



Driving Innovation through Corporate Impact Venturing

Preface to the German Edition

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Impact Economy
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German is spoken by more than 100 million people in several European countries as well as Namibia, and is the official language in six countries. Austria, Germany and Switzerland are all economic powerhouses relative to their population sizes. Germany also has the world's fourth-largest nominal GDP and is the second-largest exporter after China as well as being home to the world's oldest universal healthcare system.

The general level of development in German-speaking countries is very high. These countries are home to a number of top global companies that have leading positions in most major industries, and numerous "hidden champions"—specialized small and medium-sized businesses—that have global market-leading positions in a variety of niches.

Make no mistake though: today, there is pressure to adapt as never before. Advances in information and communication technology are transforming the classical industries that form the backbone of the region's comparative advantage. Generally high ethical, environmental, and social standards are part of the social contract that protects social peace and high productivity in the German-speaking countries. However, this dynamic also means extra costs for companies, and raises the fundamental question of how to succeed in the face of international competition while also maintaining high standards. Past achievement, a skilled work force and a large capital stock are no longer a guarantee for future success. While companies in German-speaking countries have been excellent at innovation and exporting, their record at foreign investment has been less stellar.

A year ago, a well-known German magazine controversially argued that it would have been better for German firms to have given a kitchenette to every one of the 40 million German households (or a Porsche in a car-sharing model across several households) instead of suffering the depreciation of bad foreign investments to the tune of 600 billion Euros since 2006. Moreover, there is a sense of underinvestment in the future. The European Union's Horizon 2020 flagship program therefore seeks to invest 80 billion Euros in research and innovation to secure Europe's global competitiveness, emphasizing world-class science, industrial leadership and the need to tackle societal challenges.

As public and private actors seek to boost competitiveness, it is important to be aware that the formula for value creation is changing. Stakeholder expectations regarding the role of business in society are rising. Demand patterns are shifting. Numerous new markets are coming on stream, such as the USD 5 trillion Base of the Pyramid (BoP) market, the USD 540 billion global virtuous consumption segment, new markets driven by a total resource productivity imperative and the emerging circular economy, as well as the modernizing welfare state. Both for the current members of the Global 500 and those that aim to join it, many of their next customers are likely to come from the BoP; similarly, many companies who have historically served emerging markets are gradually joining the Global 500. Companies from the German-speaking regions have brought to market many pioneering products in the past. But they now need to pay attention to the rise of impact

capitalism. With the exception of China, many are underexposed to fresh demand in emerging markets, and are still stuck in a paradigm of corporate responsibility when considering social impact, rather than corporate opportunity that weds profit and impact.

Thus I am especially pleased to now see “Driving Innovation through Corporate Impact Venturing” translated to German, with the financial assistance of the Haniel Foundation; for whose longstanding support of my work I am grateful. The goal of this edition is to inform and encourage executives in the German-speaking world to examine and reconsider how to improve current corporate strategies so that making profit can be aligned with positive social and environmental impact.

The pride of German-speaking Europe is its dual education system. In Germany, 60 percent of all young people receive their vocational training in the dual system. Businesses and vocational schools are partners that are training professionals from industry, crafts and the professions of tomorrow in about 350 occupations. Anyone who has earned a diploma can easily compete with graduates in other countries. However, empowering entrepreneurs that come up with new value propositions will be critical to being able to compete in the long term, especially as creating the products stemming from established value propositions is increasingly being offshored. German companies singlehandedly owned productive assets abroad worth one trillion Euros in 2010.

The mega-drivers of the emerging paradigm of impact capitalism are in the process of creating new multibillion-dollar markets. To access them, companies increasingly need to find new ways to source innovations that generate profits and

impact. Success will not be achieved without investing in innovation. Corporate Impact Venturing provides the way forward for firms in any industry and a frame of reference for innovators such as social intrapreneurs. It combines corporate venture capital’s power to innovate with an intentional aim to realize positive social and environmental outcomes. In practice, this takes the shape of the creation of new ventures and investing in existing ones, all through the lens of sustainable value creation.

The global economy is changing, and impact is emerging as a driver of value. The region’s firms made it through the Great Recession quite well. But the talent of generation Y is starting to vote with its feet, demographic realities are kicking in, and demand patterns are changing. An old German proverb rightly states, “man muss das Eisen schmieden, solange es heiß ist” (“strike while the iron is hot”), which rather accurately describes the situation. Creating value in these markets increasingly requires a total view of economic, social and environmental performance. At a time when many companies report that they are stuck on their ascent to sustainability, engaging in venturing through impact investing is a powerful opportunity to achieve results of consequence for both business and society. Executives can render their businesses future proof while delivering positive impact, and the time to adapt the great track record of German-speaking countries in the cultural, scientific and technical fields to the needs of the twenty-first century is now.

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