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Sustainability and Value Creation- perception of environmental responsibility and economic benefits

KEYWORDS

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ABSTRACT *In today's business era, companies are facing an amplified competition along with environmental constraints, such as government legislation, various industry regulations and the depletion of natural resources even more intimidating constraints in the longer run. Some theorists argue that companies implement sustainability to deal with and stay away from these constraints.*

The purpose of this paper is to study a range of customs companies can pursue sustainability, and also to study- how sustainability and value creation are interrelated. Two points to be considered; (1) how can companies construct sustainability a strategic asset, and (2) how can sustainability build value for companies. This develops an understanding of sustainability as being accessible through resources and organisational capabilities, as their heterogeneity is a source of value creation and competitive advantage. The companies can make sustainability a strategic asset, when sustainability is considered as corporate sustainability, when it is recognized for its valuable effect, and when it is strategically integrated to build capabilities in all business areas of the company. As such, corporate sustainability deals with environmental problems as business issues, rather than as responsibility towards society. Sustainability entails mutually an action and a valuable effect, which is why sustainability is value creation.

INTRODUCTION

Now a days, global business trends and the Earth's ecosystem are changing the conditions for how companies are in reality run. These trends shifted the company's attention towards faster, smarter, cheaper and newer ways of doing business. With that a global issue is the increasing industrialisation and the material consumption, followed by pollution and waste generation. Global reports show that while the level of carbon dioxide emission is significantly higher in developed countries, it has maintained the same level from 2000 to 2008, whereas in the developing countries the carbon dioxide emission is increased by 30%. These changes are constraining many business operations and management, in both public and private sector companies where both are partially accountable for the environmental conditions. However, the extent to which these affect the environmental conditions and loosen the constraints differs significantly. Attention has been pointed towards the fact that the public sector is having trouble with initiating solutions that deal with the global problems.

In many instances the public sector is seen as unable to cope well with social, economic, and environmental problems. (Luchsinger 2009; 167). The private sector should remain innovation, capital investment, technology development and the implementation of sound management potential for value creation. However, it is looked upon as solutions to global problems, Sustainability and Value Creation and as a rescuer of the ecosystem (wbcsd.org). But why should the private sector take into account the environmental changes and try to save the environment?

One of the arguments is that business action in its existence is highly dependent on the basic natural resources. Therefore, improvements in environmental value mainly depend on decisions made by private sector managers (Coglianese & Nash 2004). As the president of the World Business Counsel for Sustainable Development argues:

Business cannot function if ecosystems and the services delivered by them –as water, food, fibres, biodiversity and climate – are out of balance. (Björn Stigson, wbcsd.org)

Another argument is that increased government interference and companies voluntary reporting's result in a trend of larger private sector transparency, which affects the alertness of how products are produced and which element of society production touches upon, it changes the power structures. Globalisation presents a powerful dimension of capitalist development with an increasing need for harmonising and broader corporate interest. While these arguments are often seen as constraints for business operations, these might as well be perceived as business opportunities. Participating in this ecosystem salvation is that integrating environmental quality into business can pay off financially.

LITERATURE REVIEW

In 1916, almost one hundred years ago, J. M. Clark, (Clark 1916; 218) criticises business being a system of carelessness. Clark suggests that the appropriate responsibility of a company is to be transparent in business, and proposes a theory of economics and responsibility arguing that businesses shall be aware of its responsibility for the public interest and society. By this, Clark is considered first-mover in creating an academic opinion on expanding the accountability of a company to include association with the company's surroundings (Champlin & Knoedler 2004).

In the 1930s, Theodore Kreps suggests; social audit as a mode for companies to report responsibility. According to The Social Reporting Report (1999), it changed the interface between society and company by the way entities outside the company could define the responsibility of companies. This highlights the emergence of transparency for companies as members of society.

This paper is initiated to break away as of the current models focusing on global environmental concerns as more or less expensive social responsibility issues. With the recognition of sustainability in a corporate setting, it is evident that in view of environmental concerns with a new set of lenses becomes significant for companies. Corporate sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risk from economic, social and environmental dimensions. (Lo & Sheu 2007; 345)

While corporate sustainability has been perceived in a different way by society at large economic, ecological and social sustainability (Russell, Haigh & Griffiths 2007). Corporate sustainability can accordingly be defined as meeting the needs of a firm's direct and indirect stakeholders (such as shareholders, employee's communities, clients, pressure groups, etc.) without comprising its capability to meet the needs of future stakeholders as well. (Dyllick & Hockerts 2002; 131). As this holistic approach is very broad, we emphasise that meeting the needs of the stakeholders, does not necessitate that the

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company should pursue to fulfil all needs. Saving the world is not the single business's job. Sustainability is a tip-toeing balance, where the company should identify the needs of its stakeholders Companies that persist in treating climate change exclusively as a corporate social responsibility, rather than a business issue will risk the greatest consequence (Porter & Reinhardt 2007; 22).

Barnett (2007) provides an argument indicating that the principle of maximizing shareholder assets is in itself, not for the interest of shareholders. Barnett contends that too much financial performance leads to decreasing the ability of the company to influence its stakeholders. Barnett (2007, p. 808) explains: Doing too well can lead stakeholders to observe that a firm is not doing adequate. Unnecessary CFP indicates that a firm is extracting more from society than it is returning and can suggest that profits have risen as the firm has exploited some of its stakeholders in order to favour shareholders and upper management. This can point towards untrustworthiness to stakeholders looking to set up or maintain relations with the firm.

Hart presents a model of the Earth's challenges and argues for three colliding worlds; the market economy, the nature's economy and the survival economy (1997; 75). This implies a theoretical delimitation from aspects such as; social entrepreneurship and philanthropy (Hockerts 2006), bottom of the pyramid strategies (Olsen & Boxenbaum 2009), and microfinance (Yunus 2007). Thus, the market economy and the nature's economy that address issues such as pollution burdens and depleted resources. With this, sustainability initiatives are likely to build sustainable strategies for a lower material and energy consumption, and ensure a sustainable use of the nature's economy. It is believed that companies addressing sustainability should initially focus on the issues present in market and nature's economy.

If global environmental problems are dealt with as business issues instead of social responsibility issues, in search of sustainability would open up to tap upon multiple business issues, and possibly present a new logic. If companies deal with global environmental problems, the sustainability opportunities and possibilities for value creation might furthermore become more obvious.

PROBLEM DISCUSSION

To study, we draw upon a comprehensive report *The Business of Sustainability – Imperatives, Advantages, and Actions* conducted in association between the Boston Consulting Group and MIT Sloan Management Review. The report depicts statistics on the state of sustainability in business and it gives pragmatic insight into the challenges and opportunities managers are facing while pursuing sustainability. The report is based on a survey of 1500 corporate executives, managers and 50 in-depth interviews. This report claims advanced findings from the survey and interviews to symbolize the cutting edge of sustainability companies. There is a strong consent that sustainability is having and will continue to have a major impact on how companies think and actually act. However, the majority of companies' state that they are not working decisively to fully avail the opportunities and ease the risk that sustainability represents and are restricted to those essential to meet regulatory requirements.

This gap between the identification of its impact and the actual performance carried out is important to close as sustainability business strategy and the risk of failing to act decisively increasing. Moreover, sustainability is a concept with such a broad impact that management does not know nor recognize how it differs from other business endeavours and which implications to business it results. Thus, management acknowledge its importance, but the spirit to act on it is more blurred. As such, the report shows which roadblocks management can face when trying to act upon their belief in sustainability (figure 1).

Source: BCG report

Figure 2: The benefits in addressing sustainability issues (BCG)

These shows, that a majority of companies perceived - improved company or brand image as the beneficiary to organisations having sustainability issues. The report also depicts that sustainability generally possess greater potential than mainly giving a better brand image. Additionally, 70% does not even make an effort to develop business sustainability, due to the limited perception. It seems that sustainability is not only challenged by a lack in knowledge, but also by a lack in understanding how these sustainability activities actually generate value.

The report affirms a correlation between the intensity of a business manager's experience with sustainability and benefits. Practitioners with abundance knowledge about sustainability extended the definition of sustainability outside the 'green' silo. They incline to consider the economic, personal and social impacts of sustainability-related changes in the business site. They see sustainability as an essential part of value creation. (BCG).

This shows that the more knowledgeable (experienced) a manager is, the more thoughtfully he or she evaluates it, and hence finds the opportunity in it. Ultimately the report addressed the need for managers to develop sustainability and see it as an integral part of value creation. The report identified a necessitate of new approaches, frameworks, to create companies better address and act on sustainability.

SUSTAINABILITY PRACTICIES

With the sustainability optic in mind, the exploration of practices is also guided by the reasoning for taking into account both theoretical and practical data. This will create a broader understanding of sustainability.

1. Become an eco-efficient: Eco-efficiency entails constant improvement efforts to reduce material and energy intensity, dispersion of toxic substances, maximise use of renewable resources, enhance recyclability, extend product durability and boost service intensity for customers. These factors can be integrated through operations committees, process measurements as well as codes of conducts and business plans that ensure the practical internal functioning and internalisation of supply chain requirements. It is a typical low-hanging-fruit for many companies, which indicates that this should be an effortless step to take towards sustainability. The fact that business depend on energy usage and the material availability is dropping due to obsolete natural resources. Eco-efficiency is associated to incremental change within the company, the industry structure and also facing incremental change due to the given intimidation of environmental issues. (McGahan 2004).

2. Design for sustainability: It is the step to spotlight on if the industry is in a movement for radical changes. Therefore companies should hold in research, to keep a finger on the pulse. Investments in innovation are done with a long term perception and for this, companies can establish corporate management sessions and turn towards strategic or industry targets. This step involves relatively larger efforts and changes, human resources and capabilities need to take action even more dynamically and flexible. Acquiring new technological resources can also be a way of enforcing human capabilities to regulate and change more radically. The emerging new technologies that may provide effective, disruptive solutions are

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threatening the foundations of energy and material exhaustive industries. Sources such as renewable energy, environmental technology, sustainable living, organic agriculture etc. all hold the potential to significantly reduce the human footprint on the planet and to make the industrialisation up to date. When apparent that technology is a rapid driver for change, there is a need for the company to relocate R&D towards sustainable solutions in order to become competitive on costs and technology.

3. Differentiate: Differentiation can be done in two ways. Either a company can look for to differentiate operations, becoming eco-efficient, differ on costs and adopt schemes that distinct the construction from others by enhancing transparency. Or companies can improve product by complying with standards of labelling or create their own label. Eco-labelling has the prospective to make environmentally concerned consumers prefer the product above others. In order to become product differentiated, three basic conditions are important; a) customers should be ready to pay more for your eco-friendly product, b) information about the eco-friendliness of your product should be easily available and c) the product should not be easily imitable. Companies must look outwardly in order to compare the degree of differentiation.

4. Expand borders: It involves optimising presentation through proper supply chain management along with product life-cycle assessments. To make this happen, companies must have centre of attention on the life-cycle of products to estimate and review all elements of the process in the making in order to deliberately choose between suppliers. This can be done by mapping inputs and outputs, thereby define company production boundaries (figure 3).

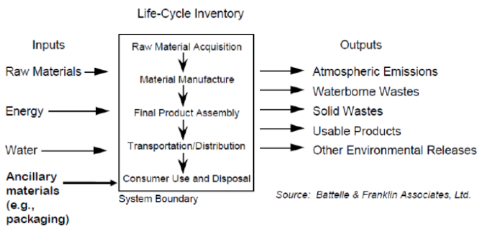

Figure 3: Defining system boundaries

Thus, company action can be to focus towards elements of production that resides outside company borders. Taking on a cradle-to-grave evaluation of products gives insight into how products are inclined by consumers and potentially serves new possibility for recycling, reuse or material substitution.

5. Join forces: Joining forces entails that companies in the same industry share knowledge and join in to develop the technologies or remedies to environmental issues. It entails internal knowledge on environmental issues shared with competing companies or researchers. This step does not mean that external forces are internalised. The internal resource can potentially develop radically by knowledge sharing with outside parties. What has been difficult for companies is the fact that an increasing share of avant-garde information of significance resides outside the company. If it demands for radical changes then radical innovations are required and thus partnerships of industry forces is required to react to or prevent environmental threats. With platforms such as Inno Centive (a marketplace for innovation seekers and innovation solvers) information among companies can be shared swiftly.

6. Integrate stakeholders: When integrating stakeholders into company it entails cooperating with certain groups in society in order to acquire information about product expectations. This implies user-based innovations and focusing R&D practices externally. This is related to the amalgamation of civil society groups that helps evaluating environmental and social nature of company. In this approach company competencies and knowledge are developed in harmony with its stakeholders activity is more probable to generate value. In relative to transparency, many companies can anticipate social and environmental stakeholder stress by integrating them into company processes.

7. Ensure transparency: With this step companies utilize codes of conduct, measure and audit internal processes and guarantee environmental targets throughout the supply chain. Companies must accept deliberate schemes. This method of ensuring can need that companies meet principles of technological resources and thus increase awareness on these through growth of human resources. By making this, company environment can more clearly guess the company resources and appraise these on a sustainability matter.

8. Avoid environmental risk: Environmental risk evasion requires the company to audit and integrate risk management systems to form a group. To support this, competencies to control the landscape of information on environmental stances and groups actions become vital. The information is to be integrated into decision making. The risk prevention implies a orderly focus on all drivers for revolutionize in the present or future surroundings. The instant drivers of transformation include invasive species, climate change, diseases plant nutrient use, land conversion leading to habit change; but the indirect are socio-political, scientific demographic, technological, economical, cultural and religious. In all these are threats the company's long-term endurance and thus it becomes of critical to predict these risks.

9. Plan for the future: Companies can audit the future levels of ambiguity and come up with different scenarios of strategic plans. With a comprehensible future, traditional strategy tools are appropriate for the strategic planning; an ambiguous future would demands a more systematic approach, analogies and pattern identification. To combine environmental elements with company vision and strategic planning also serve as a guideline for action and behaviour. It can generate a path for both corporate strategy, resource development and acquisition. In selecting between which environmental issues to address, companies should look at the opportunities for intersection between company and environment.

10. Race to be first: In this step companies focus on internal optimisation and rearrangements for the future competitiveness. While racing, it is improvement and market creation that is of primary focus. It creates a leadership role that shapes how the industry operates. A potential action to pursue is to attempt to change the rules of the game. If succeeded, competitors will effort to regain competitiveness. An additional possible action is to lobby for regulations that would support the product or technology developed, inherent in this approach is re-thinking markets and customer desires, but also a reformation of thinking about what the company resources actually are.

CONCLUSION

Privately held companies are progressively looked upon to save the natural environment, through a small amount negative environmental impact as of company operations. Current global issue show an augmented consumption and an ongoing depletion of the Earth's resources, renewable as well as non-renewable. Concurrently, companies are facing a raise in global business trends, which forces companies to do business in newer, faster and more transparent customs in order to stay competitive. Leading theorists and practitioners argue that recovery of the environment positively contributes to a company's profitability, if the company addresses it with the sustainability notion. Generally companies acknowledge the importance of environmental concern and recognise the concept of sustainability. Though, a BCG study shows that the current general insight of sustainability is mistaken and outdated due to a lack of information on implied business opportunities, a mislaid relevant strategic structure and an indeterminate business case.

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