a very dynamic company. In 2016, Rezidor entered Kyrgyzstan and Angola and is building new Radisson Blu hotels in Dubai. Expanding into many emergent markets implies the will to take considerable risk. (Responsible Business Report 2015: 2) Rezidor is also the largest international hotel operator in Russia and Baltics.

The group has a set of complementary global brands which focus on different segments. Radisson Blu is an "upper upscale" brand, while Country Inns & Suites by Carlson is the "upper mid-scale" brand.[7] The Carlson group owns the brand Radisson and is also franchising the name Radisson and taking on management contracts for new hotels throughout the USA.

In May 2016, Carlson Company accepted a bid from the *HNA Group* (a Chinese investor in airlines and tourism) for 51.3% of its shares in Rezidor Hotel Group AB. This purchase will make HNA group the majority shareholder, able to direct Rezidor's policies and management. One immediate effect was that one member of the board of directors and the chief executive officers have already resigned from his position with effect from February 1, 2017. He is being replaced by a new executive officer from HNA group.

CR is a strategic partnership between a family-owned company (Carlson) and a limited company, Rezidor Ltd. Rezidor is listed on the Stockholm Stock Exchange. The headquarters of the Carlson group is in Minnetonka, (close to Minneapolis in the state of Minnesota) in the USA, while Rezidor's corporate office is located in Brussels, Belgium. Trudy Rautio was CEO of CR until 2015, and Wolfgang M. Neumann is CEO of Rezidor. The Rezidor Ltd. is dominated by the Carlsons who own 51.3% of the shares. The remainder 48.7% is largely owned by institutional owners. Accordingly, Carlson has been able to control Rezidor, including its strategy. From a Swedish point of view, almost 80% of Rezidor's shareholders are classified as foreign owners. The market price for each share at the end of 2015 was SEK 31.2, (in 2014, 28.1; 2013, 40; 2012, 23; and in 2011, SEK 22.1) which indicates "modest volatility."

The market value of Rezidor at the end of 2015 was SEK 5441 million, while in 2013 it was 6000 million (2012, 3480; and 2011, 3315 million). Rezidor did not pay any dividends during the period from 2009–2014. In 2014 and 2015 it paid EUR 0.03 and 0.07 per share, respectively.

In May 2016, when the Chinese HNA Group made the bid, the market value of Rezidor increased to SEK 5800 million. Rezidor shares rose 1.5% to SEK 33.90 on the Stockholm stock exchange, reversing earlier losses. Each of the 174.4 million shares has one vote and is associated with an equal right to participate in the group's profits and assets.

How are the decision-making systems in Rezidor organized? Rezidor is incorporated under the laws of Sweden and is publically listed on the Nasdaq OMX Stockholm. This means that the operations of Rezidor Hotel Group AB (Ltd.) are based on Swedish legislation and regulations. The majority owners, Carlson Group, have emphasized the need for active ownership. This is made concrete in the way that the president and CEO of Carlson, Trudy Rautio, has been chairman of the board of Rezidor since 2012 and has been a board member since 2005.

Rautio is also chairperson of the Carlson Wagonlit Travel board of directors. Second, the Rezidor board of directors consists of seven people: three Americans and four (AGM) is simultaneously translated into English—the Swedish Companies Act mandates certain administrates procedures and values transparency in particular.

The level of *remuneration* of the Board of Directors and the election of the Board of Directors are important decisions which are made at the AGM. The policy is to offer "a competitive remuneration package that helps align executives with shareholder interests, to increase the proportion of remuneration linked to company performance and to encourage executive share ownership." This means granting the CEO and the executive committee a package of: (i) fixed remuneration, (ii) annual variable remuneration based on the meeting of financial and individual performance targets, (iii) a long-term, share-based incentive program, (iv) a pension, and (v) other benefits. The remuneration of the board of directors decreased from 2011 to 2013 (ca. 5%). In 2013, 2014, and 2015 the chairperson received 80,000 EUR, while the vice chairperson received 65,000 EUR. However, their total compensation is somewhat higher because members participate in either the audit committee or compensation committee and also receive remuneration for those tasks. The base salary of the CEO is 679,000 EUR (2015) with variable remuneration of 828,000 EUR, which together with a pension and "Housing, schooling and company cars" totals 1,635,000 EUR. This is a dramatic decline from 2011 when the CEO received 4,776,000 EUR. The reason for the high-level of remuneration of 2011 is probably because the former CEO retired. The total remuneration of the executive committee, including the CEO, has declined by almost 50% since 2011. Accordingly, it appears that the company's compensation cost structure for top executives has been slimmed down. We also note that the mix of base remuneration and variable remuneration drastically changed between 2012 and 2013, leaving much less base remuneration in 2013 (only one-third of the level paid in 2012).

Efficient operating processes are a third important criterion of good governance. Rezidor combines a top-down and bottom-up approach to ensure maximum engagement in operations. Rezidor has a CEO and Executive Committee at headquarters, including a *Responsible Business*

Department. At the regional level, there are 23 *Regional Responsible Business Coordinators* who define regional targets in line with group strategy. At the hotel level, there is one *Responsible Business Coordinator* in addition to a *Responsible Business Team*.

The main task of the executive committee of Rezidor, which is led by the CEO (Neumann), is to produce key information for the board. The executive committee consists of eight individuals with an impressive multicultural background draw upon a pool of very different professional competencies.

2 Carlson Rezidor's Business Model

According to the president and CEO of Carlson, Trudy Rautio: "Carlson is in the service industry, and we have a noble cause to not only serve our customers and guests, but also our communities. Responsible business and caring are Carlson's core values, and they reinforce our commitment to leave a lasting legacy and make our world a better place."

As we can see from the paragraph above, the business model of Carlson is to serve their customers and communities. The word "serving" is a strong term with spiritual associations, and by including "the community" in their mission statement, Carlson's business model is an example of extended social responsibility. One important component of the business model of Carlson is their loyalty program (*Club Carlson SM*), which in its time was a genuine innovation (Foss and Saebi 2015).

Looking at the credo of Carlson and the Code of Business Conduct and Ethics, we see a strong commitment to ethical values. In their own words: "The Carlson Credo has been a success story, which is driven by a strong work ethic, a spirit of caring, and an uncompromising set of values." The founder, Curtis L. Carlson, is known to have followed the credo described below:

> "Whatever you do, do it with Integrity.
> Wherever you go, go as a Leader.
> Whomever you serve, serve with Caring.

> Whenever you dream, dream with your All.
> And never, ever give up."

According to the Carlson Code of Business conduct and ethics, "Carlson strives to provide all whom we serve with quality products, services, and solutions, and in doing so, we must maintain the highest ethical standards…As Carlsonians, we are defined both by the results we achieve, and the way we achieve them…ethical decision making is so much a part of our cultural DNA and 'the how' we do business that it's become part of our daily routine."

Concerning strategy, Rezidor has formulated what they call a 4D Strategy: "Our mission, values and vision are the fundamentals of our strategy." The 4D Strategy has four pillars: Develop Talent, Delight Guests, Drive the Business, and Deliver Results. Rezidor's 4D Strategy is a long-term, multidimensional business approach—involving every employee within the group. According to a Rezidor strategy statement:

> Our mission is all about *Yes I Can!,* our DNA and the philosophy that sets us apart: We provide a unique *Yes I Can!* Service – this is our way of life, and demonstrates our positive attitude, our personal approach and the empowerment of our people. In everything we do, we build on our strong *values* that differentiate us: Being Host, Living Trust, and Fighting Z –pirit. The latter term indicates that Rezidor's leaders emphasize the importance of daring to do things differently, and 'always being entrepreneurial, innovative and opportunity driven'. One value the management try 'to sell' to the organization is obviously borrowed from Obama's presidential campaign: 'Yes we Can.' (Annual Report 2013: 6)
>
> Our *vision* is that we will be recognized as: the most passionate team of hoteliers; building outstanding guest loyalty by providing memorable experiences, and committing to attracting, developing and retaining talent. (Annual Report 2013: 6)

Another ambition of the CR hotel group is to be regarded as "the most innovative and responsible organization; leading the industry in anticipating trends and responding to changing customer needs, *and caring for our planet by acting in a sustainable way.*" (The authors' emphasis).

CR also aspires to be the most dynamic hotel company. They express the importance of involving all the members of their organization "in bringing 4D to life." Concerning "Development dynamics" …"Our long-term strategy and turnaround program Route 2015 target a profitable, sustainable and asset-light growth that helps mitigate market volatility and drive margins." (Annual Report 2013: 18)

The business development of CR is concentrated on CR's two main brands; Radisson Blu and Park Inn by Radisson, and a geographical focus on emerging markets and key countries. However, in 2015 two new brands were developed. Radisson RED, which is an "upscale" brand called "lifestyle select," and the Quorvus Collection. The latter is oriented toward the market for luxury. It is obvious that with a brand name called "lifestyle" CR tries to influence the customer's preconception about the product. By creating this new class of hotels, the CR tries to attract new customers and make their product distinct in relationship to competing products that is hotels. We might expect a swimming pool and a well-equipped trim room in an "upscale" class hotel.

On the African continent, Rezidor operates more than 20 hotels, while Russia/CIS and Baltics and Africa are regarded as the most important regions for development. In these markets President and CEO of Rezidor, Neumann writes that "…we take responsibility through sustainable development and construction processes as well as through the creation of thousands of jobs and through training for our local newcomers….and are a lead partner of the Youth Career Initiative that offers traineeships and training to underprivileged youngsters." (Responsible Business Report 2013: 1)

> Our employees are our biggest asset.
>
> Rezidor attracts, develops and retains team members through a performance management program. (Annual Report 2013: 30)
>
> Our business is a people business…And a key focus is the training and development of 35,000 'team members.'[8]

Concerning individual career plans, one goal is to have women in 30% of leadership positions by the end of 2016. (Annual Report 2013: 32)

A number of initiatives such as new courses aimed at developing female talent in the company (*The STEPS Program*) and a workshop *Develop YOUR Talent* were implemented in 2015 (Responsible Business Report 2015: 31) and will have a positive effect on the proportion of women in leadership positions. It is clear that Rezidor uses 'talent reviews' regularly for all areas and functions. The *Mentor Mentee Program* offers young leaders the opportunity to learn under the patronage of an experienced senior manager. *The Business School @ Rezidor* is the company's own management development institute (950 participants in 2013) through which training is provided at different hotels in Europe, the Middle East, and Africa. According to CR, this is "an Employee Value Proposition," which captures the elements that "make us distinct as an employer". (Annual Report 2013: 32) The intention is to create "an emotional connection" between the company and the employee, formulated as: "We are powered by passion; We genuinely care; We innovate to shape our future; We act responsibly; We stand out together; We grow talent, talent grows us; It's all about you!" (Annual Report 2013: 32)

Building a better world is one part of Rezidor's holistic Responsible Business Program which may differentiate them from many other hotel companies. Rezidor claims that they "care for our people, and act in a sustainable way." (Annual Report 2013: 34) 25,700 employees participated in Rezidor's climate analysis in 2013, while 77% of hotels were eco-labeled, and 32000 tons of carbon were offset and trees were planted in 2015. Rezidor's participation in water stewardship activities can be emphasized as a future-oriented initiative which addresses the challenge of managing global water resources and providing access to clean drinking water. The initiative was established by the United Nations in 2007 and has been designed to assist companies to develop water sustainability policies and practices. Rezidor signed the *CEO Water Mandate* in 2014, becoming the first signatory from the hospitality industry.

Rezidor is a member of the United Nations' *Global Compact*, a global policy initiative aimed at businesses that are committed to aligning their operations and strategies with universally accepted principles in the areas of human rights, labor, environment, and anti-corruption.

Rezidor also publishes a responsible *Business Report* that describes the most relevant sustainability aspects of its operations. This includes all the hotels which are managed, leased or franchised by Rezidor. The Responsible Business program is aligned with the company's 4D strategy, which consists of three pillars; Think Planet (minimizing impact on the environment), Think People, (taking care of the health and safety of guests and employees) and Think Together (respecting social and ethical issues in the company and the communities in which Rezidor operates). (Annual Report 2013: 34)

Think Planet includes an energy-saving initiative whose goal is to reduce energy consumption at every hotel. One goal is to reduce the consumption of water to 34 liters per guest night on average. In relation to this, a Radisson Blu hotel in Cape Town, South Africa won an internal competition by reducing energy consumption by 28% in 2012. Every employee received as a prize "*a foldable bicycle—a trendy and environmentally friendly reward.*" (Annual Report 2013: 34)

In 2013, more than two-thirds of Rezidor's hotels received an independent, third-party eco label. The global loyalty program (Club Carlson) launched a *Think Planet innovation* program on Earth Day 2013 according to which every meeting at a Carlson Rezidor hotel must have climate protection on the agenda. As a "free environmental extra," the idea is to plant as many trees in Kenya's Rift Valley as will offset the carbon emissions of the meetings.

Think People has resulted in the training of underprivileged young adults in South Africa and Ethiopia. In 2013 this project was recorded and broadcast on CNBC Africa in the documentary film *It's Africa's Time*.

Rezidor is a partner of the *Youth Career* initiative which offers 6 months of training to disadvantaged young people (in Poland, Romania, Jordan, Ethiopia, Dakar, and Senegal) to increase their living and working skills. "Think Together" implies that Rezidor hotels are engaged in a *Responsible Business Action Month* which involves organizing a number of charity activities (for example, a street-golf tournament in Amsterdam, a bike ride along the Baltic Way, and the *Box Appeal*). Carlson Rezidor has also raised EUR 127,000 for their global charity partner *World Childhood Foundation*. EUR 560,000 was collected in

2013 for a series of local charities in more than 260 communities in 56 countries. "All our 35,000 employees get involved when we celebrate our Responsible Business Action Month (RBAM)—a dedicated period when hotels contribute to their local communities and fundraise for our corporate charity organization World Childhood Foundation." In September 2015, more than 10,000 volunteers took part in 780 activities. The annual Box Appeal resulted in 23,400 boxes being filled with staple items for laborers and people in need. The boxes were distributed by Radisson hotels and Park Inn hotels in South Africa and Middle Eastern countries.

Rezidor has identified eight Responsible Business stakeholder groups to which they make a particular commitment. Concerning employees, Rezidor is committed to promoting education and making conscious decisions in favor of environmental, ethical, and social issues in employees' work and private lives. The other stakeholders are Customers, Property owners, Shareholders, Suppliers, Authorities, and Community. Concerning the latter, Rezidor make efforts to play an active role in the global, responsible business community, and to contribute to the local communities where operations take place. The eighth and final stakeholder is the Environment. About this, Rezidor declares: "We do our utmost to continuously improve our performance in the areas of energy and water use, chemical and resource consumption, and waste generation. Our goal is to reduce our impact on the environment and minimize our carbon footprint."

Employees from Carlson's corporate headquarters volunteered to build a *Habitat for Humanity* home in north Minneapolis. This was the fourth such building Carlson has built in the area, which was ravaged by a tornado in 2011. More than 230 employees from 20 departments donated 2160 volunteer hours to building a number of four-bedroom homes. The houses were sold to moderate income families in North Minneapolis.

The *Business for Peace* Foundation was established in 2007 to inspire business leaders to cooperate with society as partners in developing shared value and increasing trust between business and society. "Business worthiness" is a concept developed by the foundation to indicate how business leaders can create trust with communities, contribute to well-being, and create conditions for sustainable development.

Marilyn Carlson Nelson, chief executive officer and chairperson emeritus of the Carlson companies, was in 2014 the recipient of the Oslo *Business for Peace Award*. This is the highest form of recognition that is given to individual business leaders who foster peace and stability through creating shared value between business and society. Marilyn Carlson Nelson was nominated by the United Nations Global Compact (UNGC) for her leadership in promoting responsible business practices "ranging from advocacy for the abolition of sexual exploitation of children, to guidance of the UNGC as an active board member." The criteria for selection are "business persons who, through their own actions and commitments, promote socially responsible and ethical business practices in an outstanding way, and stand out as examples to the world." Marilyn's response was that "…this recognition is further affirmation that business is indeed a force for good, and I am greatly honored."[9]

The US think-tank, the *Ethisphere Institute,* described Rezidor as "one of the World's most Ethical Companies" for the sixth consecutive year in 2015.[10] We should also emphasize that Radisson Blu was named "Sweden's Best International Hotel Chain" by the *Swedish Travel and Tourism Industry*. (Annual Report 2013: 30)

3 Problems and Challenges

In this section, we will discuss problems and challenges and in particular focus on Rezidor's *Responsible Business program.*

Hotel operations take place in a very dynamic industry, so the company buys and sells parts of its portfolio regularly and rapidly. It is a challenge for the authors to define the boundaries of this complex company.

Over the years, Rezidor has expanded to Eastern Europe, including Russia, as well as moving into Africa and the Middle East. This has created opportunities as well as heightening risk. In December 2016, Carlson Company accepted a bid from the HNA Group for the Carlson Rezidor Hotel Group, which includes Carlson's majority shares in Rezidor. HNA Group is a Fortune Global 500 company with operations across many sectors. One of the divisions is HNA tourism Group Co., founded in Beijing in 2007. HNA operates more than 2000 hotels in China and other countries, while its business model is focused on integrating "smart tourism" services in transportation (that is, in integrating air travel, tourism, finances, and tourism e-commerce). The intention for HNA's acquisition of Carlson Hotels is probably future growth and improved competitiveness. HNA has now full control over the former Carlson Rezidor Hotel group.

One of Rezidor's earlier challenges was to focus on maintaining the profitability of the leased hotel portfolio in Western Europe. In 2011, Rezidor initiated a turnaround which included a number of initiatives that were expected to increase profits. In 2012, Rezidor and Carlson were doing business together as the Carlson Rezidor Hotel Group to facilitate this work. (See Rezidor Annual Report 2015: 4)

Rezidor also attempted to create more synergy with their partner and brand owner Carlson, in particular by working with them to strengthen the customer loyalty program, Club Carlson. Other initiatives included developing the competences of employees and learning how to solve environmental problems. One of the major problems for the company is keeping carbon emission to a minimum. Increasing societal concern over the years has been taken into consideration in the company's operations since 1989. The main issue is identifying how CR can promote the well-being of the world around it. In this respect, the company has clearly demonstrated its social spirit in a number of ways.

The global travel industry has a considerable impact on social, economic, and environmental conditions around the world. The *World Travel & Tourism Council* (WTTC) estimated in 2013 that the global travel industry generated over 260 million jobs (one in 11 jobs worldwide) and contributed 9% of the global gross domestic product. The number of global travelers surpassed one billion.

Rezidor's strategy has taken into consideration the impact of the three critical global impacts of the global travel industry: (i) climate change, (ii) resource use, and (iii) employment in local communities.

If the tourism industry continues to operate the way it does today, energy use and emissions will double by 2050, and water use will increase 2.5 times. Buildings are responsible for 30% of global energy consumption and greater use of energy-saving technologies is critical. However, a technological fix is not enough. The need for the creation of new mindsets about traveling and life-styles is urgent. More than 230 Rezidor hotels are eco-labeled and are thus audited by a "Green Key Expert." This means that they contribute more to the local community and to a sustainable future than non-eco-labeled hotels. Every Green Key accredited hotel is required to meet 90 sustainability criteria, which is clearly a positive step. The inconvenient question is: Is this good enough?

Traditional hotels are very resource-intensive, particularly in terms of energy and water use. They also have an impact through food use and waste generation. One estimate by the United Nation shows that by 2050 the world's need for drinkable water will double and the need for fresh water for agriculture will increase by 80%. There is an urgent need to reduce the water consumed during the operation of hotels. One challenge is to integrate the latest water-saving technologies into new-build hotels and also to retrofit existing hotels with these features. However, a radically new way of thinking may be required to cope with these environmental challenges and make the hotel and tourism business more sustainable.

One-third of all the food produced in the world for human consumption is lost or wasted (approximately 1.3 billion tons). In Europe, 180 kg of food is wasted per person per year. Food and drink is responsible for over 30% of the Carlson Rezidor hotel groups' revenue, and the challenge of reducing waste and the resource intensity of the food and drink supply chain is of great importance.

Rezidor has hotels in more than 80 countries across Europe, the Middle East, and Africa and Rezidor's staff are of more than 150 different nationalities. Most of the staff are employed locally, and on-the-job-training and human development is important. Rezidor also offers extended local training and employment opportunities to disadvantaged groups. The challenges are to comply with local laws, inform employees of their rights, ensure the application of nondiscriminatory practices, and that staff adhere to the groups' ethical principles. Rezidor appears to operate as if diversity is an asset.

Looking at the financial reports of Rezidor (a 5-year summary), we see positive economic developments. While the company suffered a loss of 12 million EUR in 2011, the income statement shows 34 million EUR profit in 2015. We interpret this as a turnaround, but not an innovative change. We believe that Rezidor originally, and in a courageous way, built upon Nordic values and ideas in an attempt to differentiate themselves using these values. However, one of their competitors in Europe, *Nordic Choice* hotels, operates 187 hotels in five countries. The Nordic Choice hotel chain is owned by a young entrepreneur and self-made man, Petter Stordalen. Concerning ethics and caring for the environment, Nordic Choice, like Rezidor, has won a large number of pro-social and pro-environmental awards. One of the innovations of the Nordic Choice hotel chains is to bring art directly to hotel guests. So how can Rezidor differentiate itself from this competitor and others in Europe?

To profit from a differentiation strategy, one has to build upon (i) real differences or (ii) customers' perceptions of differences. It looks like Rezidor faces increasing difficulty in pursuing this strategy. This situation corresponds to what has been recognized in the literature about how firms respond to crises. At first, there is a tendency to ignore negative signals. Firms also seem to be having difficulties finding new and improved ways to respond. A classic example is the Swedish business machine company *Facit* which lost its dominant position in the market and eventually went out of business because of its failure to embrace technological development (Starbuck et al. 1978).

Que vadis, Rezidor? When Rezidor was established, it was built upon Nordic ideas and values such as equality, a high level of worker participation, the establishment of the rights of workers, and strict environmental standards. Will this be affected by the sale of Carlson's hotel business, plus their shares in Rezidor? Does this "selling out" indicate the definite closure of an important branch of the Carlson family-owned company, the hotel business which Curtis L. Carlson started more than 50 years ago?

4 Conclusions

We have described and discussed in detail the development of CR, and, in particular, focused on the originally Swedish hotel company, Rezidor. The main challenge was how to understand the company as an *ecologically sustainable, future respecting, and pro-social* enterprise (Zsolnai 2011). It is clear that the company really has taken environmental challenges seriously. A number of examples demonstrate that the management is genuinely concerned about the environment. This is demonstrated in their attempts to calculate the carbon emissions involved in events (conferences and meetings) and by giving customers a real chance to pay to offset their emissions to protect the climate. The idea of planting trees in Kenya's Rift Valley to offset the carbon emissions incurred by meetings is exciting. This arrangement would be easy to replicate at other hotel chains and may contribute to the (much-needed) stabilization of carbon dioxide emissions. Rezidor has also established an internal competition to enhance energy saving among the different hotels. Furthermore, leaders have shown environmental concern about the need to integrate new, "greener" technologies during the building of new hotels. Accounting for carbon emissions during the planning of meetings is also an example of a future-respecting initiative. If such a "fee" was levied by all hotel chains, it might lead to a decrease in the number of travelers, which may be the ultimate environmental solution. Even so-called green tourism creates environmental problems because any kind of long-distance travel creates a carbon footprint.

Rezidor as a company has been *pro-social* in terms of educating their own staff through establishing their own educational institution, giving disadvantaged people access to some of their positions, and doing a lot of charity work in local communities. For years, Rezidor has behaved according to the norms of a progressive business. Company reports show that it was engaged in more than 700 charity activities in one year. Rezidor must be aware of the limits of their lofty aspirations. In order to achieve some of their aspirations and goals, they must remain competitive and be able to stay in business. They should act according to their strategy, but at the same time must stay afloat within the hotel industry. Rezidor demonstrates that it is not focused on the one-dimensional pursuit of profit. Rather, the company tries to operate so as to cover costs in the long run, and to develop new and innovative ways to become a sustainable company.

We believe in the moral integrity of the CEO of CR and the chairman of Rezidor, Trudy Rautio when she writes. "A hotel company is more than just bricks and mortar; it is people. The Board wants to thank and recognize the more than 35,000 people working for Rezidor brands who not only serve as ambassadors for the company, but also provide bright spots for customers and communities. We value the lasting legacy they create each and every day with their caring spirits and service hearts." (Annual Report 2013: 84)

Rezidor declares that their strategy is to create "asset-light growth" that helps mitigate market volatility and drive margins. A case in point is how Rezidor created an asset management department in 2012 to optimize the companies' leased portfolio through the elimination and restructuring of unprofitable leases. This will make the company dynamic and reduce risk in emerging markets where Rezidor wants to have a stronger presence. This means in practical terms that Rezidor will only take responsibility for operating hotels, while other owners will finance and maintain the buildings in which they operate. It should also be noted that Club Carlson, the ordinary global loyalty program, has almost 12 million members worldwide. This represents a real asset. Through new digital technology, the company is trying to promote innovative interaction with guests.

Since the global travel industry has a considerable impact on social, economic, and environmental conditions around the world, there is an urgent need for a new mindset concerning the travel industry and climate change, resource use, and employment in local communities. The Rezidor hotel group has defined ambitious sustainability goals for 2015 and 2016 which include making 25% energy savings across all hotels and offices and having 100% of its hotels eco-labeled. These future-oriented ambitions are strong signals to their competitors and should challenge other hotel chains to do the same.

Rezidor has implemented a number of projects that are exemplary from a holistic and ecological perspective. Some of them represent a much-needed change in mindset, and are practical examples of what Zsolnai sees as the necessary redefining of economic rationality into a "more holistic, substantive and humanistic form." (Zsolnai 2011).

Rezidor has from the very start been built on an innovative business model that emphasizes Nordic values and ideas. However, it seems that it is increasingly difficult to differentiate the company based upon these progressive "people and planet" values. Our prediction is that Rezidor will primarily encounter price competition in the future. New technology will enhance market transparency and may mean that the market encounters stronger price competition which will exploit and deteriorate the value of brands.

5 Questions to Address

What are the possible consequences of the Carlson family's sale of their hotel business to the Chinese HNA group in terms of CR's originally Nordic business values (in particular, Rezidor's *Responsible Business Program*, and Rezidor's emphasis on sustainability)?

What are the consequences of Carlson Rezidor's strategy of expanding to new, emerging markets?

Are the initial business values of Curtis L. Carlson still present and valid? Whether those pro-social and pro-nature values are still present and valid?

What are the potential consequences of the sale of the Carlson Rezidor hotel group, focusing on community activities and responsibilities?

What are the main drivers for the Carlson family's sale of their hotel business?

Do you think that the (expected) increase in emphasis on efficiency will affect the value of the original brands, and will a policy and practice of due respect and fairness for all (80,000) employees be maintained?

What implications might this have in relation to the empowerment of shareholders and other stakeholders?

Notes

1. The authors would like to thank Eleanor O'Higgins for substantial constructive feedback on several drafts of this chapter.
2. The main sources are the Rezidor Responsible Business Report 2013, and the Rezidor Hotel Group Annual Report 2015. In addition, we used a Rezidor Hotel Group corporate presentation from November 2016, accessed January 30, 2017.
3. The Responsible Business Report has not been independently reviewed by auditors or any other third party.
4. Horatio Alger, Jr., (1832–1899) was an author known for his many novels about "impoverished boys and their rise from humble backgrounds to lives of middle-class security and comfort through hard work, determination, courage, and honesty." His narratives had a formative effect on America (especially American youth) during the Gilded Age (Wikipedia, accessed 5.01.2014).
5. The New York Times, www.nytimes.com/1999/02/23/classifed/paid-notice-deaths-carson-curtis-1.html retrieved 04.01.2015.
6. Radisson is named after the French explorer and fur trader Pierre-Esperit Radisson (1636–1710). As a teenager, he traveled to Quebec. While out duck hunting he was captured by the Mohawks, but was adopted by his captors and learned their language and way of life and even joined them in their wars. The first Radisson Hotel was built in 1909 in Minneapolis, Minnesota, US.
7. In the hotel industry, the different brands are segmented and categorized based on the average room rates. The general segments are luxury chains, upper upscale chains, upscale chains, upper mid-scale chains, mid-scale chains, economy chains, and independents. This means that the average room rates of the Raddison hotels are close to the luxury class, which should imply that the customers/guests should expect a nice room supported with a very high level of service. For a glossary of hotel terms, see https://www.strglobal.com/recources/glossar.
8. As of November 2016, the number of employees of Rezidor was reported to be more than 45,000.

9. See http:/responsiblebusiness.carlson.com/carlson-chairman-emeritus-earns-oslo-business, accessed 31.10.2014.
10. The methodology covers seven categories: Corporate Citizenship and Responsibility, Corporate Governance, Innovation that Contributes to Public Well Being, Industry Leadership, Executive Leadership and tone from the Top, Legal, Regulatory and Reputation Track record, Internal Systems, and Ethics/Compliance Programme.

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Sustainable Living: Unilever

Patrick E. Murphy and Caitlin E. Murphy

Unilever from its founding until present day clearly meets the definition of a “progressive company” through its business models, socially responsible attitudes of upper management and its practices. The company, like most in this book, has a rich history and a consistency of approach through the years across a number of changes in corporate leadership. As we plan to show in the pages that follow, Unilever has established itself as a leader in socially responsible, more aptly now called “sustainable business.” This reputation did not happen by accident but rather has been cultivated over many years.

The discussion that follows is organized into several parts. We begin with a historical look at the company’s founder and early years of the firm. Then, subsequent merger and ensuing years are discussed. Third, two significant partnerships with NGOs are examined. The Sect. 4 focuses on the current CEO, Paul Polman (who was interviewed in person for this chapter by the lead author), and the Unilever Sustainable Living Plan (USLP) that was instituted in 2010. The Sect. 5 discusses

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E. O'Higgins and L. Zsolnai (eds.), *Progressive Business Models*, Palgrave Studies in Sustainable Business In Association with Future Earth,
DOI 10.1007/978-3-319-58804-9_12

challenges that Polman himself and the current business model practiced by Unilever are facing. Finally, we present a few lessons learned from studying the company, concluding comments and questions for consideration.

Before discussing the history and developments at the firm, today's Unilever needs to be introduced. Unilever is a multinational consumer goods company co-headquartered in London and Rotterdam with a turnover in excess of 53 billion for 2015 (Unilever 2016). It is the world's third largest corporation in this category, behind Procter & Gamble and Nestle, with sales in 190 countries. Unilever is organized into four main divisions—foods, refreshment (beverages and ice cream), home care, and personal care. The company markets over 1000 brands and in excess of two billion consumers use its products daily. Over a dozen of its brands such as Dove, Hellmann's, Knorr, Lipton, Magnum, and Vaseline have sales of over one billion euros annually (Unilever Brands 2016).

1 The History of Unilever

Unilever's history dates back to the late 1800s. William Lever's company, Lever Brothers, produced a new type of soap that made the product easier to use and it contained distinctive packaging. He made explicit the social purpose of the Sunlight Soap Company by stating that he wanted: "to make cleanliness commonplace; to lessen work for women; to foster health and contribute to personal attractiveness; that life may be more enjoyable and rewarding for people who use our products" (FitzGerald 2009: p. 2).

Lever (later to become Lord Leverhulme) worked as a salesperson in his father's company before taking it over with his brother, who was never a driving force in the enterprise. One of his major innovations was the sale of packaged bar soap rather than long slabs which were used previously. He came up with the idea of constructing a company town (similar to what Milton Hershey did in the US) called Port Sunlight, near Liverpool. Besides the broad mission, he instituted profit sharing with his employees and that money was applied to the building of houses at Port Sunlight. He also was a proponent of "enlightened self-interest" which he noted served the common good:

> The truest and highest form of enlightened self-interest requires that we pay the fullest regard to the interest and welfare of those around us, whose well-being we must bind up with our own and with whom we must share our prosperity (Macqueen 2004: p. 69).

Lord Lever's success and expansion of his soap "empire" to the US, Asia, and Africa is well documented elsewhere and is not recounted here (Wilson 1954, Macqueen 2004). His progressive policies do note a brief discussion. He pioneered initiatives such as a shorter work week, sickness benefits, holiday pay, and pensions. In the Port Sunlight factory, Lever was the first company to employ a full time safety inspector, a company doctor, ambulance and fire brigade services. When the British Factory Acts were passed in 1901, "Lever Brothers' works exceeded the clean-air target by fifteen times" (Macqueen 2004: p. 125). The expansion of the business to the Congo early in the twentieth Century was so successful that over 15,000 workers were employed there. Lever's commitment to the responsibilities of the company (similar to those which occurred at Port Sunlight) are summarized by the following:

> …it was Lever who laid the street plan for new, brick built villages, who recruited nuns to run a child welfare service to reduce the rate of infant mortality and even designed a special crepe-rubber boot to protect the feet of his workers as they shinnied up the palm trees to harvest their fruit (Macqueen 2004: p. 222)

One of Lever's successors, Niall FitzGerald, who served as CEO from 1996 to 2004, stated that this social purpose was a "remarkable vision in 19th Century Britain" (FitzGerald 2009). FitzGerald went on to elaborate more directly on Lever's view of business responsibility:

> William Lever is interesting because of his far-sighted view of the purpose of his business and the way in which his factory treated its workers. He lived at a time when the fabric of society and the forces in society were very different

> from today. There was little or no state-funded social provision and many businesses operated in appalling conditions. He believed he had a moral responsibility to help, both through business and his personal actions.

Another successor, current CEO Paul Polman, had this to say about Lord Lever:

> What was unique about the man was, from day one, he believed in what he called shared prosperity. He had a vision of how the wealth should function and was always was willing to invest in social progress as part of business. His workers that went off to war during WWI were guaranteed their jobs if they came back. He used his maiden speech in the British Parliament to urge the Government to introduce a national old age pension, such as the one he offered his workers, and he continued as a social reformer throughout his time as a Liberal Member of Parliament. (Polman interview 2016)

Despite all these positive characteristics, William Lever was far from a perfect business leader. He was both very paternalistic (largely in a good way) and authoritarian in the sense that he was the unquestioned decider on almost all matters that faced the company. By today's standards, he would be considered a racist in the way he dealt with his African employees in the Congo. He also failed to put in place a succession plan so that when he gave up control of the company, it was turned over to Francis D'Arcy Cooper of its accounting firm (Cooper Brothers) rather than his son or another Lever manager. He was 73 years old when this happened and almost everyone, except Lever himself, believed that he had stayed way past his prime.

To conclude this brief history of the company and its founder, it seems appropriate to end with a quote from Lever that appeared in his obituary in 1925. His philosophy and approach to business can be characterized as both progressive and person-centered: "I would rather have a system that would produce the finest type of men and women than one that would produce the finest dividends" (Macqueen 2004: p. 303).

The current company was formed in 1930 with the merger of Lever Brothers and Margarine Unie, a Dutch company that was an amalgamation of a British and Dutch company (Jergens and Van den Bergh). The combination of the two firms was one of the largest mergers of its time. Since then, two separate British and Dutch companies—Unilever Plc and Unilever N. V. operated with different sets of shareholders but identical boards of directors. The companies paid dividends of equivalent value in Pounds Sterling and Dutch Guilders. There were two sets of offices in London and Rotterdam. Interestingly, until 1996 the "chief executive" role was performed by a three person Special Committee consisting of the two chairmen and one other director (Jones 2002). The chairman and "chief executive" roles were split in 2005 when Patrick Cescau became CEO.

The business model followed by the company in the middle to latter parts of the twentieth century was one of thinking globally and acting locally according to Floris Malijers (2002), one of the co-chairmen at that time. Building on the expansion strategy begun by Lever, the new firm became a transnational company with operations in many countries. As early as the 1940s Unilever began actively recruiting local managers to replace the Dutch and British executives, who had been running these disparate operations. The firm called it the "ization" policy meaning that this was the Indianization and Brazilianization of the company (Malijers 2002).

Starting in the 1970s, Unilever and the food industry, in general, became increasingly consumer driven and effective marketing was the company's prime competitive advantage. The size of the company grew to over 350,000 employees at that time (Jones 2002). Although the company during this era might not be considered as progressive as in the Lever era, there were agreed upon standards that guided behavior in the company:

> At Unilever, we have realized over time that the transnational way of working helps to maintain common standards of behavior in our far-flung units. Formulating and defining such standards with any precision is almost impossible, except in obvious cases like prohibiting bribery. Nevertheless, there are generally accepted standards in labor relations, communications with governments, care for the environment, and other social issues. Maintaining these standards depends as much on everybody

> in the organization understanding and accepting them as on formal instruction manuals. (Maljers 2002: p. 12)

One of the distinguishing features of Unilever from the time that a single individual held the CEO position starting in 1996 is its alliance with nongovernmental organizations (NGOs) to pursue common goals. The company was ahead of its time in recognizing the benefits of cooperating with the NGO community and certainly took a leadership position regarding important social and ecological problems. This recognition of the importance of external stakeholders is a good illustration of what O'Higgins (2010) called an "engaged" stakeholder orientation. Although many such partnerships involving Unilever might be featured here, two that represent significant scope and impact by Unilever are the formation of the Marine Stewardship Council in the 1990s and the Sustainable Food Laboratory in Indonesia that began in 1999 and continues today.

The Marine Stewardship Council (MSC) was formed in 1996 as a partnership between Unilever and the World Wildlife Fund for Nature (WWF). The MSC was designed to certify fish products caught from all major fisheries as either sustainable or unsustainable. The purpose of the MSC was to tie market incentives to consumer preferences through a certification and eco-labeling program (Constance and Bonanno 1999). The shared objectives of WWF and Unilever was to ensure the long-term viability of global fish populations that were becoming endangered. This program was patterned after the WWF's successful Forest Stewardship Council enacted in 1993 to certify wood products from sustainable sources.

Unilever's motivation for entering into this arrangement was that it was the largest buyer of frozen fish under the well-known brands of Iglo, Birds Eye, and Gorton's. Unilever had a twenty-five percent share of the European and US frozen fish market at that time (Smelly 1997). A Unilever spokesperson commented about the MSC that: "Two of our core principles are that sustainable business is good business, and that we work in partnership to meet our goals" (WWF 1996, p. 1). Three UK retailers were early supporters of MSC: Sainsbury first and then Tesco and Safeway.

The MSC turned out to be a controversial initiative for several reasons. First, nation states were against it because the agreement overrode countries' powers to regulate fisheries in their area. Second, there was distrust of Unilever as a multinational corporation that presumably had ulterior motives as noted by some in the NGO community. Third, some critics believed that the MSC arrangement favored larger fisheries in the global North who could more easily comply with the new restrictions. One thorough analysis of MSC concluded that: "The wide ranging critiques of the MSC from both the fisher-people of the North and South show that the MSC does not represent all stakeholders" (Constance and Bonanno 1999: p. 133). Fourth, there was criticism of the bureaucratic structure and lack of transparent decision-making, which caused MSC to establish an inclusive multi-stakeholder governance structure (Gulbrandsen 2009).

Currently, the MSC has expanded the scope of its operations from the early days. Marks and Spencer, Carrefour, IKEA, and Lidl have now joined the other earlier retailers offering certified seafood. According to the latest annual report, MSC has certified 286 fisheries in 36 countries to date (MSC 2016). The MSC continues to draw criticism from NGOs and other observers for the implementation of its principles and sustainability interpretations of its third-party certifiers (Christian et al. 2013; Goyert et al. 2010). Unilever no longer plays a role in the MSC as the company wanted to assure the ongoing independence of the organization. The MSC currently describes itself as follows: "an international non-profit organization established to address the problem of unsustainable fishing and safeguard seafood supplies for the future" (MSC 2016). However, the foresight to begin such an extensive worldwide initiative twenty years ago cannot be over-stated.

A second partnership of Unilever discussed here is the Sustainable Food Laboratory in Indonesia, which is a joint effort between Oxfam UK and Unilever as well as other NGOs. It began in 1999 "as a response to the 'race to the bottom' in global agriculture: the relentless increases in production beyond environmentally sustainable yields and declines in prices of agricultural commodities and farm incomes" (Senge et al. 2006: p. 422). Unilever has had operations in Indonesia since 1933 and employed over 5000 workers at the time of the project. The initiative examined Unilever Indonesia's (UI) macroeconomic impact, supply chain practices, and UI's impact on the low-income consumers in the marketplace.

The findings of this multi-year project were as follows: (1) between 1999 and 2003, 62 percent of UI's pre-tax profits were retained in Indonesia; (2) 60 percent of the 5,000 UI employees are direct employees and 40 percent are contract workers (3) an estimated 300,000 people make a livelihood in UI's value chain and UI data on the supply chain show that Unilever purchases the majority of goods and services for its business operations locally from more than 300 supplier companies; and (4) 90 percent of poor Indonesians buy at least one UI product (Senge et al. 2006).

Several impacts of this program were found: (a) poverty reduction impacts of a company like UI are spread across the full breadth of its value chain in terms of jobs created in manufacturing, distribution, and retail; (b) the research brought new insights into the extent of the widespread job multiplier in UI's total value chain; (c) the research findings highlighted that not all MNCs are the same and UI is an MNC that is deeply embedded in the local economy; (d) the project challenged the assumption that international companies still see their purpose as solely profit maximization (Senge et al. 2006).

A full report on this joint project contains a list of lessons learned by Oxfam and Unilever (Clay 2005: pp. 21–22). One of the overriding ones is the difficulty of poverty alleviation throughout the world despite the best efforts of both NGOs and companies. Another deal with the challenge of defining fair practices by MNCs and is especially hard in areas such as a living wage. The upshot of this collaboration and discussion here is that Unilever has been open to collaboration with NGOs to help better understand and move closer to solving intractable social problems on a global scale.

2 Paul Polman Era

In 2009 Paul Polman became the CEO of Unilever and was the first outsider to head the company. Dutch by birth, he was educated at the University of Gronigen and received his MBA from the University of

Cincinnati. He came to Unilever after a stint as Chief Financial Officer of Nestle. Polman spent the bulk of his career (28 years) with Procter and Gamble (P&G) rising to Group President under P&G CEO Dirk Jagr and then as President of P&G Europe. He started his tenure with a dramatic announcement that Unilever would no longer provide earnings guidance (he also later stopped reporting quarterly earnings). As he told the *Harvard Business Review* in an interview, "I did it on the day I started this job, because I figure I couldn't be fired on my first day… It allowed us to focus instead on a mature discussion with the market about our long-term strategy" (Ignatius 2012: p. 5).

On the challenge of being accepted within the company, Polman described his behavior as follows:

> I quickly discovered that the burden of proof was on me to be accepted not on others to accept me….So I spent a disproportionate amount of time finding out about the history of the company and its values. I held one of my first leadership meetings in Port Sunlight and it helped me because people understood that you cared about the company and cared about them and not just about yourself. (Polman interview 2016)

Besides his commitment to the values and underlying principles guiding the firm, he also noted that he had to drive a change agenda to move the company forward after the financial crisis.

The choice of Polman as CEO at that critical time in Unilever's history is not that surprising. His personal values fit very well the progressive agenda that Unilever consistently cultivated since its founding. When he was asked recently whether Unilever was fertile ground for his ideas, his response was "A hundred percent. It's written in its DNA" (Skapinker and Daneshkhu 2016: p. 29). Paul Polman has raised the "social stakes" to new levels at the company. In fact, he remarked that "I have often said we're one of the biggest NGOs because we're a non-governmental organization. We've just figured out how not to rely on other peoples' money to do good and that's really how I would like to see our company in all seriousness…I do think you can develop a model that balances the interests of stakeholders over the longer term" (Polman interview 2016). The strides that Unilever has made during the Polman

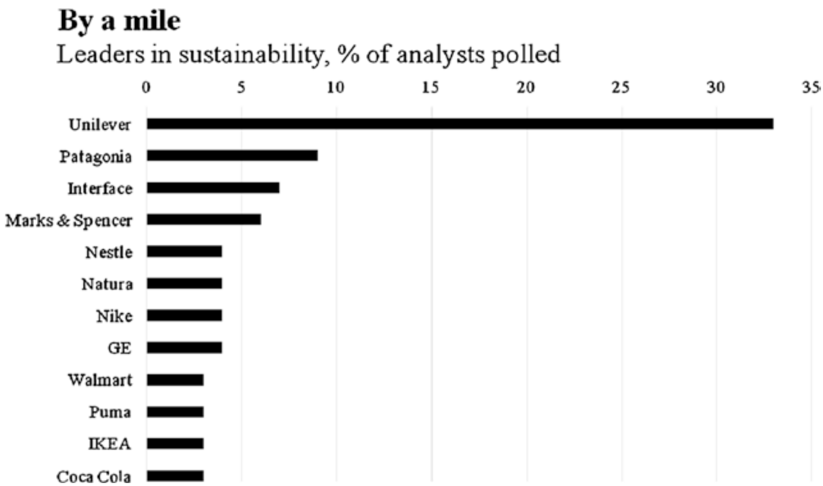

Fig. 1 Leaders in sustainability. *Source* GlobeScan/SustainAbility survey

years is best exemplified by Fig. 1 which was reported in the *Economist* (In search 2014). As shown there, Unilever is far ahead of other global firms in terms of sustainability policies.

The business model that Unilever has followed during the Polman years focuses on sustainability and long-term growth. The most audacious goal set out was that Unilever wants to double its business while reducing its overall environmental footprint. In Polman's words: "We decided to introduce a business model that we would totally decouple our growth from environmental impact and then increase the overall social impact. So it really goes back to the triple bottom line of economic, environmental and social" (Polman interview 2016).

The Compass, first developed in 2009, represents Unilever's business strategy. Continuously evolving, it outlines a long-term path for Unilever, communicating both Unilever's purpose—"to make sustainable living commonplace," and vision—to grow the business, while simultaneously reducing its environmental footprint and increasing the firm's positive social impact (Unilever 2016). Being a purpose-driven brand is not new for Unilever. It's Lifebuoy and Ben and Jerry's brands were among those founded on a social or environmental purpose.

Unilever has taken this one step further by requiring its Sustainable Living brands to not only have a clear positive societal impact, but also stipulating the products themselves contribute to the targets set forth in the Unilever Sustainable Living Plan (USLP). Dove, Hellmann's, and Lipton are all among Sustainable Living brands. The company believes that making brands recognizably sustainable is crucial to bringing about change on a larger scale.

As originally conceived at its 2010 introduction, the USLP had seven target areas: health and hygiene, nutrition, greenhouse gases, water, waste, sustainable sourcing and better livelihoods. Under each of these, there were clear numerical targets. These were later grouped under three major goals, with sub-goals under each, (1) Improving Health and Well-Being for more than one billion people, (2) Reducing Environmental Impact by one-half, and (3) Enhancing Livelihoods of millions. (Figure 2 depicts these goals and Fig. 3 shows some of the quantitative accomplishments on the goals.)

The progress toward these goals has been steady over the past few years. Here is what Paul Polman says about it:

> The Unilever Sustainable Living Plan actually focuses on the total value chain, from farm to fork, as we would say. That is absolutely needed to get the breakthroughs. One of the overarching goals was to decouple growth from economic impact, including by sourcing all agricultural supplies sustainably. We are now at over 60%, up from around 14% when we started. Therefore, we have multiplied by a factor of six in six years what it took the company 150 years to achieve. Similarly, we had a goal to help a billion people improve their health and well-being. We've reached now about four hundred million children with our handwashing campaigns. Before the Unilever Sustainable Living Plan in the whole history of Unilever we had reached 50 million in total. So we've multiplied that by a factor eight only in five years' time. So you can see the energy that the Unilever Sustainable Living Plan evokes in our system and how that it is guiding us. What is most exciting to us is that the brands are even closer to the Unilever Sustainable Living Plan—more purpose driven as we would call it—and are gowing faster and are also more profitable. So increasingly we find that it's not only the right thing to do, it's actually good for business as well and that should not be a surprise. (Polman interview 2016)

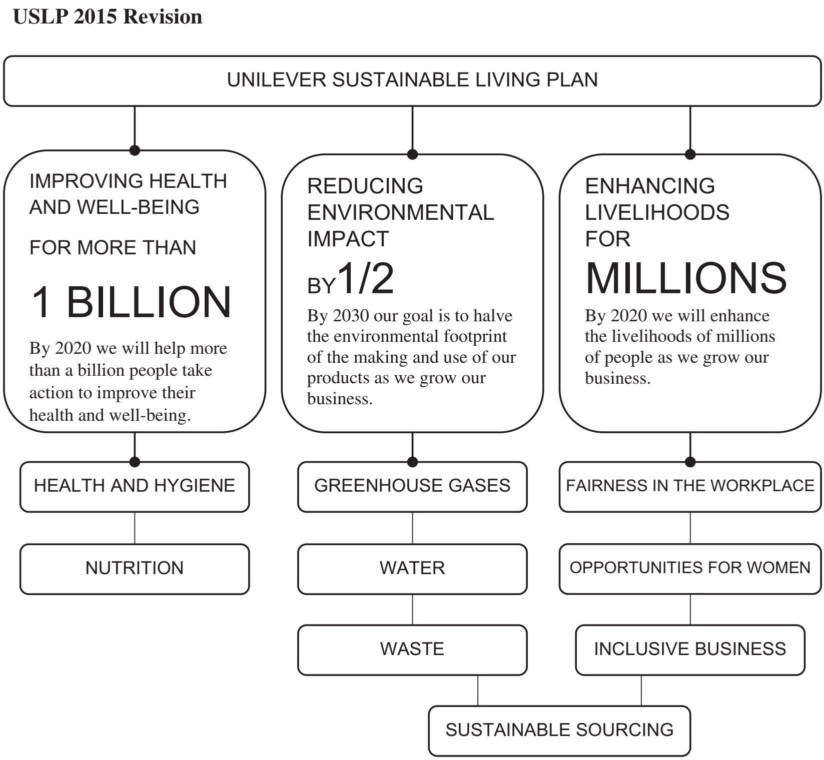

Fig. 2 USLP 2015 Revision. *Source* Unilever 2015 annual report

One of the biggest environmental issues of the 21st Century where Polman and Unilever have taken a leadership stance is on climate change. As recounted in the *New York Times*, government actions to slow climate change, until the Conference of Parties 21 in Paris in December 2015, has moved at a snail's pace especially in the USA. Forty companies have stepped forward to help cut tropical deforestation by 2020 and stop it entirely by 2030. Among the well-known firms to sign the agreement in addition to Unilever are: Apple, Cargill, Facebook, Google, Kellogg, L'Oreal, and Nestle. The article noted that the "leading company" in cleaning up the problem of deforestation in the production of palm oil was Unilever (Gillis 2014).

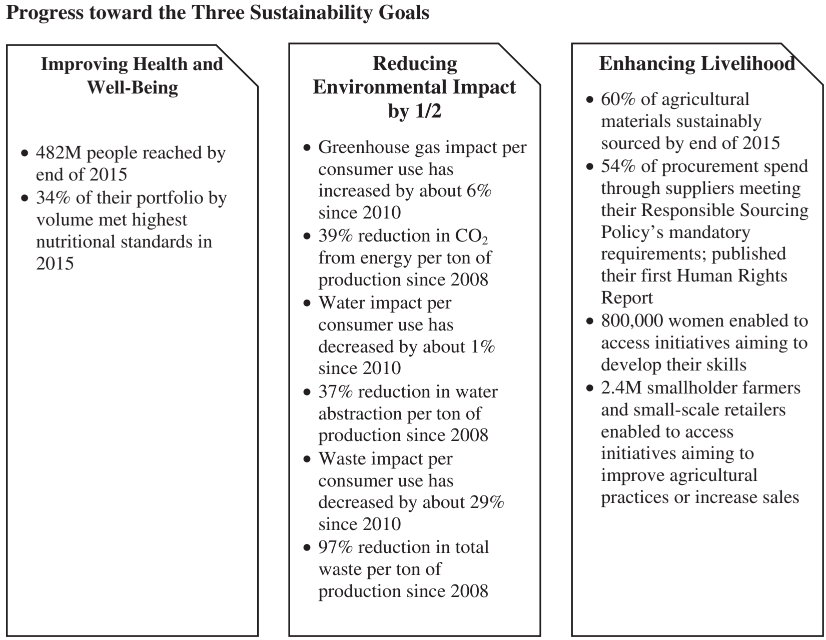

Fig. 3 Progress toward the three sustainability goals. *Source* Unilever 2015 annual report

An initiative that was started prior to Paul Polman's arrival at Unilever that illustrates the partnership with NGOs discussed in the last section has to do with its tea brands—Lipton and PG Tips. In May 2007, Unilever became the first large-scale company to commit to sourcing all of its tea in a sustainable manner, employing the Rainforest Alliance, an international NGO, to certify its tea estates in East Africa as well as third-party suppliers in Africa and other parts of the world (Nicholson 2007). The Rainforest Alliance logo now appears on all Lipton and PG Tips bags sold around the world. Besides this ongoing program, Polman indicated that Unilever has decided to create its own tea plantations to work with small holder farmers to create tens of thousands of jobs. The company is cooperating with government development agencies and NGOs. These tri-partite partnerships are in Polman's words "the new way of moving forward to solve some of these bigger societal problems, also in a way that is sustainably acceptable and affordable for business" (Polman interview).

Paul Polman has been interviewed or profiled in several leading business publications, which have characterized him in similar but slightly different ways, during his tenure as CEO. In 2012, the *Harvard Business Review* conducted a wide-ranging interview with him entitled "Captain Planet" focusing on the USLP and the challenges of leading a socially-driven mission while protecting his company's core. It stated that: "he has transformed the Anglo-Dutch multinational into one of the world's most innovative corporations" (Ignatius 2012: p. 2). In the same year, *Ethical Corporation* published an article called "The CEO as Statesman" defined as running a business responsibly and successfully with integrity (Grayson 2012). Polman was one of two individuals mentioned by name in the publication. In 2013, Marc Gunther, the well-respected environmental writer, profiled Polman and Unilever in *Fortune*, titled "Unilever's CEO has a Green Thumb." Although Polman agreed that some environmental initiatives like reduced packaging save the company money, Gunther's assessment was that Unilever: "has gone beyond big U.S. companies like GE, IBM and Wal-Mart by putting sustainability at the core of its business" (Gunther 2013: p. 64). Polman was interviewed by *Forbes* in 2015 with the headline, "CEOs Can't be 'Slaves' to Shareholders," where he discussed his responsibility to multiple stakeholders, such as consumers in the developing world and climate-change activists, not just shareholders. He hopes to use the size and scale of Unilever to bring about change in the areas of water, sanitation, hygiene, livelihoods, and climate change (Barchan 2015). This year the *Guardian* called Polman "the optimistic pessimist" due to use of a different business model that improves profitability in a responsible way (Ruddick 2016). Most recently, the *Financial Times* called him a "man on a mission" to not only make his company environmentally sustainable but also economically sustainable. He wants to do this in a way that takes into consideration the past and the future. In the article and elsewhere he noted the type of investor that he seeks on this journey:

> Unilever has been around for 100-plus years. We want to be around for several hundred more years. So if you buy into this long-term

> value-creation model, which is equitable, which is shared, which is sustainable, then come and invest with us. If you don't buy into this, I respect you as a human being but don't put your money in our company. (Skapinker and Daneshkhu 2016: p. 28)

While he has a high profile for his leadership at Unilever, Polman also is active in a number of significant activities outside the firm. In discussing his participation in these endeavors, he invoked the "flywheel" concept popularized by Jim Collins in his book, *Good to Great* (2001). Polman views his job to get that flywheel to move as fast as possible because momentum—mass times velocity—is what will generate superior economic results over time. That may explain why he is so involved in these organizations. Paul mentioned that he is in his second two-year term as President of the World Business Council for Sustainable Development, which counts as members 200 of the most progressive companies in the world. He also leads the sustainability pillar of the Consumer Goods Forum. Another of his outside activities is his involvement in the World Economic Forum where "many of the issues in the world can only be solved if you bring the parties together to talk about it" (Polman interview 2016). Among the most significant of the issues he mentioned were the pandemic in Africa and the refugee crisis. He also serves on the board of the United Nations Global Compact with its 12,000 member companies and sat on the UN Secretary General's High Level Panel that helped formulate the current UN Sustainable Development Goals (SDGs). Another activity is called the Performance Theater which focuses on emerging leaders with the potential to achieve positive change on a global scale. The organization recognizes a half dozen individuals from across the globe for its annual Inspired Leadership award (for more information, see http://theperformancetheatre.com/).

3 Challenges

For a high profile CEO like Paul Polman, there are several personal challenges that he has recognized and commented upon in various interviews. (Exhibit 1 presents Polman's views on future challenges to business in general.) The first is the challenge to remain humble in the face of all the attention by the press as well as internal and external accolades. Unilever has won a number of awards in the last several years including one from the University of Notre Dame in 2013 for the company's commitment to ethical, sustainable, and socially responsible business and by *Management Today* as Britain's most admired company for 2015. (It was the 2010 winner too.) Polman has noted that to be an effective leader, he must remain humble. A second challenge is what he calls "being so far out in front that no one is following you." This situation refers to the leadership position he has taken with the USLP and on the many issues noted above. A third challenge was noted in the recent profile in the *Financial Times* and refers to the day (as of yet not foreseen) when Paul Polman is no longer CEO of Unilever:

> Wherever he goes next, he is unlikely to wield the same influence as he has done at a company whose products touch two billion consumers a day. The real question is whether the legacy he leaves behind at Unilever will itself prove sustainable. (Skapinker and Daneshkhu 2016, p. 30)

Exhibit 1

Unilever CEO Paul Polman: Thinking about the Future

In the course of the interview with me, Mr. Polman made four observations about major environmental and social challenges facing business in the coming decades.

- Global institutions without the scope to deal with governance and non-economic problems—The G7, G20, World Bank and International Monetary Fund are not sufficiently representative of the challenges faced on a global scale.
- Too many non-beneficiaries of global wealth creation—One manifestation is the refugee crisis and the development of a more inclusive economic growth is necessary.
- The disproportionate impact of climate change on the most vulnerable—Poor people suffer the most from climate change due to flooding and increases in food costs.
- A technological revolution that is destroying many jobs—This fourth industrial revolution is where robotics, artificial intelligence, drones and other technological innovations result in enormous job loss. For

example, the biggest media company (Facebook) doesn't own television stations, the biggest taxi company (Uber) doesn't own cars, the biggest hotel company (Air B&B) doesn't own rooms and the biggest retailer, (Amazon.com) doesn't own stores.

Source (Polman interview 2016).

The challenges and criticisms facing Unilever as a company have to do with implementation of the USLP, marketing messages, and the company's business model. The first challenge facing the company and its USLP is the term sustainability. Many argue that the vagueness of the term in addition to its many definitions "can stretch so much that the illusion of sustainability is actually greater than the reality" (Matsangou 2016). For example, one of the major ingredients in Hellmann's mayonnaise is soybean oil. To make this ingredient more eco-friendly requires that US farmers grow soybeans in a sustainable way. This necessitates a change in the tilling, storage, and farm management techniques in exchange for a premium of ten cents per bushel. A number of soybean groups, Archer Daniels Midland, commodities brokers, and several NGOs are also involved in this initiative. The certification process is a difficult one to implement and Unilever admits farm sustainability is difficult to measure and is focusing on continuous improvement. Whether these actions can lead to a sustainable consumer product has been questioned (Gelles 2015). This situation is magnified when one considers the host of products sold by the company and the implementation challenges presented by its suppliers around the world.

A second challenge and criticism of the USLP is how realistic some of its goals are. To achieve the ambitious goals set out in the plan, there are many factors to consider and move into alignment. As noted earlier, the time frame for halving its environmental footprint while doubling sales has been pushed back from 2020 to 2030. Polman noted that the stretch objectives of USLP are causing a "shift in people's mindsets" (Boynton 2015) and while some of these objective are not achievable in the short run, substantial progress has been accomplished thus far (Matsangou 2016). The third challenge is depicted in Fig. 4

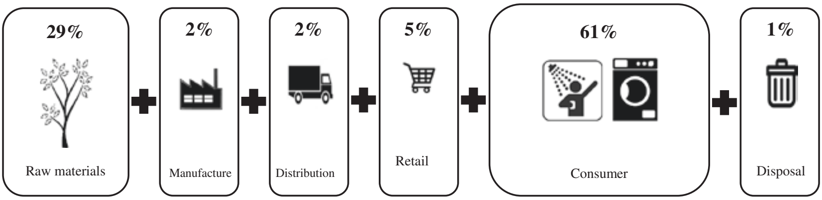

Fig. 4 Greenhouse gas footprint. *Source* Unilever green house gas footprint 2014–2015

which shows that to reduce greenhouse gases, customers who account for over 60% of the total must, as Polman says, "take shorter showers." The company has achieved significant gains on the ULSP thus far in the supply chain, but getting consumers onboard is a challenge that will be around for some years to come. (One response to this challenge has been the production of a video on Unilever's supply chain and sustainability—see Sustainability and Unilever—The Value Chain on You Tube.) A similar challenge with consumer acceptance is being experienced by Seventh Generation, a green cleaning products company in the US and Unilever's most recent acquisition (Kowitt 2016).

A fourth challenge is the marketing and advertising messages promoted by the company. The firm has received great acclaim for its Dove Natural Beauty advertising that featured "regular" female body types rather than skinny models and for its Dove self-esteem programs. At the same time, another of Unilever's products, Axe deodorant for men, has promoted the brand with heavy sex appeal advertising over the last several years. The Axe campaign has been very successful especially with millennials. Another controversial campaign involves "Fair and Lovely" skin whitening cream. According to a case published about the campaign: "the brand accounts for 57% of the sales in India's skin lightening cream market. Unilever asserts that Fair & Lovely is a product designed to help individuals who aspire for a higher place in Indian society. Critics argue that the cream is targeted at women at the base-of-the-pyramid, and encourages discrimination against darker skin" (Karnani 2014). The latter two marketing campaigns have the impact of undermining the overall positive message of Dove and USLP products.

A final challenge is to show that the new business model being practiced at Unilever can meet its lofty goal of being a positive force for society and become more than an exception to the bottom-line philosophy that still dominates much of the business world. The company has a long history of commitment to social goals as well as selling products that are needed by consumers throughout the world. Polman understands that the model will not work everywhere and its transferability to other firms and other industries will take not only top management attention but also a change in the culture of companies that operate with a short term outlook. The examples of other companies in this volume on progressive business is a start, but there is a long way to go.

4 Conclusions

There are several lessons that can be learned from Unilever's business model over the years. Three areas highlighted here—ethical leadership, societal commitment, and responsible impact.

Ethical Leadership—William Lever set the standard for running a business in a responsible manner with his enlightened policies as noted above. The company is now recognized for its global reach and its three CEOs since the 1990s are Irish, French, and Dutch by birth. Niall FitzGerald was a thirty-year veteran of Unilever when he became CEO in the mid-1990s. He was involved in both the founding of the Marine Stewardship Council (even before his move to the top of the company) and was instrumental in the partnership in Indonesia. In reflecting on his time as CEO of the company, FitzGerald noted that trust, transparency, and a sense of social responsibility were guiding principles for him and the company during his tenure (FizGerald 2009). He was succeeded by Patrick Cescau, a Frenchman, who was also a veteran of Unilever, for three years where one of his major accomplishments was promoting corporate ethics at the firm. Paul Polman, the current CEO, has been in that position for nine years. His vision and leadership have been chronicled earlier in the chapter but the "tone at the top" that he sets has led to Unilever's sustainable success commercially, environmentally, and ethically.

Societal Commitment—Many corporations focus exclusively on internal operations, employee, and stockholder needs as well as satisfying consumers and pay little attention to the role the company might play in the broader society. Unilever is not like that. From its founding, Lord Lever and his successors have positioned the company to not only make major contributions to local communities but also the broader world. Paul Polman's current activities with the UN Sustainable Development Goals and Global Compact and the World Council for Sustainable Development are just the most recent manifestation of his and the company's commitment to society through these organizations. Unilever is known to practice an "engaged" stakeholder orientation (i.e., "integrated into social networks with a variety of stakeholders"—O'Higgins 2010: p. 161). This level of societal commitment distinguishes the company from most others.

Responsible Impact—Unilever has gone from an Anglo-Dutch centered company to a European one and now is one of the most globally diverse companies anywhere. This breadth of operations has also enhanced its sphere of influence to Africa in Lever's day to the Far East and now to the developing world. The company has embraced its ever-widening social responsibility over time. Most recently, Unilever has appointed a VP for social impact, who champions the firm's activities in this area. In 2014, three pillars around enhancing livelihoods of its stakeholder were unveiled. The first is fairness in the workplace that focuses on human rights, responsible sourcing, and fair compensation for suppliers and employees. The second is opportunities for women because their economic empowerment is an effective tool for development, especially in the third world. The third is an inclusive business where an effort is made to improve the livelihoods in the extended supply chain especially with small holder farmers and small-scale retailers (Oger 2016). These efforts are not unique to Unilever but are good examples of the application of the power-responsibility equilibrium where organizations with the most economic power assume greater social responsibility (Murphy 2005: p. 175).

To conclude, this chapter has focused on the history and evolution of Unilever, its partnerships with NGOs and recent leadership and challenges at the firm as well as three lessons that can be learned from Unilever's business model. From its founder, William Lever, to its current CEO, Paul Polman, the company has set a high bar for itself in designing and selling products that meet health and lifestyle needs of consumers and contribute to the betterment of society. From its humble beginnings in England, Unilever is now the third largest consumer goods company in the world with 1000 brands and sales of over 53 billion euro and employing over 170,000 with daily interactions with 2.5 billion consumers. Unilever is the personification of a progressive and socially responsible company. The firm has been called by an NGO observer: a "standout company in sustainability" but also not a perfect company (Gelles 2015). Despite its imperfections, Unilever can be seen as a model 21st century company to be emulated.

5 Questions to Address

Several questions might be considered in evaluating Unilever's positioning and business model as a progressive business.

1. What factors do you attribute Unilever's sustained success over the years?
2. Do you know of other companies that have such a strong record regarding sustainable and responsible business practices? If so, how would you compare them to Unilever?
3. Which of the challenges and criticisms of the Unilever Sustainable Living Plan are the ones that may cause the most problems for the company in the future?
4. How would you evaluate Paul Polman as a CEO? What characteristics distinguish him from others? Can you think of other CEOs of progressive companies that display similar characteristics?

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Part III

Conclusions

Future of Business

Eleanor O'Higgins and László Zsolnai

The future of business highly depends on its ability to renew its business models. The key problem is the nature, form, and scale of business operations. The business models of today's mainstream business do not fit in the reality of the biosphere. Business models vary but almost none of them are consistent with the flourishing life on Earth (including human, nonhuman, and future life).

To achieve meaningful change in the humanity-nature nexus business organizations should reinvent the ways they function. How can business become ecologically conscious agent which operates within limits, that is, uses only its "fair earth share" and contributes to the richness of life on Earth?

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E. O'Higgins and L. Zsolnai (eds.), *Progressive Business Models*, Palgrave Studies in Sustainable Business In Association with Future Earth,
DOI 10.1007/978-3-319-58804-9_13

1 The Characteristics of Progressive Business Models

As can be seen from the cases in this book, there are many ways to construct progressive business models that meet the criteria of pro-socialness, respect for future generations, and ecological sustainability. We bear in mind that the various progressive business models portrayed, like all business models, are based on strategic choices about markets, value propositions, and particular organizational structures, processes, and cultures (Smith et al. 2010).

While the progressive business models may differ in their construction, yet they have many features in common which define their progressivity. These include *Exponential*—New progressive business models entail a radical change from incumbent models, i.e., the ambition should be exponential, rather than simple gradual improvement (Volans 2016). The contrast to what exists should be transformative (Haslam 2016), involving a reframing and even disruption of fundamental beliefs, challenging conventional thinking (de Jong and van Dijk 2015). This is double-loop learning that forces a transformation in fundamental assumptions to institute change, instead of single-loop learning which confines itself to change within an existing framework (Yunus et al. 2010). Exponential thinking can prompt various quintessential business model conversions.

Exponential business model conversions can take the form of major innovations in ownership, such as JLP which is owned by its staff through a Trust donated by the visionary Spedan Lewis. Lumituuli, owned by its customers as a cooperative, is unusual among energy companies. Exponential innovations in business models can also be reflected in changes in processes and value chains from the conventional. Triodos was a pioneer in addressing questions of human and ecological sustainability in banking, in stark contrast to the traditional indiscriminate concentration of banks on making money by trading money, rather than engaging with and supporting the real economy (Kay 2015). illy coffee is another instance of a revolution in all its processes, throughout the value chain, from sustainable sourcing of beans, and innovations in its processing and distribution, alongside other complementary support activities, such as art and the University of Coffee.

Even after a progressive business model has been established, companies should not become complacent, as it still requires constant experimentation on a smaller scale to keep the model relevant to changing circumstances and mitigate risk. For example, JLP does this with its JLAB unit investments in accelerators or incubators and its future viewing taskforce. Beres is continuously developing new products that fall within its progressive business model and values, thereby developing innovative, scientifically sound, high-quality products that meet consumer needs, and contribute to the preservation of health and prevent disease. DKV Integralia is another example of continuous progress experimenting with different forms of working and technology to advance the participation of handicapped people in the workforce.

Sustainable/Circular/Frugal—Sustainability in progressive companies is two-fold. On the one hand is the sustainability of the enterprise itself, as it thinks long-term. Complementing this is that progressive companies integrate the sustainability of the planet into their business models. Long-term thinking in companies is exemplified by Unilever, which is shunning the typical quarterly earnings reports to shareholders, also recruiting investors who concentrate on the long-term. In fact, seven in 10 shares of US companies are owned by longer term investors: individuals, index funds, and more sophisticated long-term investors, so companies which discard the traditional quarterly earnings merry-go-round are more likely to be given the breathing space to flourish sustainably (Koller and Darr 2017) and it has been shown that a long-term approach can lead to superior performance for revenue and earnings, investment, market capitalization, and job creation (Barton et al. 2017). The concentration in progressive companies is on an enduring timeline which appears to provide business advantages.

Other efforts at long-term sustainability are exemplified by continuous innovation, such as Beres' ongoing development of new medicines, illy's expansion with innovative products and formats, while maintaining its basic principles of perfectionism and integrity in its relationships, and JLP's forward looking innovations.

The corresponding side of sustainability is the ecological one, whereby progressive companies are future respecting through attempts to reduce pollution and preserve depletable resources. This is where frugality is important so that resources are not wasted. All the progressive companies studied in the book have made serious efforts to tackle environmental issues. Armor is an example of this in its core business which recycles print cartridges, thereby reducing waste and pollution simultaneously. Armor is also a paragon of the circular economy, being restorative and regenerative by design.

In a similar vein, Lumituuli's very mission is to advance wind power generation in Finland, thereby conserving resources, through its renewable energy business. In addition to frugality, wind power generation also has the effect of mitigating climate change.

Rezidor Hotels takes environmental challenges in the hotel industry seriously by various measures, emblematic of frugality, such as offsetting carbon emissions, engaging with the United Nations water stewardship program, invoking energy saving measures, and using green technologies in building new hotels. More than two-thirds of Rezidor hotels received an independent third-party eco label. Rezidor's attitude is also emblematic of frugality, conserving resources. This is symbolized by the modest salary taken by the CEO, unlike a mainstream business where top management greed and the need to consume is the norm. In the same spirit, Triodos' strict no-bonus culture is in stark contrast to traditional banks which set profit targets for extravagant bonuses, showing a sense of frugality in its leadership practices.

Novo Nordisk was an early proponent of environmental responsibility with its triple bottom line reporting that gave equal status to environmental with financial and social sustainability, making itself publicly accountable to multiple stakeholders. Triodos was among the first banks in the world to take responsibility for the natural environment in dealing with its customers and other stakeholders, with 65% of savers' deposits invested in sustainable projects. illy coffee is also environmentally aware and has obtained various certifications—environmental certification ISO 14001 on its environmental management system; EMAS (Eco-Management and Audit Scheme) registration, and it was the first company in the world to obtain the very demanding certification of

Responsible Supply Chain Process. Sonnentor has also been recognized for its social and environmental commitment to its regional suppliers. A prominent tenet of the Society for the Common Good pioneered by Sonnentor is Ecological Sustainability.

Embracing paradox—By its very nature, progressive business embraces paradox, as it tries to pursue different goals simultaneously, some of which may appear to clash with each other. Often, corporate responsibility is seen to be costly to the bottom line, which may antagonize shareholders or even threaten the survival of the enterprise. However, progressive businesses frequently differentiate themselves and achieve competitive advantage by means of their progressivity itself. Embracing paradox means that instead of asking themselves whether to implement A *or* B, managers should be seeking ways to implement both A *and* B (Smith et al. 2010).

Integralia is such an example. At first glance, it would appear that employing disabled people would weaken productivity. But, contrary to this conventional belief, the productivity and proficiency of Integralia's disabled workforce has been proven to be so superior, that its staff are desired by peer companies where they find employment. Integralia also illustrates how engaging contradictions facilitates creativity, and dynamic capabilities flourish as the company tries to pursue simultaneous aims, creating a virtuous cycle, with spin-off activities that benefit the company, its workers, and associated stakeholders who use its services.

As a hybrid organization a cooperative which can encompass both private and public sector imperatives, Lumituuli is another exemplar of embracing paradox. Interestingly, Lars Rebien Sørensen recently exited CEO of Novo Nordisk has declared that eliminating diabetes one day would destroy a large part of the company's business, but he would be proud of it, another instance of paradox.

Integration—It is quite a feat to embrace paradox, and yet be integrated, as the two concepts appear, at first glance, to be inconsistent with each other. However, the ability to adopt paradox successfully depends on effective integration. Integration means that activities are coordinated harmoniously and efficiently across the system, so systemic thinking is part of it. In this sense, the system is not only the internal company system, but incorporating its external system in which it is enmeshed. Szekely and Strebel (2013) emphasize that an integrated approach entails balance between three dimensions of environmental, social, and economic emphases to avoid directional risk, so as to thereby achieve sustainability.

One manifestation of integration is integrated reporting, which covers not only financial statements, but also reporting on progressive business criteria in an interrelated way. An early proponent and practitioner of such reporting was Novo Nordisk. Another manifestation is the integration of external partnerships and stakeholder arrangements into the everyday "modus operandi" of the organization, much like Unilever does. In JLP, the representation of all Partners at the governance level facilitates integration.

A unifying culture and set of ethical values may act as an integrating mechanism. This would appear to be the case in Rezidor, with the Carlson Credo. This is reinforced by its 4D strategy (Develop Talent, Delight Guests, Drive the Business, and Deliver Results). The Economy for the Common Good philosophy by which Sonnentor lives provides an integrating mechanism by its five integrated values: Human Dignity, Cooperation and Solidarity, Ecological Sustainability, Social Justice, Democratic Codetermination, and Transparency. Likewise, Triodos' principles of governance, based on conformity with law, valuing human rights, respecting the environment, promoting sustainable development, and a no-bonus culture act to unify the practices and activities of the Bank.

Socially oriented—Progressive companies are different to others in putting social impact at the forefront, specifying social profit objectives, and seeking pro-social owners (Yunus et al. 2010). Lumituuli, as a community enterprise, embodies this social orientation in its very purpose, formation, and governance with its core activities in renewable energy generation. Its ultimate purpose is to advance renewable energy, and as a cooperative, it does not seek a financial profit. Unilever is also an example of the pro-social orientation, where shareholders are being educated that the company should strive for more than financial profit. Indeed, it should expand its ambition to make a profound social impact on people's lives, in both developed and developing countries and communities.

Austria-based Sonnentor is another community oriented enterprise, as it aims to lift the well-being of rural communities by providing quality employment for its employees as well as its farmer suppliers. DKV Integralia is another example of pro-social orientation, as it actively integrates disabled people as constructive workers, not only into its own operations, but also by training the disabled for work in other companies. Similarly, the "happiness of the Partners" is seen in the unique social collective of partnership at JLP. Triodos Bank was a pioneer in banking as it strives to serve society in contrast to traditional banking models. It is renowned for its support of microfinance projects.

Stakeholder oriented—The business model innovation literature specifies the need for cooperation and collaboration with partners. Yunus et al. (2010) suggest that social businesses are not involved in a competitive contest, but can learn from one another instead, thereby creating something bigger. Also, rather than protecting intellectual property, it is shared in the hope that best practices will become widespread. This is especially important in the achievement of social ends, where stakeholder networks extend well beyond the business value chain. Thus, the case companies portray the features of the "engaged" configuration in the stakeholder model. (O'Higgins 2010) First, the firm is integrated into social networks with a variety of stakeholders, with stakeholder management based on fairness, interdependency, relationships, dialogue, and trust. Decisions are based on discourse with stakeholders, balancing interests of the firm, and legitimate stakeholders. In parallel, implementation of decisions take place in a context of long-term ongoing developmental partnership. The impact on the firm itself is positive, offering the potential for substantial learning and internal development.

An example of the foregoing is Unilever with its NGO partnerships, such as with the Rainforest Alliance and government agencies for the cultivation of tea in a sustainable manner that ensures the enhancement of the lives of tea plantation workers. Unilever was involved in the formation of the Marine Stewardship Council in the 1990s, which has since developed and expanded to become an established certification body for sustainable fishing. The Sustainable Food Laboratory in Indonesia, launched in 1999 is another Unilever partnership initiative.

Another win-win collaboration scheme is Lumituuli's partnership with Ekosähkö, a company which produces green electricity from hydro and biomass sources, but did not have a large customer base, while Lumituuli lacked the volume to administer its sales. Therefore, a partnership between the two organizations has offered mutual benefits for many years, allowing both companies to grow and flourish.

Sonnentor is another stakeholder oriented enterprise, as its five core values are addressed to five stakeholders—suppliers, investors, employees, customers/products/service/business partners, and the social environment.

Committed leadership—Progressive companies must be led from the top. This is essential in creating the enterprise in the first place or in sustaining progressivity in an existing company, even if the organizational practices are comprised of top-down and bottom-up processes in established companies. Leaders must have a clear vision and direction, galvanize necessary change, and ensure implementation of the progressive measures (Szekely and Strebel 2013). This is especially the case since the necessity of embracing paradox often involves difficult navigation (Smith et al. 2010). Committed leaders must be at the forefront of connecting with internal and external stakeholders.

All the case examples of progressive companies have been led and inspired by visionary, determined leaders and teams. The vision of Paul Polman of Unilever is integrated and multifaceted, encompassing the complexity inherent in running a giant multinational company with its diversified array of businesses and stakeholder engagements. The wholehearted adoption and pursuit of the Unilever Sustainable Living Plan has provided a focus from the top for all.

On the opposite end, on a small scale, at Sonnentor, Johannes Gutmann is the founder-owner of the business who personally inculcates his progressive company vision to the employees, consistent with the Economy for the Common Good movement.

In some cases, the leadership has come from a family vision. This is seen in the illy coffee company, as succeeding generations have carried on the progressive tradition originally established by a forebear. The radical idea of giving away the family company to a partnership trust was the brainchild of Spedan Lewis, and he embodied this vision in a

Constitution. Although the Constitution has been adapted over the years, its fundamental principles around partnership, as enunciated by Spedan, are still the inspirational nucleus of the company. Thus, his leadership vision has continued, and indeed, Lewis family members were in the leadership team of JLP until the end of the twentieth century.

Other inspirational leaders in the progressive case companies are Josep Santacreu, President of DKV Integralia as well as CEO of DKV Spain, Curtis Leroy Carlson of Rezidor Hotels and Dr. József Béres of Béres Pharmaceuticals.

2 Challenges

Progressive companies, like any other companies in business, face challenges. It is important to be cognizant of challenges so these may be addressed, to ensure sustainability of the organization. The challenges confronting the case example companies are delineated in each chapter and break down into a number of categories—issues within the business model itself, implementation issues, competition from rivals with progressive business models, competition from mainstream competitors, and existential threats from the nonprogressive world.

Business model issues—These are issues that arise from key elements of the business model that may be proving difficult to sustain or may no longer be appropriate. An example is JLP where there may be a feeling of Partner complacency, and the goal of the "happiness of the Partners" may not be satisfied. The new "It's Your Business" drive reflects that Partners have not taken on the responsibilities of ownership to the extent required by the business imperatives facing the company, but, at least the problem is recognized and is being attended to.

Armor is challenged by original equipment manufacturers (OEMS)' opposition to recycling altogether, since this represents a direct reduction of income for them since OEMs can collect their empty cartridges and destroy them, thereby preventing them from being remanufactured. However, so far, recycled cartridges have proved to be an attractive value proposition for customers. Of course, OEMs can enter the recycled cartridge market themselves. Thus, the threat from OEMs can be a survival issue for Armor.

Managing paradox can sometimes be tricky. For instance, Sonnentor's productivity is intentionally relatively very low, but for how long is such a position sustainable? In the same spirit, Sonnentor pays its managers below market value. Although it has had no problem attracting managers thus far, will this position change? In relation to managing paradox, Lumituuli has the problem of merging the operating logics of the political and business spheres of society. Added to this is Lumituuli's determination to remain a community company, even as it grows, and refusing to succumb to the pressure to be taken over by a mainstream operator. So far, Lumituuli has recognized the dangers to its mission as a cooperative and dealt with them. In contrast, Carlson Rezidor has been taken over by HNA, a large Chinese conglomerate which does not necessarily share the Rezidor values, and so, it faces an existential threat as a progressive company.

Many of the progressive businesses encounter the problem of balancing the short and long-term. Although the goal is to be sustainable in the long-term, it still requires profits in the short-term to enable ongoing investment to carry out the progressive ambitions of the organization for the future of itself and the planet. For example, the challenge for Armor's societal innovation model is to balance short-term earnings to enable it to invest continuously in long-term innovation and CSR. Illy is an example of a company that appears to be able to balance the short- and long-term imperatives.

In some cases, progressive businesses have been very dependent on a particular committed charismatic leader, such as Paul Polman at Unilever and Johannes Gutmann at Sonnentor. The question always arises as to whether the departure of these inspirational leaders will spell the end of progressivity. On the other hand, we have seen that JLP has been capable of surviving as a Partnership despite many changes of leaders for over a century and the replacement of Lewis family members with professional managers. This has been enabled by the integrated nature of the company and its ingrained Partnership culture, although, as indicated, the latter is due to some refreshment.

Implementation issues—Although a progressive company may hold fast to its business model, it may encounter difficulties in continuing to implement it, due to the sheer ambition of its goals. Rezidor Hotels is such an example since it operates in a high resources, energy and water consumptive industry with a great deal of waste, e.g., food and spin-off pollution. The case shows, that for all its efforts in eco-sustainability, the nature of its industry sets limits on what it can do, although it leads the way among hotels worldwide. A similar scenario confronts Unilever which has had to query how realistic some of its goals are, especially with respect to the environment, as enunciated in its Unilever Sustainable Living Plan (USLP). Thus, the time frame for halving its environmental footprint while doubling sales has been pushed back from 2020 to 2030.

Sonnentor faces implementation problems on several fronts. One has to do with sourcing of organic herbs, against increasing competition for these products which are very time consuming to harvest. Another is ensuring the adoption of its progressive business model among new employees in a growing company, along with franchisees. This kind of support is absolutely necessary for effective implementation of the model.

Generally, while desirable, growth brings implementation problems, so that practices which are simple in a small organization become problematic in a larger one. This is acknowledged in DKV Integralia whose growth has presented challenges in maintaining its culture and continues to expand its social impact, while working with an increasing number of partners. In Triodos, unbridled growth may also present issues by way of keeping spiritual and material needs in balance, to avoid straying from implementation of its original purposes.

Competition from other sustainable businesses—As time goes on, it is encouraging to see more and more companies adopting progressive business models. However, for incumbent pioneers, this presents competition from often similarly differentiated competitors. Rezidor Hotels has encountered just such a situation, with the establishment of a rival hotel chain, the so far small but growing rapidly, Nordic Choice. Nordic Choice had taken up the same Nordic values and pro-social and pro-environmental practices as Rezidor. This has created a predicament for Rezidor in pursuing its differentiation strategy based on its special progressive positioning.

illy caffè was an innovative first mover in creating specialty high-quality coffee and sustainability at every step of the value chain. However, its differentiation is at stake as others copy its model, embodied in the "third wave" of coffee transformation. This is seen in a proliferation of niche/local coffee roasters and specialized traders copying some aspects of illycaffè's business model/value proposition, such as high-quality coffee, and direct relationships with farmers.

Competition from traditional companies—Progressive companies have encountered competition from mainstream rivals copying and pursuing some features of progressive business models, as well as from traditional companies pursuing lower cost models which ignore issues of pro-socialness, respect for future generations, and ecological sustainability.

Companies like illy and Triodos are in the former category, subject to competition from traditional rivals. The "third wave" of coffee, initiated by illy itself entails a demand for high-quality specialty coffee. Ironically, the relatively small scale of illy limits its scope to benefit from the kind of demand it has helped to create. Instead, the beneficiaries are the large mainstream companies which have adopted illy's products. Examples are Starbucks and Nestlé with Nespresso.

Likewise, Triodos has encountered competition from big commercial banks in the Netherlands which has taken on lending to and investment in sustainability projects.

Among companies that have come under intense competition directly from traditional rivals with mainstream business models are Armor, JLP, Novo Nordisk, and Unilever. Armor's competitors, especially from China, focused on achieving short-term profitability, provide strong rivalry, and can eat into Armor's profits, since their business model is not based on long-term investment strategies, and customers may be more interested in the low prices such rivals can offer rather than Armor's commitment to sustainable development.

Of course, JLP, which is a mainstream retailer, has come under pressure from other retailers, both in-store and online. This is especially intense in the grocery sector, i.e., JLP's Waitrose shops. However, JLP has managed to differentiate itself quite well so far through its ethical image in the UK. At the same time, it has adopted new value formats and embraced online trading to keep up and surpass its competitors—but it cannot afford to become too self-satisfied.

Meanwhile, Unilever, as a global company with a huge diverse product portfolio, has to please its customers in developing markets simultaneously with those in developed markets, creating different value propositions for the different demands. This may be a difficult juggling act, as it has to compete with more focused competitors in its diverse markets. These may be progressive or traditional rivals.

Existential threats to progressive business—We have seen that there is constant pressure on progressive companies to realize value by making money for shareholders in the short-term, even if short-termism has proved disadvantageous to the very shareholders seeking fast returns. It takes moral courage and determination not to buckle.

The example of the takeover bid from Heinz Kraft for Unilever is such a case. Although the bid was quickly abandoned, it has imposed pressure on Unilever to accelerate a 3-year profitability and growth plan "to capture value more quickly," which could compromise its progressive business model. This is by way of warding off further unwanted approaches. This knee-jerk reaction by Unilever is despite its considerable outperformance in returns to investors over the FTSE 100 Index, sustained over 10 years, as it balances its economic returns with its broader social purposes.

Rezidor has already been taken over by Chinese conglomerate HNA. It is uncertain whether HNA will allow Rezidor to continue to develop as a progressive company, and even adopt some of Rezidor's practices in HNA itself, or whether HNA will enforce a nonprogressive model on Rezidor.

Pressure for profit has forced the resignation of the visionary leader of Novo Nordisk, Lars Rebien Sørensen in 2016 when the share price fell 22% from its peak in December 2015 after a profit warning due to pricing pressures, especially in the USA. It is uncertain whether the successor, Lars Fruergaard Jorgensen, will continue Novo Nordisk's progressive business, especially its triple bottom line philosophy and culture, given the commercial and market pressures now faced by the company.

3 The Journey Continues

In the late 1990s, George Soros already predicted that the instabilities and inequalities of the global capitalist system could feed into nationalistic, ethnic, and religious fundamentalism (Soros 1998). It is exactly what is happening today. If the mainstream business will not change its underlying "market fundamentalism," there will be little chance for humanity to survive in the Anthropocene. The hope is that progressive business models can make the anti-progressive short-sighted ways of doing business obsolete.

Our progressive business cases and other examples of innovative business models are just the first steps in the difficult trajectory of transforming the business to fit in the reality of the Anthropocene. The much disturbed Earth-Human system requires organizations whose primary objectives and criteria of success include the "Commonwealth of Life," that is, the flourishing of human, nonhuman, and future life on Earth. (Brown 2015)

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