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Will there be innovation after now? Rethinking innovation after the Covid -19 crisis

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Abstract

Can innovation be more inclusive and sustainable? The coronavirus crisis has brought to light various shortcomings of modern capitalism, primarily in terms of the hidden aspects of inequality and distribution of wealth in the way we innovate. A crisis of this magnitude offers an opportunity to rethink innovation. This paper aims to analyze some of the challenges the crisis has imposed on innovation, but also, how we can learn and move forward from this point in time.

Keywords: Innovation, sustainability, modern capitalism, Covid-19 crisis

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A year ago, the streets of London were flooded with masses of concerned crowds. Yet, they had different concerns in mind from the ones that we have today– the protestors of the global social movement *Extinction Rebellion* were deeply concerned about the climate emergency we are facing – an emergency that, according to them, very few governments and businesses are taking seriously. As a group of us innovation scholars walked past flocks of protesters, we noticed the differences in the reactions of the passersby. Some Saturday shoppers snapped selfies with the protesters in the background, others were being entertained by the music the drummers played, but certain of us were moved to our core. Personally, we could not but go back to that one moment, when an entrepreneur, an informant from our research study on innovation and sustainability, gave us these brief but poignant words:

We need to pay attention to climate change, it's not a choice we have anymore. Millennials want us to, they want a sustainability page on our website. Millennials are our primary customers, so we must signal to them that we care about "those things".

He was proud. We were furious. Prior to the existing Covid crisis, this is what sustainability meant – merely another tool to maximize profit. Sustainability “sells” nowadays, many companies thought. But if we dug in deeper, did it truly mean that companies were acting sustainably, with all the meanings that the word sustainability embodies? Did sustainable actions that companies claim to undertake truly match up with their actual actions?

Climate crisis sounds like a big word to describe a potential disaster in the distant future that future generations will be left to deal with. *It's not our problem*, many thought. Exactly like when the Covid crisis was just starting, the distance between the “crisis deniers” and the “crisis recognizers” was simply a matter of time.

The original understanding of the word sustainability meant “the preservation of natural resources in order to maintain an ecological balance, enabling humans and nature to coexist”. Sustainability today carries much broader connotations though, primarily in terms of businesses contemplating the sustainability of their actions – or in other words, genuinely thinking of the long-term impact of their actions – on the ecology, on society, and on the economy (Fagerberg, 2018).

Climate change perhaps has no direct connection with our present crisis, but our system, our mindset, our economic model, and what we reward companies for, as well as the way we function as a society, does. And those same shortcomings that lead to the climate change crisis and that are aggravating the climate crisis every day are, to a certain extent, behind our present crisis.

Pandemics cannot be prevented, one can argue. After all, humanity has been historically dealing with devastating pandemics that often had long lasting effects on generations to come. The Spanish Flu, the last pandemic in recent history, reduced the world population by 2%. However, we are in 2021, not in 1918. The world has travelled a long way since, particularly in terms of globalized innovation and technological progress. So how was a crisis of such magnitude *not* preventable?

So, What Now?

The next urgent question is, can there be life after the world comes to an end? A year ago, we were struggling to get hold of the “essentials”, we were queuing for hours to purchase the basic ingredients for our dinner. When the Covid crisis hit the western world, the luxuries that we had long taken for granted started to become a part of the distant past. Innovation suddenly started to sound irrelevant.

Today though, many of us are redirecting our attention to entrepreneurs and innovation. We will soon be almost entirely reliant on them to save our deeply affected economy. Doctors apart, entrepreneurs will become the new saviors. Funding will be inevitably poured into start-ups after the health crisis starts to gradually dissolve. In fact, governments have already been laying out the foundations of financial plans for after the crisis to revitalize the economy. Yet, rethinking innovation and its connotations in modern capitalism, is crucial if we are to avoid a crisis like this one from recurring in the future. If we repeat the same patterns as before, if we simply encourage entrepreneurship by pouring capital into their ventures without learning from our previous shortcomings, the risk is that we are likely to fall into another crisis of any other shape triggered by those very same shortcomings (Mazzucato, 2020).

The Shortcomings of Modern Capitalism

Recently, modern capitalism took an acute turn from tangible capital to intangible capital - that is, from the ownership of physical capital such as buildings and other physical resources to intangible capital, that could be referred to as data ownership – in other words, capitalism without capital (Haskel, 2018). However, the essence of capitalism remains largely the same and the symptoms of an ill system have morphed in form but not in substance. In this paper, we argue that there are three key shortcomings in modern capitalism that need to be carefully considered as a basis of rethinking innovation that is more sustainable and inclusive.

Technological progress

Technological progress is often associated with economic prosperity- that is, innovation is thought of as a quick fix for institutional failures and is capable of resolving many of our society's problems (Giuliani, 2018). Thus, technological progress and innovation are assumed to always have had positive effects on economic growth and human wellbeing. Yet, many of the existing common practices have rendered our conceptualization of technological progress and innovation problematic.

One of the emergent problems is the investor biases that have become institutionalized and as a result, quite challenging to overcome. For example, we have heard numerous times from entrepreneurs with groundbreaking ideas that their start-up was not attractive to investors. In fact, they expressed to us that if the start-up does not operate within artificial intelligence, bitcoin, and other “trending industries”, the likelihood of receiving investment was extremely low. As many start-ups are driven by investors, this creates a cycle where the industries that flourish are exactly those industries that institutional investors have a particular interest in. Start-ups that are truly mission-oriented or are targeted towards minorities or women become marginalized as they receive very little investor interest. Another by-product of this common practice is that technologies are created to attract investors, without taking into consideration the potentially damaging long-term effects on society. Due to such pressures from investors, very few companies are willing to reflect, recognize, or admit the drawback of technologies, further proliferating the so-called empathy vacuum (Malik, 2016). In other words, creators of these technologies often

have little empathy towards the users and rarely acknowledge the potential dangers that these technologies might carry in the short, but most importantly, long term. “Mindless innovation” has now become the norm, rather than an exception.

Very few companies are willing to reflect upon the technological impact of a new product or service, particularly that the nature of a technology is not harmful *per se*, but it is rather the way that the technology interacts with its creators – the human agency and their consequent decisions – that renders it so (Giuliani, 2018). Therefore, it is of utmost importance for companies and policy makers to exercise a certain amount of control on the technological application, rather than letting the technology take an unrestricted trajectory and turn its potentially negative effects on society and ecology alike.

Data ownership

Another of the symptoms of a system links to our understanding of data ownership and how we have permitted certain giants to get away with it. Data ownership has become one of the primary currencies in our system, replacing all other forms of capital and becoming the core of any innovation.

The companies that have wealth nowadays are companies that own data. One of the main problems with the transition of the economy from tangible to intangible assets is the difficulty of assessing how much the company is worth and how much value it is able to create (Haskel, 2018).

Moreover, the current crisis has pushed some of us to think closely on whether we are pouring all our investments in the right place. One cannot but question, why did *none* of these highly respected companies - that blatantly own and use our data - play a role in predicting and preventing what there was to come? Our phone can locate our exact address without us having to indicate it in the settings, our personal data is used to track our every move, our purchasing preferences - our privacy has become wealth in the hands of companies, unfortunately, in many cases, for marketing purposes or for manipulating the public opinion. These companies are accumulating more and more wealth from garnering vast information about each one of us, yet none of these companies were able to play a role in preventing what started as a local epidemic to quickly become the biggest historical disaster in modern history? Now is the time to ask, is wealth going to the right companies? Entrepreneurship will probably play a critical role in revitalizing our economy, but we should think deeply about *who* owns our data and are these data being utilized for the general societal good.

Rising inequalities

Another one of the hidden shortcomings of modern capitalism is that it accentuates inequalities even more so than previously, both for companies and societies alike. The Covid crisis has exposed the vulnerability and weaknesses of our system. What started as a health crisis has spread to have severe repercussions on the economy, too. The Covid crisis has accentuated many of the rising inequalities in our society. For instance, freelancers have been left without a safety net – the gig economy that has been gaining substantial momentum over the past few years, has proven to be a weak alternative to the traditional modes of work (Mazzucato, 2020).

Other inequalities, such as gender inequalities have been even more accentuated with women leaving the workforce like never before; in fact, female job loss rates due to the Covid crisis are about 1.8 times higher than male job loss rates globally (McKinsey & Company, 2020). Moreover, many employees forced to work from home do not have the same comforts as others in the top of the economic pyramid, leading them to perform poorly and to eventually suffer from job loss. The crisis has exposed these inequalities but also our

vulnerability as a system and, essentially, the lack of preparedness to deal with a crisis of this magnitude.

Another side of inequality links back to the distribution of wealth. For instance, scientists still remain at the bottom of the pyramid. Many blame governments for their poor handling of the crisis, but there is simply a shortfall in the recognition of science in our world, and a dire decline in terms of the appreciation towards science and the importance of the role it plays in our society. Science that cannot be commercialized does not carry the same importance, because again our only currency is profit.

We did a simple exercise. We searched for salaries of star football players, social media influencers, and scientists. A top football player earns £92 million a year. An “influencer” earns £500,000 per social media post. A top scientist earns £100,000 a year. No wonder we are where we are today.

Many governments are following a similar trajectory in terms of minimizing the importance of science. Recent studies show that public-private partnerships in health research prioritize the interests of profit over the public good. For example, funding and investments from both the government and institutional investors, will most often favor “trendy” innovations with commercial potential, rather than the less appealing medicines that have a major impact on public health, primarily antibiotics and vaccines. Moreover, most of the efforts to plan for and prevent public health disasters have been weakened over the past few years. Critical institutions providing public goods such as the NHS in the UK have experienced substantial cuts, up to £1 Billion in just a five-year period (Mazzucato, 2020).

Next Steps – Rethinking Innovation

Many of us might be asking, is there a post-coronavirus world? Perhaps the coronavirus crisis has brought to light several shortcomings in our system, triggering us to rethink the decisions we have made and rethink where the capital should be going. Perhaps overcoming these shortcomings is a matter of allocating capital to invest in a livable and desirable future where we hold sustainable, mission-oriented innovation to a higher standard.

We have a duty to play a role in taking more sustainable decisions. For example, public policy should have a role in orchestrating and promoting an entrepreneurship ecosystem with a mission - an environmental, societal, and economical sustainability mission (Fagerberg, 2018). Such purpose-driven entrepreneurs are delivering “blended value” by generating positive societal and environmental impacts that are, in turn, fuelled by the creation of financial returns (Emerson, 2003). While they are in compliance with our current market-based system, they hold themselves to higher sustainability standards that create an environment ripe for innovation. Sustainable innovation can be a win-win - it can reduce the cost of sustainability products and practices and increase the appeal of sustainable goods (Kiron, Kruschwitz, Reeves & Goh, 2013).

Our role as management scholars is to come up with better indicators of long-term measures of value, rather than short-term indications captured by revenue and profitability. We are still lagging behind in measuring how a start-up can create other forms of value than just profit. We need to advance measures that highlight the importance of social wellbeing, inequality reduction, and environmental sustainability, but the complexity of measuring the impact makes this a daunting task. As of now, we are still piecing together how triple- and double-bottom-line approaches that take into account profit, people, and the planet can be implemented to take these nonfinancial values into account (Alhaddi, 2015). There is no shortage of impact measurement methodologies attempting to tackle this challenge, but the continued evolution of these methods is dependent on widespread demand for

nonfinancial value creation, not unlike the eventual development of harmonized accounting standards.

Given our confinement within a system where capital is king, perhaps the urgent action we can take is therefore through leveraging existing market-based structures to form innovative and regenerative forms of value. For instance, one of the potential drivers of blended value creation is « impact investing ». At its core, impact investing is capital allocation with the expectation of receiving blended financial returns on investment (ROI) and social or environmental returns (Roundy, Holzhauer & Dai, 2017). Impact investors are interested in bolstering business models that create intentional and measurable positive impact at the core – through their mission, through the products they offer, or through their operations (Brest & Born, 2013). According to the Global Impact Investing Network (GIIN), it is estimated that capital devoted to impact investments is about US\$715 billion and growing (Hand, Dithrich, Sunderji & Nova, 2020). This has been made possible by growing demand for investment products that align with our values and this could be perhaps the start of a widespread normalization of sustainable business models that inherently operate for the purposes of making the world a better place.

The ideal sustainable business model fosters innovation using a stakeholder-centric perspective of value creation. This expanded view on value involves consideration for societal and environmental actors in addition to mainstream economic actors (Tapaninaho & Kujala, 2019). Enabling a shift from shareholder-centric to stakeholder-centric approaches could be a matter of revolutionizing the system to create incentive structures and standards that take into account the long-term perspective and attribute monetary costs to negative externalities inflicted on people and the planet by mainstream businesses. To have the future we want and need, stakeholder theory needs to be in our accounting textbooks.

Conclusion

There will be innovation in the future. But now is the opportunity to rethink innovation. Start-ups with a social cause are no longer sufficient because they are merely touching the surface. Social start-ups in many cases still operate under the same framework of profit-making and feel the same pressures to appeal to investors, usually the same investors that are interested in the same currencies across industries. Social start-ups that still speak the same dominant language are not social in any way or form. Until we change the core of our mindset of what value truly means, until we integrate sustainability into the entire business model of the company, weaving sustainability at its core, informing every decision that is made by all the stakeholders involved. Sustainable innovations not only take into account the environment, but their long-term effects on their users and the repercussions of these innovations on the economy and society as a whole. We need a radical change, from within the system, and this is the only thing that will save modern capitalism and save us.

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