

Michael Townsend



Sustainability in business needs to go way beyond the current approaches of corporate responsibility, reporting, reputation management and eco-efficiency. This is not just a purist point; this is all about business model risk and the ability to make and continue to sustain long-term profitability. Is it time to hand in our old business models and develop more inherently sustainable ways of making money?

Many companies have started to realise significant benefits associated with becoming more green or sustainable. Eco-efficiency initiatives, in particular, appear to provide an invaluable route to operational cost reduction and bottom line improvement, as well as improving sustainability impacts and credentials. As we have seen on the Global Research Project, companies can already achieve up to 40% reduction in carbon emissions and energy cost savings. Some businesses have also improved their top line by integrating sustainability principles into their goods and services.

But will eco-efficiency and strategic positioning be sufficient to take us to a sustainable and low-carbon world? There are good arguments to suggest not, particularly from advocates of circular economy and cradle-to-cradle approaches. Eco-efficiency on its own, they would suggest, is about being less bad; incremental improvements are possible and may be good in delivering quick wins and building confidence, but where do you go next? How do you become sustainable in absolute terms? It is also possible for companies to be doing the wrong thing very well, yet still diminishing the triple bottom line, the five capitals: still unsustainable.

There are examples that display the disparity between embracing aspects of sustainability, yet still

Some risks can be tamed, others require the business model to be re-evaluated



Businesses configured on a take-make-waste model appear doomed

not delivering truly sustainability outcomes. The major bank that has Business in the Community platinum status, yet allegedly makes £340M profit on food price speculation; an activity that drives up food prices and spreading poverty. Companies also need to be eco-effective, but looking they also need to be effective in all dimensions of sustainability in business; they need to be effective in doing the right thing. But what is that, and who is to judge what the right thing is anyway?

To address this issue, we need to explore the question, 'what is the purpose of business?'. Conventional thinking indicates that the aim is to maximise return

to shareholders. As Friedman puts it, business is just about making profits. Sustainability in such cases can appear to be a "bolt-on", not truly integrated into the core of the business.

Ray Anderson, founder and chairman of Interface Inc. shares his profound response here, along the lines of business generates profit to exist; it exists to serve a higher purpose. What is the higher purpose of a bank and how should it make money? The implication being that business is about making money, but it is also about how we make money that is important: the source, quality and legitimacy of our earnings and how long we are able to sustain these for. Are profits generated in a way that does not deplete natural resources and create adverse impacts for the environment, society or people? How many companies think about asking these questions, let alone developing their business rationale, strategy and operations to deliver on the commitment their responses imply?

This lies at the heart of business risk and our ability to generate consistent returns. The business model dynamic is becoming more holistic and accountable. Costs of

key factors that were labelled as externalities need to be considered more carefully. Each aspect has can affect profitability, if the company gets it wrong, which in turn can have a direct impact on attractiveness to shareholders.

Some risks can be tamed by eco-efficiency initiatives, but others have a more profound impact that requires a re-evaluation of the business model. A business configured on a take-make-waste or exploitation model only has so far to go, even if the waste element is reduced incrementally. There comes a point where the business model becomes unsustainable and unprofitable.

The trajectory of the share price is likely to become volatile when attractiveness of product and earnings are in inexorable decline, impacting upon the company and all businesses linked to that model.

Our research shows that companies can take a five-tiered approach to reviewing and re-configuring their business models to deliver sustainable success. More of this next month.

Michael Townsend is founder and CEO of Earthshine Solutions Ltd > earthsbinesolutions.com > globalsustainablebusiness.org

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