STRATEGIC AND OPERATIONAL PRINCIPLES – HOW TO ACCELERATE CORPORATE CONTRIBUTIONS TO THE SDGs?

"If I had to select one sentence to describe the state of the world,
I would say we are in a world in which global challenges are more and more integrated
and the responses are more and more fragmented,
and if this is not reversed, it's a recipe for disaster".
António Guterres, Secretary-General of the United Nations

Part I and II of this book explored *Systemic, Societal and Dynamic Principles* of sustainable business. We discussed these principles in general, but we also linked them to the goal-oriented framework of the Sustainable Development Goals (SDGs) as the leading global agenda to collectively and collaboratively deal with the world's grandest challenges in a transformative way. We covered fundamental 'why', 'what' and 'who' questions, and showed that sustainability issues are not only material from a negative point of view (wicked problems, immediate and slow-burning crises, 'avoid doing harm'), but also represent significant (wicked) opportunities for navigating relevant progress towards a more resilient global society. In that universal ambition, the SDG framework provides a unifying, positive and actionable change agenda. It has been instrumental in mobilizing, coordinating, and pooling the commitment, efforts and means of large groups of stakeholders from all societal sectors (state, market, civil society) around the world.

The first years of the SDG trajectory (2015-2019) also showed that the SDG framework still faces sizable implementation challenges conceptually, empirically and procedurally. Progress is too slow. The 2020-2030 period was, therefore, declared a **'Decade of Action'**. Faced with a series of paralleled systemic crises – with a global pandemic, financial crises, ecological degradation, and synchronized global economic downturn as the most tangible symptoms of combined system vulnerabilities – the urgency of a transition towards **a more resilient society** is becoming rapidly clear. But how can this transition be effectuated through actions of the private sector? How to step up the pace of actually embracing and implementing the SDGs throughout the business models, strategies, and operations of (multinational) companies and private organizations? Part III considers the final dimension of Principles of Sustainable Business: *Strategic and Operational Principles*.

Agents of Change?

From the outset, the active participation of private organizations has been considered vital for achieving the SDGs by 2030. *Transforming Our World: The 2030 Agenda for Sustainable Development* explicitly acknowledges "the role of the diverse private sector, ranging from micro-enterprises to cooperatives to multinationals" in the implementation of the new Agenda (UN, 2015: para. 41). Then UN Secretary-General Ban Ki-moon ascribed the most dynamic role in the SDG endeavour to the private sector: "Governments must take the lead in living up to their pledges. At the same time, I am counting on the private sector to drive success" (UN News Centre, 2015). Helen Clark, head of the United Nations Development Programme, affirmed that "the new sustainable development agenda cannot be achieved without business" (UN News Centre, 2015). These statements represent a significant adjustment compared to earlier thinking about sustainability that considered development issues predominantly 'government territory' (see Part I). Corporate leaders themselves strongly supported the positioning of business as an active contributor to the achievement of the SDGs. If taken on vigorously, the SDGs could unlock an estimated annual $12 trillion in business opportunities by 2030, while creating hundreds of millions of much needed jobs. Hence, the SDGs have been considered as offering "a compelling growth strategy for individual businesses, for business generally and for the world economy" (Business & Sustainable Development Commission, 2017: 11). In the words of Paul Polman, former CEO of Unilever: "the SDGs provide the world's long-term business plan by putting people and the planet first. It's the growth story of our time."

Private organizations come in different shapes, sizes and governance structures and represent combined (or hybrid) functions across societal interfaces and across national borders (Chapter 6). Private organizations in general – and corporations in specific – are relevant 'agents' in addressing the SDGs, for a considerable number of reasons:

- They show great ability to scale activities across sectors, borders and products;
- They are able to innovate through their ability and willingness to take risk;
- Companies – in addition to governments – are the largest investors in (new) technologies;
- (Groups of) citizens – through crowd-funding, remittances or sharing arrangements – are often a bigger source of investment in innovative organizational models than companies or governments;
- Reaching the SDGs requires a significant increase in targeted public and private investments (estimated between $5 to $7 trillion per year); the annual financing gap of $2.5 trillion that is to be bridged, pales in comparison to the more than $200 trillion of global assets under private management;
- They can develop new organizational practices, alone or together with others;
- They serve the fundamental desire of people to face individual challenges in an entrepreneurial manner and take responsibility for costs and rewards;
- They create jobs, products and services;
- Due to their often very powerful positions in networks, technologies and sectors, they can also be a formidable *barrier to change* if they are not involved in the change process;

- They can mobilize sizable and timely financial resources (either on the open stock market, or as part of other financial arrangements);
- They create efficiency, stimulated by competition, thereby enhancing cheaper solutions for existing products and services;
- They are foremost aimed at *investments* (in time and money), rather than at subsidies;
- They aim, in principle, for *value creation*, rather than value distribution;
- Multinational organizations, in particular, are able to correct 'market failures' across borders, by *internalizing* markets and organizing practices on an international scale;
- They have the potential to contribute to public and common goods provision;
- They vary in size and, therefore, in strength. Big companies are often better positioned to innovate and scale; smaller companies tend to be more capable of flexibly responding to short-term challenges; small start-up social enterprises are often better able to take up social challenges in an entrepreneurial manner, but they have difficulty in scaling and reaching sufficient impact on the more wicked sustainability problems.

Walking the Talk…

All these characteristics give 'business' – in all sorts and shapes – enormous potential to deliver on the SDGs. Corporations have core capabilities, distinct from other societal sectors, that *potentially* provide added societal value. Their perceived commitment to actually perform and deliver on that potential is nevertheless surrounded by considerable scepticism and low levels of trust (Chapter 5). Merely abiding by generic principles of 'good governance' is therefore not enough. Companies face the challenge to *move beyond* generic principles of responsible management; they are confronted with the societal expectation of defining and embracing more concrete strategic and operational principles of sustainable business.

But even then, a disconnect may appear between 'intention' and 'realization' in the implementation of strategic aims (Mintzberg, 2015). For companies, it does not suffice to *state* their support for the SDGs; companies will also be held accountable for delivering on them and proving themselves to be responsible societal actors. In management practice however, it is difficult to '*Walk the Talk'* and close the '*Promise-Performance* gap' when confronted with wicked sustainability problems/challenges/opportunities. After all, these are not only related to 'collective action' problems (Chapters 4 and 5) – which might suggest more indirect roles and responsibilities in approaching them. Dealing with wicked sustainability issues notably involves multi-leveled interventions and responsibility challenges that directly relate to corporate strategy and core activities: addressing *basic failures* in serving the needs of people; *failure in protecting* them from negative side-effects of operations; and *failure in enhancing and scaling* positive externalities that address latent needs (Chapters 5 and 6).

Companies face difficulties in actually implementing the SDGs in their core activities – their business model and business cases. The UN Global Compact Progress Report 2019 found that 67% of their corporate signatories are committing to sustainability at the CEO level, yet only 48% are implementing sustainability into operations. While 71% of the CEOs recognize the critical role that business could play in contributing to the delivery of the SDGs, a mere 21% believe that business is actually playing that role. The Sustainable Development Solutions Network (SDSN) and Bertelsmann Stiftung have repeatedly pointed to the problem of companies 'not walking the talk'. Agents of change can become *agents of stagnation* if they are not able (or willing) to seize the strategic and operational momentum created by the SDG-agenda. During the initiation of the 'Decade of Action' (September 2019), UN Secretary-General Guterres hence called upon businesses to raise their efforts: "*Business leaders have a critical role to play in the Decade of Action. I urge all companies to drive ambitious SDG actions throughout their operations and supply chains, embedding human rights, labor, environment and anti-corruption into core business. Business and finance can lead through their actions and investment decisions an economic transformation that leaves no one behind*."

Doing Business in a VUCA World

Private organizations are confronted with the growing ambiguity and volatility of the present stage of the global economy. Part I and II defined and elaborated this as the 'VUCA' challenge: operating in a global environment under Volatile, Uncertain, Complex and Ambiguous conditions, in which everyone has to decide whether to approach challenges with stubborn optimism, or a negative mindset. Strategic and operational VUCA challenges for the private sector can be associated with general and international dimensions. Internationally operating companies are particularly susceptible to the most fickle features of the VUCA world. Table III.1 lists some typical associations with VUCA. The second column provides topical VUCA associations as discussed in the International Business literature (Van Tulder, Verbeke, Jankowska, 2020).

Table III.1 Operational dimensions of the VUCA challenge

VUCA	Generic associations*	IB-relevant associations **
Volatility	**Characteristics**: the challenge is unexpected or unstable and may be of unknown duration; but it is not necessarily difficult to understand; knowledge is often available **Example**: price fluctuations after a natural disaster	- Currency and exchange rate fluctuations - Political, exchange, stock risks - Economic volatility and political instability - Stock market volatilities - Volatile environments - Climate risk - International crises - Volatile firm performance - Turbulent markets - Hyper turbulent contexts - Turbulent events - Technological turbulence - Turbulent business environments
Uncertainty	**Characteristics**: despite a lack of other information, the event's basic cause and effect are known; change is possible but not a given **Example:** a competitor's pending product launch muddies the future of the business and the market	- Possible new entrants in the domestic market - Uncertainty avoidance (related to culture) - Trade uncertainty - Monetary uncertainty - Environmental uncertainty - Technology uncertainty - Managerial uncertainty - Political uncertainty - Uncertainty mitigation strategies - Joint ventures as uncertainty reduction strategy

Complexity	**Characteristics**: the situation has many interconnected parts and variables; some information is available, but can be difficult to process **Example**: doing business in many countries, all with unique regulatory environments, tariffs and cultural values	- Country portfolios (increasingly complex) - Growing regulatory and administrative distance - Rising institutional complexity - Global business complexity - Multi-nationality/performance relationship - Systemic complexity - Environmental complexity - Complex relationships - Negotiating complexities
Ambiguity	**Characteristics**: causal relationships are completely unclear; no precedents exist; one faces 'unknown unknowns' **Example:** launch of products beyond core competencies	- Internationalization in immature markets - Causal ambiguity - Knowledge ambiguity - Ambiguous relationships with stakeholders - Identity duality (paradoxical lens) - Cultural and competing values within one company - Foreign-friendliness paradoxes (after entry)

Source: *Bennett and Lemoine (2014); ** Van Tulder, Verbeke and Jankowska (2020), p. 6.

Key challenges for Sustainable Business in a VUCA world

Private organizations may consider the SDGs both as a threat and an opportunity. Such strategic assessment critically depends on whether organizations are capable of **internalizing** the SDGs into their business model. Two types of internalization are relevant in this context: (1) internally, in strategies and functional areas of management, and (2) externally, in creating and managing a portfolio of strategic partnerships. Internalization efforts that integrate the SDGs into core activities reflect the potential of organizations to actually move beyond reference to the SDGs as an intention. Whether corporations harness their sizable capabilities in support of the SDGs – and the extent to which they can do so with a net positive effect – depends on a large number of factors that include: (1) the wickedness of the challenge (Chapter 4 and 5); (2) the regulatory environment they face in distinct countries (Chapter 6); (3) what competitors are doing (the competitive environment); (4) technological possibilities; (5) the willingness of customers or members to pay for more sustainability. Private organizations are consequently faced with five interrelated challenges:

1. **Materiality challenge**: How to make the SDGs part of core business and integrate them into long-term and short-term (operational) strategies?
2. **Risk avoidance orientation**: How to go beyond relatively 'easy' SDG-targets as part of a risk mitigation and reactive stance in support of the SDGs, to a more proactive stance; from 'avoid doing harm' to 'doing good'?
3. **Nexus challenge**: How to translate the SDG-agenda at the target level into a meaningful combination of corporate interventions, so as to leverage impact?

4. **Partnering challenge**: How to include other societal actors in the effort, thereby creating the conditions under which proactive strategies can materialize?
5. **Legitimacy challenge**: How to overcome the sizable trust-gap that companies face when formulating and implementing their intentions to 'do good'? Early adopters of the SDGs have to deal with the inclination for SDG-washing (superficially embracing the SDGs as a scape-goat for actually aiming at transformative change).

Defining Strategic and Operational Principles…

Strategic and Operational principles for sustainable business models and practices have to be developed along these five lines. Part III will frame how strategy formulation and implementation processes can be linked to the SDGs. Studies on the responsible intention of companies are littered with *failure to 'walk the talk'*, which feeds the public distrust of their intentions. So in general, why trust companies in their stated ambition to effectively address and seriously contribute to various SDG challenges? Strategic management scholars Michael Porter and Mark Kramer (2011) already pleaded for a '**reinvention' of capitalism**, away from the narrow approach to value creation and its fixation on short-term financial performance. If business would direct its full potential of competences, resources and innovative skills towards the scaling of new concepts, products and services that *meet societal needs*, it could engage in a new economic game of *shared value creation*, with local and global societal impact. The SDGs mirror that potential. Not incidentally, we have seen new business models and alternative economic systems emerging – the sharing economy, the we-economy, inclusive and circular business models, the platform economy – many under the guise of **'sustainable business models'**. What these business models entail in terms of real (transformational) sustainability, however, often remains rather obscure. The SDG-agenda provides an excellent litmus test for checking to what extent these novel business models contribute to sustainable development.

Strategic and operational questions for private organizations boil down to a set of key 'how' questions:

- ***Making it resilient:*** How are private organizations responding to triggering events; how can they become more resilient themselves, and contribute to more resilient societies? (Chapter 7)
- ***Making it strategic***: How can private organizations regard the SDGs in general, and what is the business case for sustainability? (Chapter 8)
- ***Making it material***: How can organizations adopt sustainable business models that allow for an innovative contribution to the SDGs? (Chapter 9)
- ***Making it powerful***: How can organizations expand their sphere of influence to be a force for positive change and make the SDGs actionable (Chapter 10)
- ***Making it functional*****:** How can they internally organize these ambitions (and are they actually doing so)? (Chapter 11)
- ***Making it collective*****:** How should they organize their ambitions externally through coalitions and strategic partnerships? (Chapter 12)

Making It Resilient

Societies are probing for 'resilience' – the capacity to survive, adapt and grow in the face of societal stresses and shocks. A resilient society requires resilient private organizations that are able to act upon different levels of failure, as identified in Chapters 5 and 6. A VUCA world with diverging tendencies triggers and exacerbates incidents, conflicts, and outright (systemic) crises. Triggering events create organizational change, but to what extent does that result in positive change trajectories? Can corporate strategies effectively contribute to sustainable development and enhance social, economic and ecological resilience at the same time? And what can be learned from history? **Chapter 7** develops general principles of **organizational resilience**. It synthesizes the history of managerial and scientific thinking on sustainable business models – mostly abbreviated as the CSR ambition of companies – and applies it to several recent episodes in which companies played a pivotal role.

Making It Strategic

Chapter 8 focuses in particular on the strategic repertoire that organizations and their leaders can adopt, and defines the conditions under which these strategies are implemented. The aim of this part is to delineate a basic strategic framework for private organizations to implement the SDGs at all levels of intervention as identified in Part II: addressing failure; limiting negative externalities; creating positive externalities, and stimulating collective action. Accordingly, the **business case for sustainability** can be defined at four levels of intervention. Chapter 8 will explore two different approaches to that challenge, starting from a for-profit and a non-profit base. The *hybridization* trend (Chapter 6) implies that for-profit organizations are trying to achieve greater societal impact, and non-profit organizations are trying to become more efficient in achieving their impact. It will be shown in this chapter that seven different governance models present complementary approaches to the SDG challenge.

Making It Material

Chapter 9 considers how companies can break through a relatively passive attitude towards sustainability issues. Two terms are introduced – 'business model innovation' and 'reversing materiality' – as well as a technique to develop and present a *value theory* based on an extended business model CANVAS: 'the CANVAS+ model'. The latter helps organizations in defining a '*richer*' **value proposition** and design generic strategies. Organizations that link their SDG ambitions to a '*poor*' value proposition will not be able to seize the opportunities that the SDG-agenda presents; they might even be susceptible to '**SDG-washing'**. The strategic challenge hence elaborated in this chapter is how to **measure the gap** between strategic intention(s) and actual realization, in order to map what needs to be done if companies want to leverage change to higher levels of SDG-involvement.

Making It Powerful

Ambitions to integrate the SDGs into core business remain elusive unless organizations are able to translate their ambition into effectual corporate strategies. **Chapter 10** considers how transformational societal ambitions such as the SDGs can be made 'actionable' – vigorously, and at scale. We have to explore the 'power dimension' further. In a VUCA world – filled with power imbalances and power exertion reinforcing the wickedness of problems – *not* taking power into account would, in any case, present a naïve position. *Power abuse* is perhaps one of the most *overrated* aspects in the critical discourse on sustainable business, feeding into almost ideological cynicism on the 'greenwashing' nature of CSR efforts of big and multinational enterprises in particular. *Power use*, on the other hand, is one of the most *underrated* aspects in the constructive discourse on sustainable business model innovation, feeding into overly optimistic or naïve expectations of companies' willingness to engage in CSR at a sufficiently ambitious level. It calls for decisive leadership and realistic strategies to enact potent, *viable* change trajectories. Not by keeping 'power' undefined under a veil of moral statements, but rather by making power bases explicit as '*assets of potential change'*; not by downplaying the organization's 'means of power', but by making responsible and optimal use of positioning, direct and indirect spheres of influence, and smartly combined means of 'hard' and 'soft' powers. For good reason: *Power without ethics is worthless; ethics without power is powerless*.

Making It Functional

'Walking the talk' and bridging the 'intention-realization gap' also holds an operational challenge. **Chapter 11** makes the strategic approach 'functional' at the operational level of management departments. It looks at fundamental **tipping points** that need to be resolved in order to surpass a reactive mode regarding the SDGs (level 1 and 2) and evolve towards a more transformational approach (level 3 and 4). To that end, the chapter elaborates how **'Key Value Indicators' (KVIs)** of chapter 9 **and 'Key decision-making Indicators'** of chapter 10 can be translated into '**Key Performance Questions'** and **'Key Performance/Practice Indicators' (KPIs**). It considers how KPQs and KPIs can help companies to navigate and guide transition processes towards higher levels of SDG alignment. **Organizational fit** can be achieved by integrating and coordinating operational activities in functional areas of management such as purchasing and marketing, finance, human resource management, resource (operations) management, and innovation. Each of these functional areas portrays different operational tipping points when addressing SDG-targets. Creating '**internal alignment'** between the various functional areas of management, as well as the strategic ambitions of the company, is a major operational challenge. What, for instance, is the role of 'codes of conduct' in transition processes?

Making It Collaborative

Chapter 12 finally moves on to the meso-level: how to develop appropriate SDG partnering strategies. The SDG-agenda, certainly at higher levels of ambition, requires collective action. All frontrunner companies that have embraced the SDG-agenda state that they need collaboration with other companies and societal actors to seize the full potential of the SDG-agenda. What type of partnership configuration can be deemed relevant, for what type of SDG ambition, and how to create the related **partnership portfolio**? Partnerships are a solution to some of the governance and agency challenges that exist in addressing wicked problems (Chapter 5), but require additional skills and management models to be effective. Effective partnering for the SDGs therefore calls for a sophisticated **'external alignment'** strategy. Partnering principles combine both strategic and operational considerations.