

Vital facets of business sustainability

The drive can also be used to improve competitiveness in three ways: through innovation, strategy, and trust-building

By LIEVEN DEMEESTER

IT IS virtually impossible today for company executives not to be faced with questions of sustainability in their businesses. Governments everywhere are introducing new laws that restrict emissions, create responsibility for end-of-life products or offer incentives for resource conservation.

Crucially, executives also receive pressure for sustainability from a wide range of stakeholders. Consumers are checking the green credentials of products; corporate customers are requesting in-depth environmental audits; talented young professionals read sustainability reports to evaluate potential employers; and reporters, non-governmental organisations and investment analysts make inquiries into the company's environmental impact.

Even in Asia these pressures are growing. The proactive actions of the Chinese government show that even in developing economies, governments and their citizens seek to balance economic growth with eco-system protection in order to enjoy high living standards.

The question for executives is whether this is just a temporary fad and, if not, how it might impact their business. Given the speed of development in emerging economies, projections of population growth and well-documented degradation of eco-systems, it seems unlikely that these issues will go away anytime soon.

How then can businesses cope and thrive in this environment? In the end, because pollution and emissions begin at the operational level, the changes will need to occur in the design of products, processes and supply chains, because that is where pollution and emissions originate. This is clearly reflected in the many practices that are emerging, such as design for environment, green sourcing, green chemistry, green supply chains, green buildings, remanufacturing, recycling and many others.

I would argue though that it is also useful to view the drive towards sustainability as a broader opportunity to improve competitiveness in three ways: through innovation, strategy and trust-building.

Most companies struggle with innovation. Identifying good ideas is difficult in itself, but the bigger challenge often is finding the organisational energy to test out new ideas and to bring them to fruition.

It turns out that sustainability can provide a platform for both. When Herman Miller, a maker of high-end office furniture, started looking for



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ways to reduce its environmental impact, its engineers discovered that products designed for easy disassembly and recycling are also easier to assemble and thus cost less to manufacture.

Could Herman Miller have implemented these cost-saving designs if they had not pursued sustainability? Perhaps, but in example after example, one finds that companies that pursue sustainability stumble on ideas that are new to them and tap into a new energy in their organisations to effect change.

To connect to this stream of innovation, companies link up with outside experts in sustainability and find ways to insert sustainability into their existing programmes for improvement and change.

Sustainability can also be a source of new strategies. Clearly, some markets have seen the emergence of sizeable segments of green consumers, who prefer green products and are sometimes willing to pay a premium

for them. The same is true in many business-to-business markets. What is more interesting are the potential changes in supply chain and industry structure that might result from a need for sustainability.

If producers become responsible for their end-of-life products, what opportunities are there to develop stronger relationships with customers? How will manufacturers reorganise their supply chains if they can collaborate with local recycling companies to source components made of plastic, aluminium or steel?

How will supplier relationships change if product stewardship becomes a requirement to do business? Most of these questions are still unanswered because companies have not yet figured out how the new business models will work and what investment paths will lead there.

What executives can do now is to incorporate emerging models for sustainability into their strategic analysis and planning processes.

For example, when the Coca-Cola Company invested US\$60 million in a bottle-to-bottle recycling plant, they not only reduced the impact of their products on the environment, but they also acquired an alternative, less price-volatile source of raw materials for bottles.

The final lens by which executives can view the sustainability opportunity is trust. Ray Anderson, founder and chairman of carpet manufacturer Interface Inc and one of the pioneers of sustainable business, has said it well: "There is no amount of slick advertising, at any cost, that we could have done that would have created the goodwill that this effort (for sustainability) has created. You are talking about authenticity at its very, very best."

In economic relationships, not everything can be spelled out in contracts. Also, the regulations that govern the interaction between business and society are never perfect and are usually late. That is why companies

that seek to maintain the trust of their customers, their employees, their regulators and the society they are part of, go beyond compliance.

They empathise with their stakeholders and establish strategies and processes that deal openly and proactively with valid concerns. In a society where information is ubiquitous and social networks are embedded everywhere, it is hard to imagine any company operating differently in the future.

Managing sustainability, therefore, is an opportunity for executives to set up these new open systems for interacting with key stakeholders in order to secure their trust, and their continued support.

A final observation regards the steps that individual companies are taking to leverage sustainability in their business. It is clear that one size does not fit all. That is one of the important messages in the area of operations strategy and it is no different when sustainability is concerned.

Walmart, for example, the large US retailer, knows that the green consumer segment is still small among their customers, and so the major focus of their sustainability efforts is on waste reduction and cost savings.

For each company, the set of opportunities to leverage innovation, invest strategically and build trust with stakeholders in the area of sustainability will be unique. Companies that ignore these opportunities are likely to miss out.

The writer is assistant professor of operations management practice at Singapore Management University and teaches a course on sustainable operations. This article is a lead-up to a joint conference organised by the SMU Lee Kong Chian School of Business on the theme 'Building Capabilities for Sustainable Business: Balancing Corporate Success and Social Good' from July 21-23