

# Business Sustainability: Exploring the Meaning and Significance

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## Abstract

*The positive impact of recent economic growth has been observed in many countries and consequently it has lifted millions out of poverty and improved standard of living for the middle-class. However, there has been some costs associated with this development. Social inequality and youth employment have worsened, women are still paid less wages for equal work as compared to men, and the environment has deteriorated in a variety of ways. This indicates that the progress being achieved is not the progress desired; maybe there are flaws in the process of development and hence arises the need for discussing sustainable development. Business organizations are considered as a significant stakeholder with a potential to contribute to sustainable development. In this background, the present paper focuses on the concept of business sustainability and challenges for implementing the business case for sustainability. It is observed that majority of the business organizations do not have much details on how their organizations plan to adopt a sustainable business strategy- apart from investing in Corporate Social Responsibility (CSR) activities. It is suggested that more collaboration among business, government and academia, and a systematic change for facilitating business to achieve sustainable development through political will, public intention, and most importantly- the top management commitment are primarily needed.*

## Introduction

According to the World Bank report (2013)<sup>1</sup>, the number of people living on less than US\$ 1.25 per day has decreased considerably in the past 30 years from 50 per cent to 21 per cent in the developing world, despite a 59 per cent increase in population. Although economic growth has lifted millions out of poverty and improved standard of living for the middle-class, there has been a cost associated with this development. For example, the number of natural disasters in the world has doubled since 1980<sup>2</sup>. Social inequality and youth employment have worsened, median real wages have been stagnant in

developed countries since 1989 and women are still paid less for equal work as compared to men.<sup>3</sup> This is some indication that the progress being achieved is not the progress desired; maybe there are flaws in the process of development and hence arises the need for discussing sustainable development.

Today, economies across the world are grappling with unprecedented challenges traversing social, economic and environmental dimensions of sustainability including climate change, natural disasters, loss of biodiversity, hunger and malnourishment, economic inequity, social insecurity and so on. The United Nations General

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<sup>1</sup><http://www.worldbank.org/en/news/press-release/2013/04/17/remarkable-declines-in-global-poverty-but-major-challenges-remain>

<sup>2</sup><http://www.teebweb.org>

<sup>3</sup><http://report.businesscommission.org/>

Assembly adopted the Sustainable Development Goals (SDGs)<sup>4</sup> on September 25, 2015 that unleashed a new agenda to end poverty, ensure world prosperity and protect the planet by 2030. Under these 17 goals, 169 specific targets demonstrate the scale of this universal agenda that seeks to achieve a balance between the economic, social and environmental aspects of sustainable development.

Business organizations, particularly the large organized corporate sector, is considered as a significant stakeholder with a potential to contribute to the SDG; given the resources at their disposal, their sphere of influence, and business opportunities associated with sustainable development. A recent report by the Business and Sustainable Development Commission published in 2017<sup>5</sup> has indicated that a focus on only four aspects under the SDGs- namely health and well being, food and agriculture, cities and energy and materials- can open market opportunities worth US\$12 trillion. However, it requires business organizations to integrate sensitivity to the dimensions of sustainability in their decision-making models. There are organizations already working towards this integration and acknowledging through their products and services, processes and practices that a healthy society and environment are necessary for creating a market. But the transition is challenging and critically dependent on factors like leadership, managerial perceptions, customer expectations, government support, regulatory frameworks in action, etc. in the organizations that challenge the status quo. However, the lexicon of sustainability is slowly

entering boardroom discussions, stakeholder meetings and annual reports. The next sections give an overview of the concept of business sustainability, business case for sustainability, challenges for implementing the business case and overall observation.

### **The Concept of Business Sustainability**

Business sustainability can be explained as the process of managing an organization by considering three different aspects, viz. economic, social and environmental. It may also be referred to as the triple bottom line approach.

In 1999, the United Nations Secretary General Kofi Annan announced the world's largest corporate sustainability initiative known as the UN Global Compact<sup>6</sup> to encourage businesses world-wide to 'align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals.' It is a voluntary initiative working primarily based on CEO commitments. In 2007, the UN Global Compact launched the Principles of Responsible Management Education (PRME). These are a set of six principles to be adopted by management institutions for educating and training managers with sensitivity to social and environmental challenges along with an understanding of economic issues. This initiative was a result of the criticism of existing management programmes that created managers devoid of the ethos of sustainability.

Although over the past two decades, awareness about sustainable development in business organizations has increased, there are doubts and

<sup>4</sup><http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

<sup>5</sup><http://report.businesscommission.org/>

<sup>6</sup><https://www.unglobalcompact.org/what-is-gc>

ambiguities about how to achieve it. Hart and Milstein (2003) proposed a sustainable value creation framework based on a notion that business can create shareholder value by addressing sustainability challenges. They discussed four dimensions of a sustainable business strategy, i.e. preventing pollution, product stewardship, clean technology and base of the pyramid. They also opined that such opportunities may be the most 'under-appreciated areas' of profitable growth in the future. Closely related to this, an idea was discussed called 'Strategic Corporate Social Responsibility' by Porter and Kramer (2006) and later, by the name of 'Creating Shared Value' in 2011 in articles published in the *Harvard Business Review*. The authors discussed a variety of examples of conceptualizing new products and markets, revisiting value chains, and focusing on community development to create economic and social value simultaneously. But the concept of creating shared value is like old wine in new bottle and similar to concepts like stakeholder management, strategic CSR or social innovation in the existing literature. Some other researchers have also advocated the idea of meeting profitability goals by addressing sustainability strategies (Larson, Teisberg & Johnson, 2000; Lubin & Esty, 2010). This is popularly known as 'the business case for sustainability', explained in the next section.

### **Business Case for Sustainability**

Various studies have been conducted to explore the sustainability practices and strategies of companies, and the relationship between such strategies and financial performance indicators (Davis, 1991; Elkington, 1994; McWilliams & Siegal, 2000; Mill, 2006; Hess & Warren, 2008; Porter & Kramer, 2011; Gupta, 2017). But the evidence is mixed. In many cases, the subject of investigation has been

restricted to CSR or philanthropy to be precise, rather than sustainability.

It must be emphasized that the concept of business sustainability is based on long-term thinking, not a short-term perspective. Thus, any data used to reflect the relationship between sustainability and financial performance may not reveal any significant insights. This is not only about appreciating the need for social or environmental consciousness, it is about paradigm shift in the mindsets of managers. Three important areas where the potential of business sustainability can be explored are: a) resource optimization through 'recycle, re-use and reduce' strategies in business processes and supply chains, b) protecting brand value through stakeholder engagement and support including fulfilling regulatory requirements and c) selling to a niche market of green consumers ready to buy products and services at a premium.

The most prominent example given time and again about brand value in the Indian context is- the Tata Enterprises and the way they have created better lives for their employees as well as the society. There is a general acknowledgment among stakeholders about the focus of Tatas on sustainability that has improved their business reputation. This is more critical in the contemporary times of social media marketing, where one bad move can mar the reputation of a company, and even a slight decrease in brand value can be very costly. Thus, the link between sustainability, reputation and trust is that a sustainable business garners reputation because stakeholders trust in the present and future vision of such a business. But these linkages are still ambiguous and more research can bring out specific information on how sustainability enhances reputation.

As far as market opportunities are concerned, the

corporate sector is gradually accepting the fact that it is not through philanthropy or charity but through activities integrated to its core competencies that the businesses can make a significant impact. However, such competencies ensure economic prosperity be decoupled from environmental and social detriments and there should exist an organization-wide commitment for sustainable development. This is also somewhat like the idea propounded by Adam Smith (1776) when he wrote in 'The Wealth of Nations', 'It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest'.

Another motive underlying the business case for sustainability could be regulatory requirements and sometimes, sustainability may not be an option for the business but a compulsion because of market competition. The recent Business Responsibility Reporting (BRR)<sup>7</sup> framework that makes it compulsory for top 100 companies in India to publish BR reports is one example in this regard. However, all of this is easier said than done. To implement the business case for sustainability, there are some very important challenges like whether business organizations accept the business case for sustainability, whether the managers are trained for implementing the business case, whether the top management is committed to the case, etc. These challenges have been discussed below in more detail.

## **Challenges for Implementation of Business Case**

### *Building Partnerships for Systematic Change*

The business community and its intentions are always viewed with skepticism. But we must look at the holistic picture to draw any inference because business organizations do not operate in isolation.

They operate in an environmental context amid a variety of stakeholders; just like they affect stakeholders, they are also affected by them.

Thus, building partnerships between different stakeholders like the government, industry and civil society for a systematic change is extremely important. Sustainable businesses require healthy ecosystems that support their strategies; only then the money spent in this direction can be looked as an investment and not as a loss. Sometimes, laws are manipulated by politicians to impose penalties on business houses. Another issue with business houses is that potential customers indicate an intention to purchase an environment-friendly product for a premium in a market research survey, but do not buy it<sup>8</sup> once it is launched.

### *Education and Training of Managers*

To implement sustainability, there is also a critical need for well-trained and educated managerial workforce to implement sustainable business strategies. The current managerial workforce is not well equipped to understand the nitty-gritties of business sustainability. There is lack of technical knowledge as well as psychological resistance. Incorporating such training in existing management programmes is slowly catching up at a global level. There is no doubt that if the existing programmes are harnessed to make an impact in business organizations, the outcome could be significant considering the number of graduates completing these programmes every year. But transition from conventional to management education for sustainable development is extremely challenging as it requires a combination of experts from different domains of knowledge, and a

<sup>7</sup>[https://www.sebi.gov.in/legal/circulars/nov-2015/format-for-business-responsibility-report-brr-\\_30954.html](https://www.sebi.gov.in/legal/circulars/nov-2015/format-for-business-responsibility-report-brr-_30954.html)

<sup>8</sup>Popularly known as value-action gap in green consumer behaviour

facilitating environment for inter-disciplinary collaboration and feedback. The objective of a manager as taught in most of the Business Administration programs is to look at profit maximisation or more recently, at wealth maximisation. The concepts and principles of sustainability have been introduced mostly in the last decade and that too in the form of standalone courses rather than through holistic integration in different courses.

### *Top Management Commitment*

Top management commitment is, in fact, the most important enabler for formulation and execution of sustainable business strategies. If top bosses of the company do not have a genuine intention to look at sustainability integration, the middle and lower levels of management cannot do much. They can make plans, but those plans must be in line with the overall strategy of the company- which is the domain of top management. For this, business leaders have to be convinced with the business case for sustainability. They must set such a vision for the organization, define goals that are measurable and chalk out guidelines that are precise for lower levels of management to commit to sustainability initiatives. The biggest challenge is the ambiguity in the concept of sustainability and the long-term time frame associated with the results of a sustainable strategy. Thus, the business world needs leaders with a holistic worldview and a tolerance for ambiguity to be able to drive transformational change. Further, more involved the leaders are with sustainability initiatives; stronger will be their belief about the impact of these initiatives.

### **Indian Experience**

Sustainability reporting in India is still at a nascent stage. However, in last few years, the economy has been showing positive signs in embracing the concept of business sustainability. It has been observed that strengthening of reputation, brand and ethical considerations prompt companies to adopt the concept. However, sustainability has still not been integrated into the mainstream business strategy and operations in India<sup>9</sup>.

In India, most of the companies use Global Reporting Initiative (GRI) guidelines to prepare the sustainability reports and very few communicate the key priorities to the stakeholders and use feedback from stakeholders to define the report content. Additionally, extremely low use of risk assessment frameworks and sustainability strategy to select the report content show that sustainability issues have very poor linkage with the business strategy of the companies. Many Indian companies have started reporting their sustainability performance; however, they have not channeled their efforts under a well-defined sustainability strategy and SMART (i.e., Specific, Measurable, Achievable, Realistic and Time-bound) targets.<sup>10</sup>

Despite all such flaws, there is evidence that Indian companies are concerned about sustainability issues and big companies have clearly linked the sustainability and risk management issues of their businesses. However, there is a long way to go before sustainability is entirely integrated in businesses in India and in many cases, it is still at an experimental level. We can expect significant progress in the indicator in the coming years.

<sup>9</sup>[http://www.iodonline.com/Articles/Arvind%20Sharma%20%20Sustainability%20Reporting%20Trends%20in%20India\\_KPM G.pdf](http://www.iodonline.com/Articles/Arvind%20Sharma%20%20Sustainability%20Reporting%20Trends%20in%20India_KPM G.pdf)

<sup>10</sup>[http://www.iodonline.com/Articles/Arvind%20Sharma%20%20Sustainability%20Reporting%20Trends%20in%20India\\_KPM G.pdf](http://www.iodonline.com/Articles/Arvind%20Sharma%20%20Sustainability%20Reporting%20Trends%20in%20India_KPM G.pdf)

## Overall Observation

To put it all together, although the awareness about business sustainability has increased among stakeholders, yet majority of the business organizations do not have much details on how their organizations plan to adopt a sustainable business strategy- apart from investing in CSR activities, particularly of philanthropic nature in the 'education' or 'health' sector. Despite logic in the business case for sustainability, it will take a while for business leaders to shift from a short-term focus to a long-term perspective.

However, improved awareness is certainly good news because the business world cannot undergo a major transformation overnight. Apart from breakthrough innovations, even incremental steps are positive signs of change. This calls for greater faith of government and civil society in the intentions of business, integration of sustainability ethos in management education and training, thus bidding farewell to short term financial performance indicators. Far more collaboration among business, government and academia and a systematic change for facilitating business to achieve sustainable development through political will, public intention and most importantly the commitment of top management are the need of the hour.

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