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The "Business Case for Sustainability" Concept

A Short Introduction

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SUMMARY

A business case for sustainability intends and realizes economic success *through* (and not just with) an intelligent design of voluntary environmental and social management. A business case for sustainability is different from a conventional economic business case. It can be characterized by three requirements which have to be met. Firstly, the company has to realize a *voluntary or mainly voluntary activity* with the intention to contribute to the solution of societal or environmental problems. These are intended activities for the society or the natural environment which are not just a reaction to legal enforcement and regulations or which would anyhow be expected for economic reasons as part of conventional business behavior. Secondly, the activity must *create a positive business effect* or a positive contribution to the economic success of the company which can be measured or argued for in a convincing way. Such effects can for example include cost savings, the increase of sales or competitiveness, improved profitability, customer retention or reputation. The cause and effect relationship can be direct or indirect, however, must not be speculative but rather based on a sound management argumentation. Thirdly, a clear and convincing argumentation must exist that *a certain management or entrepreneurial activity* has led or will lead to both the intended societal or environmental effect and the economic effect. This argumentation includes an explanation of the link between the voluntary social or environmental activity and the economic and sustainability effect. A business case for sustainability is thus characterized by creating economic success *through* (and not just along with) a certain environmental or social activity. In summary: *A business case for sustainability results from the intelligent design of voluntary or mainly voluntary social and environmental management and creates a positive business effect based on a distinct management or entrepreneurial activity.* The concept of the business case for sustainability guides researchers and practitioners alike to find answers to the crucial question: How can the competitiveness and business success of a company be improved with voluntarily created outstanding environmental and social performance?

KEYWORDS

business case for sustainable development, business case for sustainability, business case of sustainability, enlightened self-interest, win-win situation, triple-win situation, triple bottom line success, corporate sustainability management

1. INTRODUCTION

A business case for sustainability, or what scholars in business ethics often call "enlightened self-interest", is mostly described as a situation where economic success is increased while performing well in social and environmental issues. The importance of creating business cases for sustainability has been discussed for nearly two decades from various perspectives (for an overview see, e.g., Carroll & Shabana, 2010; Schaltegger et al., 2012). One perspective fundamentally asks whether creating business cases is sufficient to achieve corporate sustainability and contribute to sustainable development. Another perspective elaborates on the question whether environmental and social activities and a good performance herein are only a side effect of pure economic rationality. The above given definition is in line with a third perspective that acknowledges the general feasibility and relevance of business cases for sustainability and focuses on the links between voluntary environmental and social management and economic success.

On a general level, the links between social, environmental and economic performance are a highly debated topic, in theory as well as practice. Whereas in the beginning most of this debate was about whether a positive link or a business case exists at all, or not, current research has shifted towards the question what kind of links between voluntary corporate sustainability management and business success exist (for overviews see Salzmann et al., 2005; Schaltegger & Wagner, 2006). One conclusion is that some kind of an automatic relationship between voluntary social and environmental management and economic success does not exist. However, theoretical and empirical research indicates that most companies have the potential for one or several business cases for sustainability. Various models have been proposed to analyze these links theoretically and empirically, whereas earlier work mostly assumed that the optimum level of environmental or social performance for a business firm may be just to achieve compliance with legal regulations. This *minimalist view* is based on the assumption that firms in general face a trade-off between (better) environmental or social performance on the one hand and (worse) economic performance or competitiveness on the other (Hemphill, 1997). While reactionary people maintain that any kind of voluntary activity outside the narrower focus of economic measures will hamper profit, observers of business reality with openness to a more *progressive view* will find numerous examples of business supporting and profit increasing social and environmental measures (Schaltegger & Wagner, 2006). These relationships are also debated within the related field of Corporate Social Responsibility (CSR) (Carroll & Shabana, 2010). Carroll and Shabana argue that from the beginning CSR had to legitimate itself through (long-term) contributions to business success (enlightened self-interest), i.e., through a business case. However, the broad spectrum of CSR also includes purely socially oriented activities of corporate philanthropy. But as long as no justification in terms of business success is required (see second definitional element above), these are not covered by the business case for sustainability concept. However, even philanthropic activities are often connected to questions of creating competitive advantage (Porter & Kramer, 2008).

2. THE BUSINESS CASE FOR SUSTAINABILITY AND ECONOMIC SUCCESS

Most of the more recent research on these issues emphasizes the possibility of win-win or even triple-win potentials. Of course, examples can be found for both negative as well as positive effects: end-of-pipe measures causing additional costs and reducing profitability as an example for cost-increasing measures on the one hand, and the sales success and profitability of green products or social services as examples for profit-increasing measures on the other. The economic return of social or environmental management will vary whether cost-driving or profit-driving activities are chosen. In other words, there is no general answer to the question how it pays to be sustainable. Instead, managing social and environmental engagement in a way that contributes to business and economic success has to be accepted as an entrepreneurial and managerial challenge of which success depends on what kind of measure is chosen. In an article on "The Link between 'Green' and Economic Success" Schaltegger and Synnestvedt (2002) proposed a model to visualize and analyze the overall relationships between environmental performance and economic success. This model can be used to illustrate the general challenge of linking social or environmental performance with economic success and which helps in understanding the concept of business cases for sustainability (Figure 1).

The line ES_0-E-F-D in Figure 1 illustrates a case in which primarily *cost-increasing* voluntary sustainability activities are chosen: A company that already complies with regulations and achieves the economic success level ES_0 will experience decreasing economic performance while increasing its voluntary social or environmental performance (moving to the right along the x-axis towards point D). In the extreme case, below point D at ESP_0, the company might even become unprofitable. This view can be assigned to the *minimalist view* mentioned above that emphasizes trade-offs between sustainability and economic performance. On the contrary, positive economic contributions can be expected if primarily *profit-increasing* activities are realized: Line ES_0-A-B can be assigned to the expectations of the *progressive view.* In a certain range, in Figure 1 until point B at ESP_1, increasing voluntary sustainability engagement contributes positively to economic success. It is important to recognize that neither every measure nor an arbitrary activity level contributes to economic success per se. To contribute to the economic success of the company the social and environmental activities have to be designed accordingly. The "economically optimal" business case for sustainability may be achieved at point A and ES* and ESP*. After this point the economic performance might decrease while the environmental and social performance is expanded towards point C. This relationship can be interpreted as rising marginal costs for sustainability measures after the "low hanging fruits" have been picked. Beyond this point, any additional measure leads to net marginal costs. A "socially or environmentally optimal" business case would be just slightly above point at ES_0 and ESP_1. However, even if the highly profitable measures can be identified and realized, the economic performance will at some point have its culmination (point A in Figure 1) and decline since no company has unlimited profit-increasing voluntary social or environmental activities with a given business model. As a difference to social businesses in general, it is not the goal of a business case for sustainability to solve any social problem, but to contribute to solving which relate to the core business of the company, and in doing so to strengthen the economic performance at the same time. This may – but does not have to – lead to the development of a new business, business unit or even company. It can also remain an integrative element of the transformed original core business. In this context, the model in Figure 1 allows for different conclusions. Realizing a business case for sustainability is an entrepreneurial and managerial challenge as it requires finding the "right" measures in line with a firm's core business. It might even lead to the conclusion that the core business, target markets or the business model of a firm have to be re-defined in order to purposefully change the nature of the relationship between voluntary social and environmental management and economic performance, i.e., to change the slope of the functions as indicated in Figure 1.

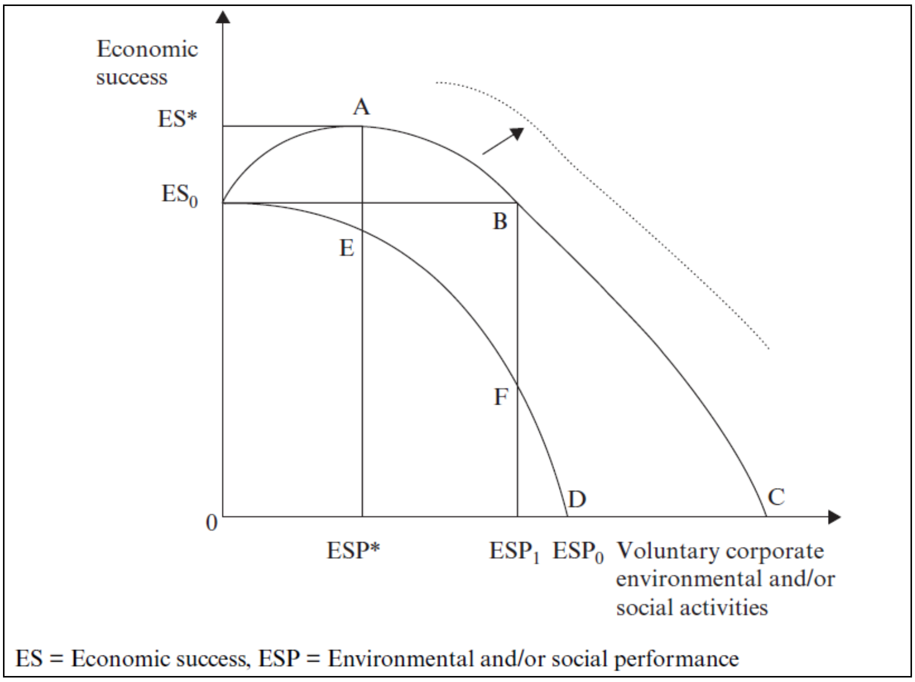

Figure 1: Potential relations between corporate environmental and/or social performance and economic success

3. DRIVERS OF BUSINESS CASES FOR SUSTAINABILITY

The core question for the management of business cases for sustainability is thus how profit increasing social and environmental activities, rather than cost increasing measures, can be identified and realized. This is where identifying and unfolding the potential for a business case links in with tasks such as sustainability accounting and measurement, strategic sustainability management or sustainable business model innovation. The potential of profit-increasing measures is often not recognized, even by well-informed corporate professionals, because of distorted accounting and management information systems and other organizational rigidities such as a lack of integration with strategy formulation and, related to this, lock-in effects of established strategies and business models which set limits to changing business behavior. From these insights follows that a business case for sustainability has to be actively created and managed – it does not just happen. This requires detailed knowledge about the drivers of profit-increasing and cost-reducing measures in order to strengthen the relationship that is described by line ES_0-A-B in Figure 1. The drivers of a business case for sustainability directly and indirectly influence economic success (e.g. Schaltegger, 2011). These drivers are similar to the variables that influence a conventional business case, whereas the relationships between voluntary social and environmental management and economic success are often different from conventional economic cause-and-effect chains, and so is the kind of influence a social or environmental activity has on the economic drivers (an aspect that is explicitly recognized by the Sustainability Balanced Scorecard concept). Looking closer at potential business case drivers reveals a wide range from direct to indirect influences on business success and economic performance.

Table 1: Core drivers for the business case for sustainability

Core business case drivers
Costs and cost reduction
Risk and risk reduction
Sales and profit margin
Reputation and brand value
Attractiveness as employer
Innovative capabilities

The most direct link may be through *costs*. The role of costs and cost reduction is often addressed as a driver with regard to energy savings, the reduction of material flows or cleaner production approaches. Another commonly mentioned driver which is related to contingencies, potential and actual costs, is the reduction of technical, political, societal and market *risks.* Opportunity-oriented drivers of business cases for sustainability are addressed when *sales and profit margins* or the company´s *reputation and brand value* are increased. Moreover, other drivers such as market accessibility can play an important role depending on the circumstances and the company´s market strategy. Besides these drivers with a rather direct economic impact, some rather indirect effects are possible. One is the *attractiveness as an employer* which can be driven through recruiting and selection, induction and development programs. Another is the *capability to innovate* which sustainability can improve because thinking in multiple dimensions is encouraged and more diverse knowledge sources – e.g. from stakeholders – are sought. These core drivers of a business case for sustainability are presented in Table 1. Current empirical research confirms these six main drivers (similar to Schaltegger et al., 2012; see also Hansen, 2010; Revell & Blackburn, 2007).

An important issue which is often neglected when assessing the effect of environmental and social activities on business success or economic performance is that their path of influence, i.e., their cause-and-effect links, can be quite indirect, involving non-market links and actors such as political initiatives and NGOs. In addition, these relationships can be stochastic which makes their management even more difficult. In consequence, creating and managing a business case for sustainability is a real management challenge which at the same time offers business opportunities and the potential to contribute to sustainable development. However, this requires purposeful sustainable entrepreneurship and corporate sustainability management.

4. KEY CHALLENGES

The key issue of identifying, creating and managing business cases for sustainability is about integrating the three dimensions of sustainability with market-oriented business activities, both on the level of corporate visions and strategies as well as operational management. Adding to the relationships between social or environmental performance and economic success shown in Figure 1, the so called “sustainability triangle” helps in understanding that the business case for sustainability is embedded within the wider notion of *corporate sustainability*. Corporate sustainability can be viewed as the result of management attempts to tackle challenges posed by the need for corporations to move towards the goal of sustainability (Schaltegger & Burritt, 2005). Purposefully creating and managing business cases is one such attempt. But it also faces limitations as can be seen in Figure 1 above: Movements along the x-axis towards the right cannot go beyond levels which run counter to the idea of a *business* case, i.e., even if a firm still has the potential to expand its social or environmental performance (i.e., there is still “something to be done”), entrepreneurs and managers might refrain from doing so. In consequence, it might happen that firms realize *relative improvements* (in terms of increased social and environmental performance per unit of economic profit) but do not achieve *absolute improvements,* or that they achieve *incremental* but not *radical improvements*. Absolute and in many cases also radical improvements, however, are vital to contribute to a sustainable development of the natural environment and society. Hence, different scholars emphasize the need to go beyond mere efficiency gains and include effectiveness criteria and principles of justice in their definitions of corporate sustainability; some even distinguish further cases such as “the natural case for corporate sustainability” or “the societal case for corporate sustainability (Dyllick & Hockerts, 2002).

Whichever definition of corporate sustainability is applied, *information* is key to support decision making. Identifying, creating and managing business cases for sustainability leads to information needs which are not met by conventional information management systems. Firstly, sustainability-related decision situations and information needs have to be identified. Secondly, according sustainability accounting and reporting frameworks are required to allow for an integrative information management. The heuristic of a sustainability triangle helps structuring the information needs for managing corporate sustainability and business cases for sustainability. It can be applied in order to identify and refine the drivers shown in Table 1 and relate them to business success and economic performance and analyze their effects according to the model proposed in Figure 1.

The *sustainability triangle* combines the three dimensions of sustainability, social, environmental and economic sustainability, as well as their interrelationships, and distinguishes between different kinds of effectiveness and efficiency as goals to be achieved. *Effectiveness,* measured in absolute terms, is the goal whenever management strives for the improvement of a single dimension (e.g., tons of waste avoided, additional income in poor regions). Whereas *efficiency,* measured in relative terms, describes the relation between different dimensions, e.g., socio-efficiency for the relation between the social and the economic dimension (e.g., additional income in poor regions per unit of additional turnover). The relation between the ecological and social dimensions refers to the question if a firm's business activities contribute to an equitable distribution of access to and benefits from the natural environment among different societal groups. The overall challenge for sustainable entrepreneurs and corporate sustainability managers that can be derived from the sustainability triangle is the so called *integration challenge* with its two facets: firstly, the contextual challenge which requires the simultaneous handling of social, ecological and economic issues and their synchronization with business goals, both in terms of effectiveness and efficiency; and secondly, the methodological challenge which is about the operational integration of social and environmental management into conventional economically-oriented business management. Each sustainability challenge, social, ecological or economical, with regard to considerations of efficiency, effectiveness and justice, requires a thorough analysis of potential drivers and their contributions to corporate sustainability and the business case for sustainability.

5. FUTURE ISSUES RELATED TO THE BUSINESS CASE FOR SUSTAINABILITY

The business case for sustainability is a widely discussed concept of corporate sustainability management as it directly touches upon two fundamental questions of business ethics: What is the purpose of business? And: What is the responsibility of business? Acknowledging that companies are economic entities set up for the purpose of creating value, not only purely economic value of course, and acknowledging that companies have to act responsibly with regard to society and the natural environment, modern entrepreneurs and managers have to focus on the crucial question behind the concept of the business case for sustainability: How can the competitiveness and business success of a company be improved with voluntarily created outstanding environmental and social performance? Today, theoretical work provides sufficiently developed frameworks to guide empirical research in order to find answers to this fundamental question – a question that any manager of the 21st century has to ask. Still, empirical answers to this question are rare, both in terms of research and business practice.

Three core topics for research and practice shall be mentioned: sustainability accounting and reporting, sustainable entrepreneurship, and sustainable business model innovation. Theoretically speaking, the common goal of these topics can be described as finding ways to move upwards on the top curve as shown in Figure 1, to change the function's slope, i.e., to move it further up and to the right to allow for better integrated and farther-reaching business cases for sustainability.

To this day, conventional accounting and reporting systems neglect issues of corporate sustainability and provide distorted information as a basis for decision-making (Burritt & Schaltegger, 2010). But identifying, creating and managing business cases for sustainability effectively requires corrections to conventional accounting and reporting systems. While *sustainability accounting and reporting* have made progress in theory, industry studies show that companies are only beginning to implement such systems (methodological integration) and their philosophical basis (contextual integration) (e.g., Ernst & Young, 2012). Besides mastering these integration challenges, the scale of firms' social and environmental performance determines their contributions to sustainable development. Figure 1 and Table 1 illustrate that business cases for sustainability can be of different qualities: they can be socially and/or environmentally-oriented, they can address efficiency and/or effectiveness, contribute to justice, can have far-reaching or rather limited effects, and can be based on different drivers. But the quality of a business case for sustainability will also depend on whether it is addressed as an entrepreneurial or managerial challenge, as a core business issue or as part of differently motivated approaches such as Corporate Social Responsibility (CSR). Therefore, scholars differentiate different types of *sustainable entrepreneurship* based on the scale of positive effects on market and society and the priority given to social and environmental issues as business goals (Schaltegger & Wagner, 2010). In this perspective, social entrepreneurs, “bioneers” or “ecopreneurs” will create different kinds of business cases. A rather new field of research on corporate sustainability management deals with the role of *sustainable business model innovation* that can be directly related to sustainable entrepreneurs and their innovation activities (Boons & Lüdeke-Freund, 2012). The business model concept is based on a firm’s resources and infrastructure, its customer segments and the according value propositions, as well as a financial model. The quality of a business case for sustainability will also depend on the degree to which these business model elements deviate from conventional models and are better suited to support, e.g., the marketing of environmental technologies, social enterprises or completely new organizational forms. As there is no general answer to question whether business cases for sustainability can be realized within a given business model, or whether new businesses, business units or even companies are required, managing business models is an important aspect of creating and managing business cases for sustainability.

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