

Guest editorial

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With a growing number of companies stepping up and taking more responsibility towards their employees, communities and the planet, business is now emerging as a true player in fostering societal progress. Business provides real value to a wide range of stakeholders, including employees, customers, shareholders and society at large. It provides solutions to various needs, access to products and services, creates jobs and skills development. In some companies, having a positive impact is deeply embedded within their purpose and business models – this is particularly true for emerging start-ups which are finding new creative ways to solve social problems while simultaneously growing their business.

But many companies are still adopting “business as usual” approaches which often take value away from people and the planet, polluting the environment, overusing precious resources, contributing to the loss of biodiversity or selling harmful products. Such business models may still appear to provide value to shareholders in the short term, but they neglect long-term consequences and impact.

The amount and quality of information provided by companies, the difficulties in measuring and externalizing impact and the variety of existing reporting frameworks, tools and indicators represent some of the challenges businesses are facing in maximizing their positive impact on society.

To tackle these challenges, the Academy of Business in Society (ABIS) convened the 18th Annual Colloquium on “Business in Society: Measuring Impact and Creating Change” hosted by ESMT Berlin on 29–30 October 2019. The conference provided a platform for high level discussions where the ABIS business-academic network reflected on the importance of measuring impact, shared the challenges that academia and business are facing in doing so and showcased best practices.

Stemming from the conference, the ABIS Special Issue: Measuring Impact and Creating Change combines research papers addressing three dimensions:

- *enablers and barriers in change for sustainability*, i.e. actual and potential driving forces and challenges in integrating sustainability into business practice and implementing the SDGs;
- existing models and examples of business *impact measurement* as well as their current use in practice and potential developments; and
- *emerging, innovative approaches* in which businesses and organizations – start-ups and business schools in particular – are taking on more responsibility and contributing to solve social problems while pursuing their organizational purpose.

The following sections offer an overview and introduction to each of these dimensions.

Change

As the world of business is being challenged by societal and environmental risks and crises, policymaker regulations and consumer demands and with the pace of digital innovation

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accelerating, it is evident that there is a need for change. The direction of change has to fully embrace sustainability; at the same time, measuring the impact of change efforts is crucial to ensure focus, tangible results, outcomes and steady progress towards long term sustainability goals.

In the thematic conceptualization of the special issue “Business in Society: Measuring Impact and Creating Change”, sustainability takes the central stage. Not only it assesses the quality of the current “global business environment” but also points towards the globally expected direction and purpose of business development. Sustainability represents both the context and the goal of the necessary changes. At the same time, it is the aspect of change that is today one of the most critical issues of sustainable development.

First, at the *macro level*, the very concept of sustainability is undergoing a significant transformation – from the classic interpretation of the Brundtland Commission to a more alarmist interpretation in the Anthropocene epoch – implying the survival of not only the future generations, but also the current generation (Griggs *et al.*, 2013; Bansal, 2019). Time is closing in, and the COVID-19 pandemic vividly illustrates the exacerbation of interconnected global problems and it updates and strengthens the UN SDGs. Accordingly, creating change through impact means accepting sustainability in the modern alarmist sense.

Secondly, at the *micro level* there is a transformation of the corporate sustainability model (the use of other terms, such as CSR, CSP, corporate citizenship, etc. does not change the essence), focussed on a new alarmist content of sustainability (Dyllick and Muff, 2016; Landrum, 2018; Sardá and Pogutz, 2019). The company’s role in achieving sustainability at the macro level is changing. Accordingly, the company itself must be changed. Effective impact requires changes in the entire managerial system from entry to exit (goal setting/principles – business processes – evaluation of results/impact measurement).

Zooming in on change processes, the awareness of change is mostly rational and increasingly accepted. It means that people understand that something is wrong in the current state and that there is a need for change. Awareness alone though is not enough for change to happen. Change is behaviour, which is driven by beliefs and attitudes. Therefore, there are different dimensions to be considered to increase the effectiveness of leading change towards sustainability in practice: change management, business culture and leadership.

The first one, *change management*, is widespread with a plethora of models that offer structured frameworks to transition from a current state to a desired state. The most popular and used in business practice include, among the others, the models of Kotter, Lewin, McKinsey and Kubler-Ross. The general approach is to plan change and the perceptions/feelings of the people, as part of the change. While some models take more rational approaches, others focus more on feelings of urgency, freezing-unfreezing, acceptance and commitment.

The second dimension of change is *business culture*, which is influenced, to a certain extent, by leadership and stakeholders and also by national cultures. Hofstede’s model (2001, 2010) provides a comprehensive framework for assessing how national cultures influence the behaviour of societies and organizations. An important lesson from this model is that there cannot be one generic path of change. Attitudes towards change can vary a lot, especially in multi-national companies and multi-cultural teams. For example, in a power-based culture, bottom up methods of change will be very difficult to implement. Conversely, if the power distance is very low, a top-down approach will hardly work. Business cultures also influence the ability to innovate: the more centralistic and top down a culture is, the less space there is for sustainable value creation and innovation.

Leadership is a third important dimension of change. De Caluwe (2003) developed a leading model based on the ways of thinking about change and personalities of managers in charge of leading change. There are change agents who have a structured, rational approach to

change, and their competences are very suitable in a change situation which is very clear and defined. For other managers, the human factor plays a vital role and they are good in securing employee commitment. The “change style” flexibility is what matters most: in creating change towards sustainability, there is a need for leaders who are able to manage uncertainty as well as impact. This requires competences from each and any one of these dimensions at organizational and individual level.

The growing importance of partnerships in change for sustainability should also be taken into consideration. They are in fact crucial to creating change at systemic level and to clarify what kind of impact is expected, how to achieve it and how to measure it.

The implication for impact measurement of business in society is twofold. On one hand, it should aim to ease the creation of positive as well as interconnected economic, social and environmental impacts. On the other hand, in addition to theoretical and instrumental analyses of measurements as such (what to measure and how to measure), there is a need to assess the impact itself in terms of systemic changes, for instance those needed to achieve the UN SDGs (why to measure). In other words, the contemporary impact measurement should be based both on the sustainability approach and in favour of sustainability.

Impact

The creation of positive economic, social and environmental impact is considered a necessary condition for an innovative and responsible business (Geradts and Bocken, 2019). Leading companies are examining the impacts of their products, services, processes, different activities more broadly in recent years. They are looking at a more comprehensive set of sustainability impacts on a broader set of stakeholders.

One can discuss the impact of the company operations on various dimensions or the impact of products and services offered, processes and internal practices like labour conditions. Identifying, selecting and prioritizing significant impacts and substantial risks by company managers as required by the principle of materiality can be essential prerequisites for a successful engagement with impacts (Findler, 2019). Impacts are the effects a company has outside of its organizational boundaries – on the environment, the economy and the society – that arise after a significant time period or at a distance from the company’s location and encompass positive and negative effects, direct and indirect.

There is a possibility to measure the level of sustainability based on ESG frameworks and its impact on society and environment as well. Many different issues connected to impact are analysed in the academic literature already (Stiglitz, 2019; Kah and Akenroye, 2020). How can companies contribute best to the achievement of SDGs through measuring and improving its impact? What could be future social impacts of company performance based on SDGs implementation? Impact measurement can identify the positive and negative impacts of proposed actions before they have been implemented. It is only through the identification, measurement and management of sustainability impacts that social and environmental and financial performance can be improved and value delivered.

The debate regarding the impact of sustainability practice on the company success in terms of profitability, competitiveness, etc. is longstanding. But it is also possible to look at impact from the other side and to analyse how society influences business. What is the impact of stakeholders on business development – both supportive and sceptical or even hostile stakeholders?

The literature on sustainability management presents many tools and indicators for impact assessment. The main problem in assessing sustainability is not a lack of methods. Instead, data availability, imperfect understanding about how the impacts are interconnected and crossing over dimensions are the limiting factors. Social impact encompasses many different phenomena and has been studied in domains such as corporate responsibility, sustainability, social innovation, education, healthcare, poverty, which can be difficult to

compare. It is important to measure social impact, assess effectiveness, that is, to find an answer to the question: how will we know that our action has given the target social groups something valuable? The impact can be direct or indirect, achieved in the short or long term, and it can be related to various factors.

Over time, several methodologies of impact measurements have been proposed in the academic literature; however, it is not possible to establish a one-size-fits-all approach. For organizations, their own model of social, environmental and economic performance can bring a powerful opportunity to create enduring value for multiple stakeholders. Identifying, measuring and integrating social and environmental impacts into corporate strategy and into management decisions can help to reduce negative impacts and increase the market value at the same time. It challenges managers to understand the complex interrelationships between economic, environmental and social performance. Especially because possible impacts can relate to individual lifestyle factors, social and community standards, cultural and environmental conditions, the level of economic development, education, citizenship activity, etc.

In a broad sense, social impact can be defined as beneficial outcomes resulting from behaviour that are enjoyed by the intended targets of that behaviour and/or by the broader community of individuals, organizations and/or environments (Stephan *et al.*, 2016). Social impact assessment is a method to evaluate potential consequences of actions taken by different organizations on different levels. It is used for supporting decision-making and developing strategies and policies that include the cross-cutting issues, important from social, environmental and economic perspectives by enhancing positive effects, mitigating negative ones and avoiding that negative impacts are transferred to future generations. Many impacts are interlinked and overlapping. Therefore, a multidimensional approach which allows us to examine how an impact on one dimension is reflected in other dimensions is essential for overall sustainability impact assessment.

In the literature, it is assumed that the impact assessment can be made at least on three levels: as part of the direct impact exerted by company's own activity, then, indirectly, i.e. impact assessment in relations with partners, both contractors and non-profit organizations and also as part of the possibility of putting pressure on other entities in terms of their impact. At each of these levels, one can deal with increasing the positive impact and minimizing the negative impact through innovative solutions.

Innovation

Creating change always means something "new", something we call Innovation, that could be understood in three different direction:

- Based on the work of the Austrian economist Joseph A. Schumpeter, innovation can be understood as a *new combination of production factors* (Schumpeter, 1982).
- Innovation can be seen as the creation and adoption of something new *that creates value for the organization that adopts it* (Baldwin and Curley, 2007).
- And it can be considered as a *specific instrument of entrepreneurship*, the act that endows resources with a new capacity to create wealth (Drucker, 2009).

Overall, the concepts of innovation include the process of transforming an idea or an invention into a solution that creates value for stakeholders like customers, shareholders or societies. Thus, innovation should not be confused with invention, as innovation requires the potential customers to adopt the solution.

Innovation theory has seen constant transformation over the past decades. Focussing on the concept of newness (1950s), innovation started to be integrated into management theory (1960s) and focussed on the meaning for the demand side (1970s). This was followed by

research on process innovation (1980s) and service innovations (1990s). Finally, over the past decade, we saw a discussion about open innovation and, for some years now, a focus on social innovation and innovation for sustainability (in which case the UN SDGs are used as a framework and ICT is used as a promising road to achieve impact.)

Innovation is, therefore, a rather ambivalent term and this, as we will see later, is one of the root causes of different understandings of innovation in sustainability areas. Based on research, innovation can focus on the types of innovation (product, process, market, social), the dimensions (objective or subjective), the scope of change (radical, incremental, reapplied), or how it was created - closed or open innovation (Goffin and Mitchell, 2016).

Product and service innovations are certainly a major area to focus for companies, as these innovations typically are very visible and shape the reputation of the firm. However, process innovation (i.e. a new form of production that saves emissions and resources) or market innovation (i.e. creating new markets for social solutions) is often as important as product innovations.

In common understanding, innovation always needs to be something big and ground-breaking. However, most innovations are not. Radical or disruptive innovation fundamentally changes the markets and daily lives of people. Often, it is closely related to the inventor and bears high opportunities but also high risks. Incremental innovations rather build on constant improvement of disruptive innovations; they are more related to the organization and less to the inventor. In general, they offer a high potential for economic success. A third area to look at is reapplied innovation. Those are often existing concepts that are successfully implemented in a new area (Baldwin and Curley, 2007).

Closed innovation processes strongly focus on the intellectual capacity and property of the organization; inventions and innovations are developed in-house and then results are shared with external stakeholders. Open innovation, on the contrary, it is:

[...] the use of purposive inflows and outflows of knowledge to accelerate innovation. With knowledge now widely distributed, companies cannot rely entirely on their own research, but should acquire inventions or intellectual property from other companies when it advances the business mode [...]. (Chesbrough, 2003).

Open innovation as a source for creating new solutions is a key concept to look at, as it calls for significant stakeholder interaction to achieve the results. While the relevance of open innovation for business is steadily increasing, open innovation is a must for social innovation. Even more than in business, solving problems today in society requires a constant collaboration between all sectors to determine the most burning problems and approaches to resolve them. There are no serious issues today that can be solved by any of the sectors alone.

The concept of open innovation has two different focus directions of knowledge sharing that offer significant relevance for cross-sectoral collaboration in sustainability innovation:

- *Outside-in processes* integrate external knowledge into the innovation process and thus enhance a company's internal knowledge base through the integration of external stakeholder knowledge. This can be through a loose collaboration or formal agreements.
- *Inside-out processes* are focussed on the externalization of knowledge, which is far less common than outside-in. Here, companies can licence or provide technology or knowledge to capitalize on potential economic benefits outside the firm. It can also be used to run processes of joint development.

Both directions of open innovation require significant collaboration between the stakeholders and, in social innovation, also among the different sectors.

Papers in the special issue

The papers in this Special Issue are pertinent and topical in the sustainability discourse, focussing on some of the fundamental issues in measuring impact and systemic change and impact on macro and micro level. The papers provide a state-of-the-art overview on the current related developments and challenges that academia and businesses are currently facing.

Perrini, Costanzo and Karatas-Ozkan's paper identifies the common conditions of how social impact can be measured and provides an analysis of this fragmented measurement undertaken in practice. The authors compare four main methods with the objective to contribute to filling the gap as well as helping social entrepreneurs to lead the decision-making process among the different methodologies available.

Visser explores the fundamental elements for deriving and measuring multi-level future resilience from a human capital perspective. The findings show that organizational support for resilience is seen as weaker than individuals' perception of their own level of resilience. This paper sets the theoretical foundations for a Future Resilience Index which will be launched 2020/2021 and has demonstrated that future resilience is a highly relevant and useful concept for society, organizations and individuals in these rapidly changing times. The purpose of the paper is to encourage behaviours and capacities among employees that will increase resilience at the individual, organizational and socio-ecological levels.

The aim of the article by Kalika and Shenton is to present an example of a fully operational impact assessment system called Business School Impact System (BSIS), which is designed specifically for business schools with a particular emphasis on their local and regional impact. Institutions that have been through the process are awarded a Label recognizing their on-going commitment to impact optimization and more effective communication with stakeholders. To this date, business schools and universities in 15 countries have adopted this model.

Improvement in evaluation methodologies used in the public policy and development fields has increased the amount of evidence-based information available to decision-makers. This can help firms evaluate the impacts of their social investments. However, it is not clear whether the business sector is interested in using these methods. The paper by Kowszyk and Vanclay describes the level of interest in, knowledge of, and preferences relating to the impact evaluation of CSR programs by executives in Latin American companies and foundations.

The paper written by Diener and Habisch emphasizes the importance and current deficits of non-financial impact (NFI) assessment of socially responsible investment (SRI) with reference to the action plan of the European Commission (EC) for a greener and cleaner economy. According to the authors, due to a deficient exploration of NFI in theory and practice, the role of SRI funds for sustainability transition has not yet been adequately discussed. In fact, a constantly rising market share of SRI has not led to similar sustainability achievements. This strongly contrasts with investors' expectations, the self-portrayal of the sector and the goals of the EC's action plan. As a solution, the paper develops an equilibrated SRI (ESRI) perspective elevating NFI as a second cornerstone for theory and practice.

Blagov and Petrova-Savchenko's paper explores the current status and identifies the main trends in leading Russian companies' corporate sustainability model transformation in the context of achieving the UN SDGs. This paper finds that the business sustainability typology BST 2.0 is becoming a dominant model based on the "creating shared value" goal. The related corporate social performance (CSP) is characterized by their orientation to the principles of the UN Global Compact; by the emergence of a coordinating role for specialized departments of CSR and/or sustainability; and by the regular sustainability reporting. The SDGs are generally correlated with responsible business practices that are already in

existence in companies. The emerging trend towards the advanced BST 3.0 model including the SDGs integration into the main business processes is constrained by the lack of active cooperation between companies.

In conditions of countries with institutional deficiencies and voids such as emerging economies, the task of sustainability integration is challenging as many critical conditions needed for sustainability development are missing. To understand how firms can integrate sustainability initiatives in their supply chains under the conditions of environmental uncertainty, the research paper by Veselova, Aray, Knatko and Levchenko investigate firm-level and supply chain drivers that stimulate sustainability implementation in Russian firms. The study indicates a positive association between sustainability performance and sustainability transformation of the firm and strategic drivers as a firm's innovativeness and internationalization. A positive moderating effect of environmental uncertainty was found for innovativeness, indicating that innovative firms show better sustainable performance in the supply chain under uncertain conditions. The findings also indicate that environmental uncertainty positively moderates the relationships between a firm's transformation for sustainability, its internationalization and supply chain integration and coordination.

Rok and Kulik explored how circular start-ups design and implement innovation in their business models to increase the positive impact. The analysis demonstrates that three factors, strongly interconnected, can significantly influence a circular start-up development. The first one is the purpose-led motivation for circularity as a solution, mostly concentrated on environmental values of different market actors. The second factor is built around an idea to increase the positive impact by solving most pressing environmental and social problems. It determines the impact on the environment as well as society and to what extent its model can be scaled up. The third factor is driven by understanding the necessity of the innovation, concentrated on business model innovation for circularity.

A case study on the Honey Bee Initiative from George Mason University's School of Business provides an apt illustration on how to collaborate with universities to create positive impact and sustainable business models. In this study Gring-Pemle, Perilla and the co-authors discuss the Initiative's tri-sector domestic and global partnerships, community-driven development approach and innovative solutions as an exemplar of business as a positive force for good. This study provides unique insight into how universities can partner with nonprofits, business and policy leaders to effect positive change.

As shown previously, the papers included in this special issue offer a variety of perspectives on measuring impact and creating change for sustainability, which makes the ABIS Special Issue a very relevant publication with implications for policymaking, business practice and business education.

For instance, impact measurement requirements can greatly help the European Union to achieve a successful and just transition towards a sustainable and regenerative future. Some of the methodologies mentioned in this publication can provide a solid basis for the identification of environmental, social and economic impacts, especially in the frame of sustainable finance policy. Impact assessments are contributing to efficient policy choices in line with the objectives of the EU Green Deal. Reliable, comparable and verifiable information on impact plays an important part in enabling buyers to make more sustainable decisions and reduces the risk of "greenwashing", for example, in the frame of impact investment.

The definition and evaluation of the positive impact of impact investment is a very pressing issue in bolstering efforts to finance effective sustainability transition. The European Commission is trying to provide regulatory and non-regulatory schemes to tackle false green claims from the capital market players. Further research is needed to explore what type of measurements and interventions can support the needed changes in moving towards truly sustainable pathways.

The need for a radical transition and change due to climate crisis emergencies does not allow us to neglect impact measurement and improvement. More recently, the emergence of

regenerative approaches call for even further integration of environmental, economic, social or cultural perspectives and develop a systemic approach to how people, places and planet can thrive into the future, not only seeking to “do no harm” but intentionally aiming to create positive impact (Fullerton, 2015).

The measurement of social, environmental and economic impacts of products, services, processes and other corporate activities is critical for the long-term new role of business in society. While the approach based on SDGs and climate commitments is not to remain solely at the level of high-profile declarations, a clear, unambiguous and comprehensive definition of expected impacts is needed, which will allow for the proper planning and implementation of the actual projects and innovations in overcoming the complex challenges we are facing. The conclusion of the special issue suggests a need and necessity to explain concepts and methodologies, to take into consideration a variety of perspectives and to sensitize the private sector about the relevance and importance of monitoring and impact evaluation.

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