

Sustainable Business Model: A Theoretical Framework for Manufacturing Firms

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ABSTRACT: Corporate world is following the trend of incorporating sustainability in their business models, as customers are more aware and show concern for the environmental impact of the products. This paper describes the theoretical framework for the Sustainable Business Model for manufacturing firms. This model is developed based on the Triple bottom of competitive and sustainable manufacturing, economic, social and environmental aspects.

KEY WORDS: Sustainability; Sustainable Business; Business case for sustainability; SBM, Sustainable business model; Sustainability business Model

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I INTRODUCTION

Sustainability is the business issue of the 21st Century. Leading corporations, not only in India, but also around the world, are embracing this concept and its link to economic success and competitive advantage. Even though Sustainability means different things to different people, notwithstanding such divergent thinking, business leaders are realizing that Sustainable Business Models and Sustainable Business Practices can make their companies more competitive in the Emerging Global Economy. (Vasanth and Kennedy, 2013) This paper presents a conceptual model for Manufacturing firms.

II SUSTAINABLE BUSINESS MODEL

Sustainable business model is derived out of business models which have sustainability characteristics. Running a web search on “business model” gives several pages of listings, with those information, a business model can be defined as - A model which describes how a company does business and what its value proposition (benefits or offering to customer), value creation (resources, suppliers and other partners who help create value) and value capture mechanisms (cost structures and revenue streams) are. The definition of a Business Model as written by Joan Magretta is – “the story that explains how an enterprise works”. Tracing back, management Guru Peter Drucker has described it as answer to the questions- Who is your customer? What does the customer value? How do you deliver value at appropriate cost?

Sustainable business models consider a much wider group of stakeholders than just customers. They go beyond creating value for customers and include concerns about the benefits and harms to society and the environment by the way business is done. This is a much more systemic view of doing business than making money by delivering benefits and value to customers. Most of the authors state that Sustainable business model is a model where sustainability concepts shape the driving force of the firm and its decision making. Sustainable business model viewed as an important lever for change to ‘business as usual’ to tackle pressing sustainability issues. (Economic Times, Sept 25, 2014)

It is accepted in most of the literature that, generally, the Business models are based on the neoclassical economic theory (Brenner & Cochrane, 1991; Key, 1999; Stormer, 2003 as cited in Stubbs & Cocklin), according to which the primary obligation of corporations is to maximize profits for shareholders. Typically, social and environmental goals are subordinate to the primary goal of creating economic value (Freeman & Gilbert Jr., 1992 as cited in Stubbs & Cocklin). This view is supported by other studies as well stating, business models inherently limited in its ability to effectively address social and ecological degradation (Shrivastava, 1995 as cited in Stubbs & Cocklin), and, accordingly, some scholars have identified that the move is beyond the “organization as an economic entity” (see, e.g., Doppelt, 2003; Dunphy, Griffiths, & Benn, 2003; Griffiths & Petrick, 2001; Shrivastava, 1995 as cited in Stubbs & Cocklin). Several researches have focused on classifying types of environmental strategies, understanding why organizations “go green,” and understanding the correlation between financial performance and environmental performance (Sharma, 2002). Although there is a substantial body of literature on different frameworks and models of sustainability at a societal level (Robinson,

2004), understanding of sustainable business models and how sustainable development is operationalized in firms is weak (Bansal, 2005; Sharma, 2002). Sharma (2002) highlights that it is important for scholars “to theoretically visualize . . . organizational forms, structures, strategies and outcomes as firms travel on the path to sustainability”.

Benn, Dunphy, and Griffiths (2006) developed an integrated phase model for understanding how organizations make the change toward social and ecological sustainability—how they move from a compliance phase of sustainability to the “ideal” sustaining corporation.

One perspective suggests that for organizations to be sustainable, the neoclassical model must be transformed, rather than supplemented, by social and environmental priorities such as environmental stewardship, respect for persons and nature, and social equity.

With this perspective, this article conceptualizes a new model of the firm where sustainability concepts “play an integral role in shaping the mission or driving force of the firm and its decision making” (Wicks, 1996). A sustainability business model (SBM) could be conceptualized in various ways such as a narrative of sustainability practices; a description of features, attributes, and/or characteristics; a list of necessary and sufficient conditions; a representation of business processes; a firm-level description; a systems-level description; or some combinations of these.

The characteristics of a sustainable business model as described by Stubbs & Coklin study on the conceptualizing a Sustainability Business Model are -

- draws on economic, environmental and social aspects of sustainability in defining an organization’s purpose.
- treats nature as a stakeholder and promotes environmental stewardship. The purpose, vision and/or mission in terms of social, environmental, and economic outcomes are expressed in a sustainable business model (SBM).
- considers the needs of all stakeholders rather than giving priority to shareholders’ expectations.
- Leaders drive the cultural and structural changes necessary to implement Sustainability.
- uses a TBL approach in measuring performance.
- encompasses the systems as well as the firm-level perspective.

Organizations can make significant progress towards achieving sustainability through their own internal capabilities, but ultimately organizations can only be sustainable when the whole system of which they are part is sustainable. Changes to the socioeconomic system, both structural (such as redesigning transportation systems and taxation systems) and cultural (such as attitudes to consumption and, economic growth and wellbeing), are required to facilitate firm-level and system-level sustainability.

III THEORETICAL FRAMEWORK - SUSTAINABLE BUSINESS MODEL FOR MANUFACTURING FIRMS

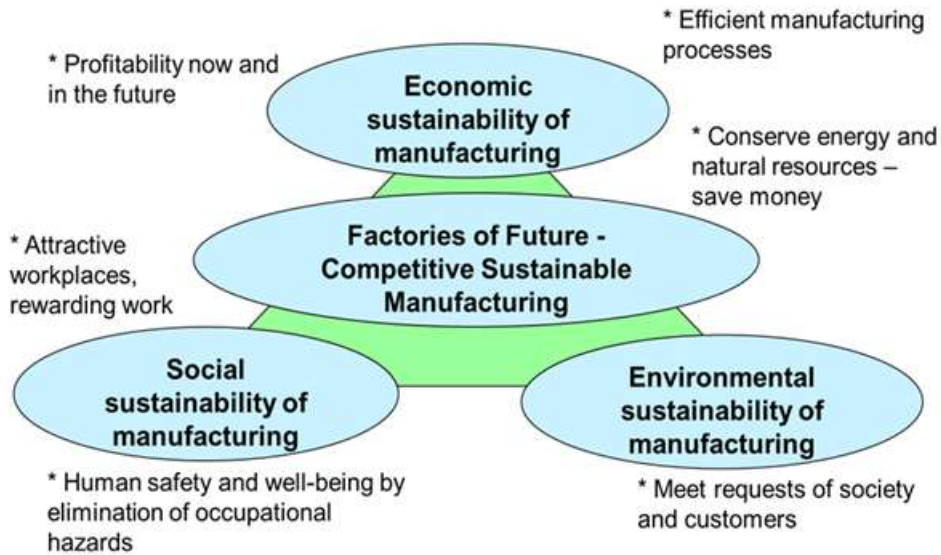
Any typical Business model is based on neo classical economic theory (Brenner & Cochrane, 1991; Key, 1999; Stormer, 2003). According to which the primary obligation of corporations is to maximize profits for shareholders. When these typical business models progressively includes all stakeholders and include the environmental aspect to their business model, the model transforms into SBM.

If a manufacturing company to be called as Sustainable Business Model, how would it look like, gives a starting point to coin an operational definition of a sustainable manufacturing company. For the purposes of this paper we define - a sustainable manufacturing company is one that creates life-enhancing employment for communities over a long period of time. It has zero net consumption of physical resources in production. It is consistently profitable while being able to withstand short-term fluctuations in economic circumstances. And it produces products that themselves do not pollute or otherwise degrade the environment, are fit for purpose, and are designed for longevity.

It is recognized that profitability is absolutely vital for sustainability. However, profitability is a necessary but insufficient condition for sustainability: the environment and social dimensions must also be included.

[Ref: Peter Wells (2013), Sustainable business models and the automotive industry: A commentary, IIMB Management Review (2013) 25, p.228 – 239]

Figure 1. Triple bottom of competitive and sustainable manufacturing, economic, social and environmental aspects.



Sustainability for Manufacturing has two different perspectives - consumption and production.

Sustainable consumption is “the use of goods and services that respond to basic needs and bring a better quality of life, while minimizing the use of natural resources, toxic materials and emissions of waste and pollutants over the life cycle, so as not jeopardize the needs of future generations” (IISD).

Sustainable production has been defined by the Lowell Centre for Sustainable Production as “the creation of goods and services using processes and systems which are non-polluting, conserving of energy and natural resources, economically viable, safe and healthful for employees, communities and consumers and socially and creatively rewarding for all working people” (Veleva and Ellenbecker 2001).

Jovanne et al. (2008) link sustainability of production with the three pillars of sustainability and state that sustainable production must respond to economic challenges, by producing wealth and new services ensuring development and competitiveness through time; environmental challenges, by promoting minimal use of natural resources (in particular non-renewable) and managing them in the best possible way while reducing environmental impact; social challenges, by promoting social development and improved quality of life through renewed quality of wealth and jobs.

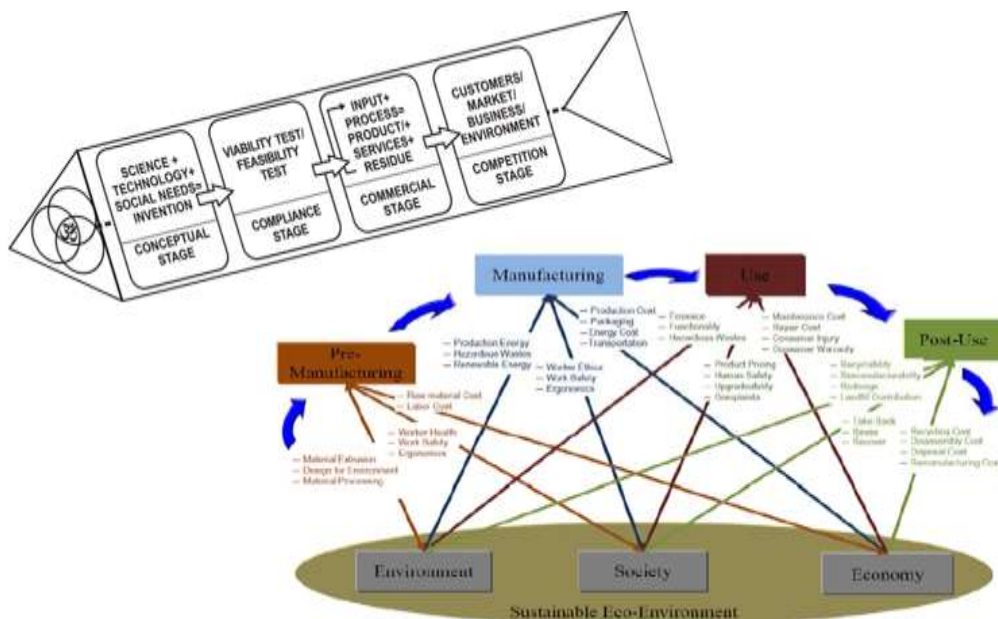


Figure2 : SEE Kaleidoscopic pattern PPP

The sustainable business model shown, implies that, Sustainability includes not only the way of doing business but also it is the way of thinking and doing business, starting from the conceptual (idea) stage to commercial stage to the competition stage, which has significant contribution to the triple bottom line which includes People-Planet and Profit. Ultimately the success depends on the strategies that make the model operate efficiently in the economy and win the competition. The sustainability Organizations adopting a Sustainable Business Model, develop internal structural and cultural capabilities to achieve firm-level sustainability and collaborate with key stakeholders to achieve sustainability for the system that an organization is part of. (Stubbs & Coklin) The schematic diagram, as shown in Figure above illustrates these points of view of a Sustainable Business Model, SEE Kaleidoscopic pattern PPP means to say the Impact on Social, Economic, Environment – Kaleidoscopic pattern - People, Profit, Planet. The various factors leads to sustainability in manufacturing derived from the main components of sustainability – Environment, Economics and Society are shown in the figure 2.

IV CONCLUSION

There are many successful business cases to illustrate the Sustainable Business Model having alignment of their organizational goals & sustainability goals to enhance the effectiveness of their business model.

Corporate world is following the trend of incorporating sustainability in their business models, as customers are more aware and show concern for the environmental impact of the products. DuPont commissioned a nationwide survey with an objective to better understand awareness and attitudes of Indian consumers towards green and bio-based products. More than 63 per cent of consumers are familiar with green products and of those, 85 per cent have confidence that they are better for the environment, the survey reported. India's confidence in green products being better for the environment (85 per cent) is higher than other countries surveyed by DuPont in previous years, as per the said survey. (Economic Times, Sept 25, 2014)

As per Hay Groups study published in the news paper Economic Times, Aug 6, 2014, ITC, L&T and HUL are India's most admired companies for sustainability practices. ITC has topped the list by displacing Group Company TCS in 2014, followed by L&T, HUL, Maruti Suzuki, State Bank of India, TCS, Coca Cola, Samsung, Tata Motors and ONGC among the top 10 firms. (Economic Times, Aug 6, 2014) These are examples that highlight the SBM, by incorporating sustainability in business. That is its contribution to the sustainability factors by aligning the profit.

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