Collaborations between impact entrepreneurs and corporates could help the latter meet their sustainability targets. Here’s how to make those partnerships more effective.

Large corporations have a crucial role to play in ensuring that countries adhere to the Paris Agreement and achieve the United Nations’ Sustainable Development Goals (SDGs) by 2030. However, many companies are struggling to fulfil their net-zero pledges, citing issues such as challenges with reducing indirect (Scope 3) emissions, the lack of viable technology and potentially conflicting regulations.

One way for corporates to tackle these obstacles is by working with start-ups and impact entrepreneurs (those who incorporate social or environmental goals into creating new business models). A prime example is energy giant Enel, which supercharged its sustainability push by looking beyond the organisation and garnering solutions from external sources through its network of global innovation hubs.
What motivates corporates to forge these partnerships with start-ups? What are some challenges that impact entrepreneurs may face, and what can they do to help promote fruitful collaborations that can enable the world to realise its sustainability targets?

I addressed these questions at the recent INSEAD Impact Entrepreneurship Forum. This was part of INSEAD’s programming at the 2024 edition of ChangeNOW, a global summit that brings together impact entrepreneurs and sustainability leaders to discuss solutions for the planet.

Why corporates work with start-ups

The notion of large corporations partnering with start-ups is nothing new. Many pharmaceutical giants, for instance, have long jettisoned the belief that everything they bring to market must come from their own R&D labs. They have been collaborating with start-ups to push out new products for the past few decades.

How and why did this happen? It all has to do with the patent cliff – the point at which patents reach their expiration date and the market becomes flooded with cheaper generic versions of the product. This causes pharmaceutical companies to experience a sharp drop in revenues, often amounting to billions of dollars.

Big pharmaceutical companies realised that the solutions to address this hit couldn’t come from their own R&D labs alone; they had to find new sources of revenue. To do so, many of them began working with start-ups to help the latter scale up and commercialise their inventions. For instance, as of 2010, roughly two-thirds of Merck’s sales were attributed to in-licenced products from external partners.

A parallel can be drawn to the sustainability challenges facing corporates. Take a large utility company that is under pressure from regulators, the markets and society to change how they do business in order to meet sustainability targets. If they can’t do so, they’ll likely see a sudden decrease in revenues upon the “expiration” of their current business model. For instance, this could happen if the company fails to adhere to sustainability regulations or falls out of favour with sustainability-minded consumers, therefore rendering their business model obsolete.
Many CEOs I’ve spoken with acknowledge that there is a huge gap between the sustainability commitments they have made, and the progress achieved so far. They know that to avoid falling off the edge of the cliff, they need to admit that they don’t have all the answers, start looking beyond a self-sufficient approach and be much more collaborative in devising ways to meet their sustainability objectives.

This creates a huge opportunity for impact entrepreneurs and start-ups designing sustainable solutions to power a greener future. However, achieving the ideal partnership is no easy task.

The challenges of collaborations

The attendees of my session at ChangeNow – many of whom were INSEAD alumni working or interested in the impact entrepreneurial sector – raised various challenges of partnering with large corporations. These included the fact that corporates may view impact entrepreneurs as dreamers, that it can be difficult to get connected to the right decision makers within an organisation, and that some corporates could have unrealistically high expectations of what start-ups bring to the table.

Another key hurdle mentioned was that the environmental, social and governance (ESG) topics that many start-ups address can be seen as too “soft” by some corporate directors. The latter may not be particularly concerned about ESG and have not made it a priority within their organisation. Start-ups may also face a lack of funds, especially during economic downturns, or companies that don’t allocate sufficient resources for the successful realisation of ESG-related initiatives.

How to make partnerships more effective

During my session, I asked participants to form small groups and discuss ideas for how start-ups can make their collaborations with corporates more effective. They came up with a list of “dos” – ensuring alignment with the corporate’s vision and mission, starting with a pilot, identifying a key decision-maker, building rapport with a champion in the organisation and understanding the business value you bring before trying to sell them a solution.

High on their list of “don’ts” was not charging for your services. Money is usually not the main constraint for big organisations, and corporates may not
be as committed to seeing through on a project if they don’t have skin in the game. Other “don’ts” included not making solutions tangible, moving forward before aligning on desired outcomes, depending on one person and pitching to a company without first understanding their unique business model and how you fit in.

Many of the participants’ suggestions align with my own recommendations for start-ups who want to partner with corporates on the sustainability transition. My first piece of advice would be to clearly define the purpose of the partnership and how you can solve a specific problem the corporation is facing.

Although large companies are usually rich in resources, they are likely to be considering or already juggling multiple projects simultaneously. To grab their attention, a start-up must be able to clearly articulate what they bring to the table and translate their specific solution into the corporate’s own language. Ultimately, it’s not about your start-up but about how your solution can work for the organisation you want to partner with.

The second would be to agree on the right architecture for collaboration. Make sure that you understand the corporate’s internal processes and use that to propel the partnership forward in a mutually beneficial manner. It’s important for start-ups to evaluate not just the public, outwardly visible aspects of a large corporation but also its inner workings. The latter are its culture and processes that will make the difference when it comes to driving decisions down the road.

Third, establish the relevant processes to help overcome any internal barriers and prejudices. Certain corporates may suffer from “not invented here” syndrome, where they can’t get past the fact that a solution from the outside could be superior to what they can come up with internally. Start-ups should not underestimate how crucial it is to work with corporations to overcome this barrier.

Finally, it is key to instil a culture of collaboration, mutual understanding and humility through all facets of the partnership. It could be tempting for start-ups to be somewhat arrogant because they know more about their solution, venture or focus area than the corporate they are dealing with. On the other hand, corporations may look down on start-ups, thinking that they don’t understand the corporate reality. If start-ups approach their partnerships with corporates from the perspective of working together to solve a problem,
they can be part of the solution.

I believe the future is bright for partnerships between start-ups and corporates. Large organisations are facing serious pressures to level up their sustainability efforts. They also have the resources to help start-ups grow their innovations. Start-ups working in the sustainability sector have the knowledge, passion and budding networks that can lead to very fruitful collaborations. With the right approach, both parties can work together to scale up impactful solutions for the benefit of the planet.

Find article at
https://knowledge.insead.edu/entrepreneurship/powering-sustainability-through-partnerships

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