Truly Sustainable Business Models in the Outdoor Industry

Translating Business Value into Societal Value Contributions

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Introduction

Sustainability has become a buzzword amongst company leaders and scholars alike. A simple Google search for the term yields 198 million results as of today¹, compared to only 19.7 million in 2013 (Weidinger et al. 2014). On the business side, more and more companies integrate sustainability or CSR into their daily operations, strategy or business models. A recent study located the topic in the top five priorities of CEOs (BSR & GlobeScan 2016). Yet this popularity fails to show in the overall state of the planet. 15 of the 16 hottest years in modern record keeping have occurred since 2001, with 2016 being on top of the list (NASA 2016). Some regions of the world, like part of the Middle East or North Africa may even become inhabitable, causing a stream of climate refugees (Max-Planck Gesellschaft 2016). This phenomenon of a mismatch between popularity of sustainability management on the company with the disastrous ecological and social indicators on a macroeconomic level is described by scholars as the “big disconnect” (Whiteman et al. 2013; T. Dyllick & Muff 2016). In order to bridge this gap, firms need to adopt an outside-in approach when integrating sustainability into their business (T. Dyllick & Muff 2016). This means switching the perspective from reducing the negative impact of the firm and looking at how the firm can improve its environmental and social performance to creating a positive impact for society. Up until now most firms only focus on financial rather than social or environmental value creation, which leads to an asymmetry in this domain and above mention disconnection of the micro and macro level (Donaldson & Walsh 2015).

Relevance & Background

Originating in the field of forestry, the term sustainability was first connected to economic issues in the Club of Rome’s report “The Limits of Growth” in 1972 (Meadows et al. 1972). It describes the challenges of infinite, even exponential economic growth in a limited system. The topic gained further attention through the oil crisis and the new found awareness of the scarcity of natural, non-renewable resources. Sustainability in an economic context was defined as a „development that meets the needs of the present without compromising the ability of future generations to meet their own needs“ (Brundtland 1987, p.37). The goal of sustainable development in a broader sense was put on the agenda of a multitude of international organizations and companies, for example through the U.N. agenda 2030. The importance of the private sector to successfully tackle sustainability has once more been

¹ This paper is a very short overview of the conceptional foundations of my dissertation.

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emphasized by this joint global consensus around the Sustainable Development Goals (SDGs) (United Nations 2015). Those goals are replacing the Millennium Development Goals (MDGs) and shape the agenda for sustainable development until 2030. Unlike the MDGs, the SDGs explicitly address the responsibility of businesses in sustainable development, and - for the first time ever - point to their important role for a success (von Angerer et al. 2016). Although the MDGs were never really addressed by businesses, the private sector largely contributed to their success, mainly indirectly through the creation of jobs (Stuart et al. 2016). Since the adoption of the SDGs, governmental institutions, NGOs and different actors in the private sector developed several guidelines and tools to support businesses in fulfilling their responsibility (GRI et al. 2015; UN Global Compact; KPMG 2015). A lot of companies recognize this opportunity as well and want to integrate the SDGs into their sustainability activities (BSR & GlobeScan 2016). Yet those goals are complex, abstract and usually situated more on a political than a business level. Scholars argue that although those goals are certainly a step in the right direction they need to be further specified. They even describe them as weak, vague and meaningless (Holden et al. 2016). Some critics of the SDGs even go further in arguing that the goals can only be achieved through a change or adjustment of the current economic system, a paradigm shift (Hickel 2015). This paper follows those arguments in a sense that it proposes a shift of perspective from inside-out thinking – or reducing the bad- to outside- in thinking; increasing the good (Dyllick & Muff 2016). Furthermore it aims at a more business specific perspective in sustainable development. Consequently a concept is needed that breaks the SDGs down to accommodate topics, which are relevant and suitable for businesses. This translator will be introduced in this paper as Societal Value Contributions (SVC) and includes topics like sustainable sourcing or transparency. The concept connects the firm –or for the purpose of this paper- the firm’s business model, with the macroeconomic level and thus enables firms to effectively address sustainability challenges.

The business model as a point of analysis was chosen for several reasons. First of all, it is emerging as a new unit of analysis in contrast to -for instance- strategy or business processes (Zott et al. 2011). It adopts a holistic, system-level perspective as it goes beyond the boundary of a single firm, also incorporating the value network and other stakeholders such as customers. With regards to sustainability this point is important. Partnerships across firms and the wider value network are crucial for successful sustainability management and an effective contribution of companies to sustainable development. The interconnectedness of all partners is thus best represented through the concept of a firm’s business model. Third, a business model goes beyond the explanation of how the value is captured but also describes how it is created, thus is not limited to simply describing the profit or cost structure of a firm. In this case we are looking at how companies can create value not only for themselves but also for society (see above). Consequently it is not surprising that another study by Kiron, Kruschwitz, Haanaes, et al. (2013) found that almost 50% of companies engaging in sustainability activities altered their business model to reflect those changes. Also, studies found that business model innovation made firms more successful than only innovating products, services or processes (Lindgardt et al. 2009). Gassmann et al. (2013) even declare the end of those innovations and the beginning of a business model era; firms will compete with innovative business models rather than innovative products or processes. McGrath (2010) stresses that business models move the focus away from the resources a company has, to how they are employed. This levitates business model innovation to be a powerful instrument for an effective contribution towards creating societal value. The term “truly sustainable business model” refers to this fact; rather than creating financial value for the firm and minimizing a firm’s negative impact, a truly sustainable
A business model creates positive value for society and contributes towards solving the great sustainability challenges.

Many scholars already discuss the concept of sustainable business models, yet the focus on how sustainable those truly are is still missing. The definition of a sustainable business model depends on the underlying understanding of the business model concept. For example Bocken et al. (2014) adopt the view of a business model consisting of three elements; the value proposition, value creation and delivery as well as the value capture. A sustainable business model is consequently characterized by adding a measurable ecological and/or social to the creation of economic value (see also Boons & Lüdeke-Freund 2013). As the business model goes beyond the boundaries of a single firm, this means that sustainable business models add economic, social and/or environmental value to a wider range of stakeholders (Bocken et al. 2013) and have the potential to connect firms with the system level as society and the environmental can be regarded as stakeholders in a wider sense (Boons et al. 2013). This means that sustainable business models can be seen as an instrument to transition the economy to a more sustainable state and green growth, through the coordination of technological and social innovation with system-level sustainability (Beltramello et al. 2013; Bocken et al. 2014). Boons & Lüdeke-Freund (2013) go one step further and argue that every element of the business model must inherit aspects of sustainability, for example the revenue model or value capture element should distribute this revenue amongst relevant stakeholders and needs to account for the company’s social or environmental impacts. Such criterions will be reviewed and integrated to construct a truly sustainable business model framework. An illustration and definition of those criteria is formulated by Bocken et al. (2014, p.44): “significant positive and/or significantly reduced negative impacts for the environment and/or society, through changes in the way the organization and its value-network create, deliver and capture value (i.e. create economic value) or change their value propositions.”

Kortmann & Piller (2016) describe two very recent developments in business models driven by sustainability. On one hand, growing environmental and social concerns lead to demand for an integrated manufacturing and the consideration of the whole lifecycle of products. This leads to closed-loop value chains, the “maximizing [of] value creation over the entire life cycle of a product” (p. 88). On the other hand more and more firms open their business model as a reaction to engaging with a wider set of stakeholders. This goes beyond open innovation to include not only value creation but also value capture. Especially consumer engagement and co-creation will be interesting to consider for the conception of truly sustainable business models in the outdoor industry. Beltramello et al. (2013) point towards another important aspect for the development of truly sustainable business models; the role of innovative, small firms. As start-ups tend to exhibit a higher degree of innovativeness and engage in more radical innovations, the scalability of such innovative, sustainable business models and their potential for disruption is an important phenomenon to study in this context. Unlike traditional business models thinking (see Teece 2010) which regards imitability as a barrier and non-imitability as a success factor and competitive advantage for business models, the replication of successful sustainable business models is favored and even wanted, as the adaption and diffusion of more sustainable business models brings the whole system closer towards the desired state of a green and just economy. This means that the adoption of scalable business models from start-ups by incumbent firms promises a huge potential for the transition towards sustainability. This is en par with findings by Clinton Clinton & March (2015), who make a case that business model innovation is also suitable for in big, Fortune 500 companies in this context. Successful cases of such a development also
encourage other firms to imitate the business model and be more innovative (Gambardella & McGahan 2010).

In order to focus the work and put it in a specific contest the outdoor industry will serve as an example to illustrate how the concept can be applied in practice. In the US alone, the so-called outdoor recreation industry generated $646 billion in sales and is responsible for 6.1 million direct jobs in 2012 (Southwick Associates & Outdoor Industry Association 2012). Recreational activities like hiking, climbing or fishing are widely popular; for example in the UK 43% of the population engage in those hobbies at least once a month (Kaminski 2011). Outdoor companies profit from the growth in demand. Yet this development leads to a contradiction. An intact, beautiful nature is part of the business model and success of the industry, but for example specialized clothing often consists of synthetic materials, which are not biodegradable and mostly contain toxic materials (The Guardian 2016). When it comes to sustainability leaders, Patagonia Inc. is often mentioned as a shining example amongst global companies. But a lot of other companies have put sustainability issues on their agenda in the last years within this industry too. Those two components: the environmental and social challenges on one hand and a progressive thinking towards more sustainability amongst many companies in this sector, make this industry an interesting subject to study.

From a theoretical view the information about this market segment is still very scarce, especially regarding sustainability issues. Unlike other industries, it is not clearly defined, for example through a Standard Industrial Classification (SIC) or Global Industry Classification Standard (GICS) code. Thus the first challenge is to clearly define and circumscribe the scope of this analysis and industry. In a next step a deeper theoretical understanding of the underlying sustainability challenges, actions already taken and connections between those two is needed. From the literature some of the main challenges can be already identified. Chemical pollution through environmentally hazardous per- and poly-fluorinated chemicals (PFCs) is one of the most severe problems caused by the industry itself. Those chemicals are mostly used to waterproof membranes or repel dirt and only slowly dissolve in nature, instead spreading across the globe. A recent study conducted by Greenpeace found traces of PFCs even in the most remote places, like the Himalayas, with especially high concentrations present in samples in Switzerland, Slovakia and Italy (Greenpeace 2015). Another challenge is transparency and traceability throughout the supply chain. Like in many other textile-related industries, the brands outsource production to suppliers, mostly in countries like China, Bangladesh or Vietnam. Those suppliers in turn source their raw materials from other sub-suppliers and so on, creating a complex and confusing network. This poses a big challenge for the outdoor companies to control the abidance of labor and safety, or environmental regulations.

Research Aim

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

Throughout this process a variety of questions shall serve as guidance and boundaries:

- **RQ1**: What are the societal value contributions (SVCs) a company should aim at in order to contribute effectively to sustainable development?
- **RQ2**: What constitutes a truly sustainable business model?
  - RQ2.1: How are the SVCs connected to the business model of a firm?
  - RQ2.2: How does a truly sustainable business model for specific SVCs look like?
- **RQ3**: What sustainability challenges is the outdoor industry facing and which are the most important, industry specific SVCs?
  - RQ3.1: How can the truly sustainable business model framework help to address the sustainability challenges?
  - RQ3.2: How can those findings contribute towards bridging the big disconnect?
  - RQ3.3: If and if yes what can incumbents learn from start-ups in this respect?
  - RQ3.4: How can existing business models theoretically be transformed to be truly sustainable?
  - RQ3.5: What actions is the industry already taking? Which sustainable business models do already exist?
  - RQ3.5: Which are the barriers or limits of this concept within this specific context?

Research Process & Focus

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

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2 This part of the research is jointly conducted with Tabea Bereuther. Consequently some passages may be similar or equal to her research paper.
a very specific, case-dependent manner for a single firm or an industry at most. Another conceptual step is to define a truly sustainable business model and to determine the building blocks it consists of. This framework needs to encompass the criteria such a business model has to meet in order to qualify as truly sustainable. Furthermore this framework needs to be connected to the concept of SVCs.

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

First Results and Next Steps

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

Table 1: Societal Value Contributions across four dimensions

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Societal Value Contribution</th>
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<tbody>
<tr>
<td>Environment</td>
<td>Efficiency</td>
</tr>
<tr>
<td></td>
<td>Sustainable Sourcing</td>
</tr>
<tr>
<td></td>
<td>Biodiversity, Environmental Protection and Animal Welfare</td>
</tr>
<tr>
<td>Economic</td>
<td>Economic Inclusion and Participation</td>
</tr>
<tr>
<td>Society</td>
<td>Reliable and Affordable (Basic) Services</td>
</tr>
<tr>
<td></td>
<td>Training, Education and Competences</td>
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<tr>
<td></td>
<td>Labor Conditions</td>
</tr>
<tr>
<td></td>
<td>Non-Discrimination, Equal Opportunities and Inclusion</td>
</tr>
<tr>
<td>Governance</td>
<td>Transparency</td>
</tr>
<tr>
<td></td>
<td>Accountability and Compliance</td>
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<tr>
<td></td>
<td>Partnerships and Cooperation</td>
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Each of the 11 SVCs covers several topics, from which in turn consist of more concrete sub-topics. For example the environmental SVC “Efficiency” comprises sub-topics such as resource and energy efficiency and concepts like the circular economy, optimized packaging and modular design, across products and services, as well as processes. “Reliable and affordable (basic) services” specifies the provision of services for a range of
areas, including healthcare, food and water, electricity and energy, sanitation, resources, infrastructure, housing, financial services, mobility and education. For each of those SVCs concrete business actions shall be defined in the next step of the research process. This means after aggregating several concepts in order to define the SVCs, the next step is to combine the strengths of each concept and build a comprehensive list of topics for businesses to effectively address sustainability challenges.

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

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

Additionally to the SVCs the research identified particular transmission paths, representing the means through which the SVCs can be achieved. In order to structure those findings, the different paths were differentiated across two dimensions; the level of collaboration (alone, together) as well as the directness of the actions through which the SVCs are addressed (direct, indirect). Table 2 shows a first attempt on clustering those paths along those dimensions.

Table 2: Transmission Paths for Addressing SVCs

| Together                      | • Knowledge sharing and technology transfer (open innovation, open source knowledge platforms), capacity building  
|                              | • Establishing long-term business relationships  
|                              | • Set Industry Standards  
| Alone                        | • Investment and Innovation (including technological, environmental investments and investment in infrastructure and R&D)  
| • Collaboration and partnerships with other stakeholders, academics, governments, civil society and international organizations or NGOs  
| • Awareness and Education (e.g. customer education, awareness rising)  
| Direct                      | Indirect
In a first advance on answering RQ2 on the elements of which a truly sustainable business model consists, some observations will be collected in the next paragraphs. During a review of existing literature on business models as well as sustainable business models it became clear that current definitions and frameworks are not able to accommodate for a more progressive understanding of sustainability and value creation (see above). Concepts like the business model canvas by Osterwalder & Pigneur (2010) and even definitions relating to business models for sustainability still focus on financial value created, especially as a measure for business success. This draws the conclusion that for a business model that involves a more holistic understanding of value creation a new concept needs to be developed, or at least the connotation of the term “value” needs to change. One might even argue that the notion of business success needs to change, moving away from focusing on financial gains. For the sake of this paper this means that the actual building blocks of the truly sustainable business model still need to be defined—it is regarded as a “black box”. Yet in an effort to relate this concept to the SVCs as well as other dimensions, arguments were found for how the business model needs to be connected to its environment.

Three dimensions were so far determined to have an influence on the choice of business model for a company; a company’s purpose, represented by the SVCs, a company’s core competences as well as the potential impact of the business model (see Figure 1).

First, research found that companies like Unilever or HP that pursue a purpose in their daily business operations as well as their strategy are more successful than those who do not (Henderson & Steen 2015; Zedlmayer 2015). The purpose of a company will be represented by the SVCs identified earlier, as making a real contribution towards sustainable development was set as the highest goal for a company with a truly sustainable business model.

Second, traditional business model scholars view non-imitability as a competitive advantage for a company (e.g. Teece 2010). The harder the business model is to imitate, the longer the company will hold an advantage over its competitors. When it comes to sustainability the diffusion of a successful business model or a sustainable technology are welcome in an effort to increase the overall societal value created. Thus – contrarily- an easy to imitate business model might be better with regards to sustainable development, as many firms can profit from employing such an approach. Another factor to determine potential impact is to analyse a business model with regards to its scalability: the higher the scale of operations of a TSBM, the higher its value creation and the higher its positive contribution towards sustainable development. As the determination of impact for certain sustainability efforts are still part of an ongoing discussion and no real solution to this problem was found, those proxies will be used to determine its potential impact and contribution towards sustainable development.
Last but not least the core competences of a company need to be considered when it comes to the strategic decision which SVCs should be addressed and in consequence which business model will be chosen for this reason. Prahalad & Hamel (1990) argue that a core competence of a company provides potential access to markets, is hard to imitate for competitors and provides a significant value for the customer. Put differently: it is what sets apart a firm from its competitors. Integrating this into our understanding of SVCs it is important to note that by no means a company should aim at addressing all of them, but should be very specific about connecting what it is best at with the challenges it wants to make a contribution to in order to make this process most efficient and impactful. Those core competences need to be regarded specifically with respect to the SVCs and disregard the current operating model. Thus the application of those core competences for addressing the SVCs might differ from how they are employed to fit current business operations and the business models of the firm.

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


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