

Values-based business models for sustainable value creation

How can service organisations and companies ensure that new offerings not only meet a short-term need and thus create added value, but also correspond to what customers and other stakeholders in society value in the medium and long term? What role a values-based approach plays in this process is described in detail by Dr. Henning Breuer in issue 3/22 of the ServiceToday. In this following interview, ServiceToday editor Michael Braun talks with the expert about the connection between value orientation and sustainable value creation, entrepreneurial innovations and the role of customers' values.



Michael Braun: *In the last issue you had an article on the topic of values-based innovation and sustainable business model design. Can you briefly explain again what distinguishes the values-based approach from common practice?*

Henning Breuer: When I started working on the topic of values in the context of innovation more than 10 years ago, there was not even an entry on "values" in the index of the relevant textbooks. In practice, it was – and still often is – common to start the development of new offerings with market or user research. So, you ask which market segments are neglected, which needs are not yet satisfied, in order to find gaps in the portfolio of offerings or, more ambitiously, "blue oceans" or the "next big thing" in the respective industry. The latter, finding the next big thing, was indeed one of my work assignments as an innovation consultant. My idea was to complement this opportunity-driven approach with a values-based approach and to embed the topic of value creation in the larger context of human values. This was also exciting for my colleague Prof. Dr. Florian Lüdeke-Freund, who works on Corporate Sustainability at the Berlin ESCP Business School, and who at that time had already published a lot on sustainable business models. This collaboration resulted in the first book on value-based innovation management [1].

Michael Braun: *What do you see as the connection between value orientation and sustainable value creation?*

Henning Breuer: When companies decide on sustainability, it is not just an additional item on their list of goals, but they have to weigh - again and again and on different levels – between economic, social and ecological aspects, between the 17 Sustainable Development Goals of the United Nations with 169 subordinate goals, and their own strategic corporate goals. This requires a reordering of priorities, and on the one hand, values designate precisely these systems of priorities. On the other hand, as ideas of what is desirable, values convey a picture of where the journey should go and thus a guiding principle for innovation projects.

Michael Braun: *In this context, what would you basically understand by value creation potentials - what plays a role today besides economic aspects?*

Henning Breuer: The claim that economic activity should be based on overriding values is now being supported by diverse instances, such as NATO Secretary General Jens Stoltenberg, Klaus Martin Schwab, the founder and chairman of the World Economic Forum, and the Business Roundtable [2]. In its 2019 Statement on the Purpose of a Corporation, this alliance of leading US and international companies declared for the first time that companies should not only act in the service of their shareholders and their creation of added value, but that they are committed to all stakeholders, i.e. customers, employees, suppliers, communities and the protection of the environment. Accordingly, we must now think of value creation in a multi-dimensional way - what material values are created for the various groups, what ideal values are realised? In addition to economic aspects such as returns and wages, social aspects such as inclusive participation, job security and quality, and ecological aspects come into play, such as the reduction of emissions or positive contributions to the strengthening of ecosystems.

Michael Braun: *What consequences does this have for corporate decisions?*

Henning Breuer: On the one hand, this means that a company defines for itself the values it stands for and on which employees as well as customers and other stakeholders can rely. In order to have a profile-building and motivating effect, however, the company's own standards should be much more ambitious than the legal requirements. It is then crucial not only to establish these values for social interaction within the company or for external communication, but to use them as guidelines and as a template for the development of one's own services, business models and networks. The implementation in corresponding innovation projects shows the extent to which companies are actively working with their values or - as it has been called more often in recent years - their purpose.

Michael Braun: *Can you give an example?*

Henning Breuer: My colleague Kiril Ivanov has recently shown very precisely through the case of the green search engine Ecosia how its business model has developed on the basis of 6 core values (such as sustainability and integrity), and how these values continue to guide innovation projects and important decisions about strategic partnerships, for example [3]. The company uses the majority of its revenues in tree planting projects and other green investments, seeking to neutralise significantly more CO2 than it consumes through its search services. With this promise and the corresponding business model, the Berlin-based company was able to successfully assert itself as a new player in the apparently saturated market for search engines.



Michael Braun: *Nevertheless, Ecosia has a very small market share of less than one per cent - a niche topic?*

Henning Breuer: In our book on values-based innovation management [1], we also looked at many larger companies, such as IBM, which redefined its values to realign innovation projects with its workforce, or Lego, which was able to redefine its product portfolio through a better understanding of the values of its child customers (their appreciation for mastering difficult tasks).

Michael Braun: *Entrepreneurial innovation and social responsibility are important characteristics for the further development of companies that need to be reconciled - does this have an impact on processes, business models and networks?*

Henning Breuer: Yes, certainly. A classic example is the case of Aravind Eye Hospitals in India [4]. The hospital chain has introduced new processes for the cost-efficient performance of eye surgeries in order to prevent blindness and often poverty in the rural population, particularly through cataract surgeries. A social freemium business model cross-finances unpaid surgeries with premium services for paid procedures, so that anyone in need can receive an operation without financial hurdles.

Strategic partnerships and international cooperation, for example with the World Health Organisation (WHO), also serve the company's mission to eliminate unnecessary blindness. And only with reference to this values-based mission we can understand the company's innovations in processes, business model and networks.

Michael Braun: *In order to understand and leverage value creation potential - what role do the customer's values play in the development of (innovative) business models?*

Henning Breuer: A good understanding of the customer's values is indispensable if you don't want to experience any unpleasant surprises, but want to win customers in the medium and long term. In practice, we usually take an ethnographic approach and accompany customers in their everyday lives to understand what is important to them and which of their concerns and problems are amenable to a solution by providers. In the business-to-business environment, for example, we examined the processes in car workshops and realised that not only obvious values such as efficiency in time management, but also mutual personal appreciation is very important for the cooperation between employees in the workshop and external technical service providers. This has led to various fields of innovation, from new ways of advancing organisational culture to new business models and service level agreements for better alignment of time processes and priorities.

Michael Braun: *How do you find ways to develop the identified potentials into marketable digital services?*

Henning Breuer: The first step is to clarify common values with the relevant stakeholders - such as customers, but also non-customers and internal managers - and to develop a positive vision. A clear understanding of the *Why* and *What For* is indispensable, especially in a business like innovation, which is characterised by uncertainty. Only then does it make sense to address the *How*, and develop new business models or service offerings, for example. Once this framework has been defined and fields of innovation have been outlined in which new solutions for relevant challenges are important and needed, established methods come into play, for example to develop future scenarios, to generate ideas and concepts and to test assumptions with the help of prototypes. Playful formats [5] can also be used to combine methods from different traditions such as futurology, design thinking and service design or user experience. For the development of sustainable business models, one should utilize design patterns that have already proven themselves in practice and which were shown in excerpts in the last issue [6].

Michael Braun: *That sounds good in theory, but in practice I don't imagine it to be so easy.*

Henning Breuer: That's true. Business model development takes time and, in turn, a powerful foundation of values to realise changes even in the face of difficulties in implementation. In a European project called IMPACT [7], we are investigating these hurdles in the implementation of sustainability-oriented business models and designing new methods to overcome them.

Michael Braun: *Can you give an example?*

Henning Breuer: For example, we accompanied a technical service company that has been committed to the value of safety for more than 100 years and now wants to establish sustainability as another, central value for innovation. The corresponding strategy is clear, but when it comes to implementing it in everyday practice, difficulties arise that other companies also have to deal with. First of all, there is no common language for understanding sustainability issues, and top management and operational management sometimes have very different ideas about the goals to be achieved and suitable methods. As a result, good initiatives at the operational level find little support or even feedback from the upper management level, and top management guidelines in turn receive too little attention at the operational level.

Michael Braun: *That sounds like difficult hurdles to overcome when trying to manage more sustainably and to make innovation sustainability-oriented.*

Henning Breuer: When it comes to climate change, one sometimes speaks of doomism, a perception of hopelessness that paralyses the actors who miss any positive vision. We try to counter this with our research and our consulting work. In research, we do that by improving our understanding of values, or what is important to us as human beings, at the starting point for innovation and as an anchor for resilient and sustainability-oriented practices in companies. With the sustainable business model patterns, we also offer templates that companies can use to create more sustainable value. In our consulting work, it is often a question of using these templates and corresponding methods for the renewal of the organisation and its innovation activities, or of making them so easily accessible that those responsible can use them themselves. Accordingly, many methods and templates such as the Business Innovation Kit [8] for designing values-based business models or the work on gamification for innovators and entrepreneurs [5] can be used freely. My hope is that in many places, innovation will be designed in the sense of what is important to those being responsible and those being affected.

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