

SUSTAINABILITY PERFORMANCE OF BUSINESSES WITHIN THE FORCES OF COMPETITIVENESS

Carmen Valentina RĂDULESCU¹, Ildiko IOAN², Florina BRAN³

¹PhD., Associate professor, Faculty of Agro-Food and Environmental Economics,
The Bucharest University of Economic Studies, Str. Mihail Moxa, nr.5-7, Sector 1,
Bucharest, Romania email: cv_radulescu@yahoo.com

²PhD., Associate professor, Faculty of Agro-Food and Environmental Economics,
The Bucharest University of Economic Studies, Str. Mihail Moxa, nr.5-7, Sector 1,
Bucharest, Romania email: ildiko.ioan@yahoo.com

³PhD., Professor, Faculty of Agro-Food and Environmental Economics,
The Bucharest University of Economic Studies, Str. Mihail Moxa, nr.5-7, Sector 1,
Bucharest, Romania email: florinabran@yahoo.com

Abstract

Sustainable development exceeded for a long time the limits of a theory based debate. It frames now almost every aspect of the social and economic life. Due to this and other factors, businesses should consider as a compulsory task to address the issue of sustainability. How this relates to their basic goal of competitiveness is debated by using the diamond model of competitive forces. It is concluded that integrating sustainability in business is not only a response to regulatory pressure, but is increasingly a requirement imposed by the competitive context too.

Keywords

sustainable development, businesses, competitiveness, globalization.

Introduction

The role of businesses in achieving sustainable development became recently a topic of great interest for the economic research. This focus could be explained by recognizing the limits of governmental institutions, globalization, urgency of action for addressing rapidly deteriorating social and environmental issues, and increasing interest of businesses in sustainability.

Fields like social protection, health care, education, research, culture, environmental protection were managed for not long ago only by governmental institutions. Nonetheless more and more governments recognize the limits of the specialized institutions in being effective for solving the mounting issues in each field. This fostered the spread of entrepreneurial approaches by the establishment of enterprises or public-private partnerships or by transferring tasks to non-governmental organizations. Further, globalization continues to increase its impact on local businesses and to raise its own economic and political influence. Thus, multinational companies have a share that exceeds 60% in the world trade (Bran et al., 2013).

Many environmental problems of great importance like climate change, exhaustion of natural resources, deforestation etc. worsened in the last decades, while development gaps deepened and the size of population living in poverty did not shrink at the expected path. These trends occurred while more and more effective policies were designed and applied revealing that this type of action should be complemented by the involvement of businesses in order to increase the path of change toward sustainability.

Since businesses are very sensitive monitors of the economic, social, and political context, looking for sources that could fuel their competitiveness, becoming sustainable was recognized

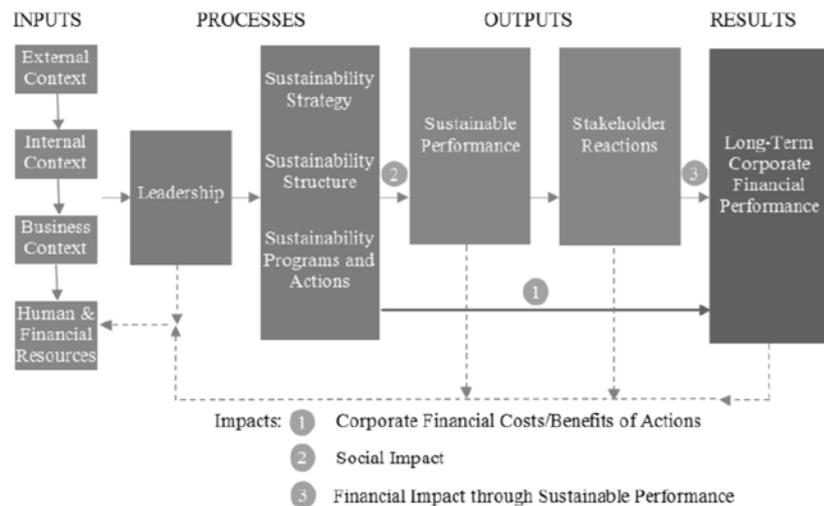
as a good opportunity for differentiation (Bran et al., 2013a). Consequently, it is of great interest to better understand how efforts invested in actions that serve social interest fit within the continuous pursuit of competitiveness that was unforgiving in the globalizing economy pushing many companies close to their limits in terms of quality and costs. In this respect, we will briefly review the theoretical background and the literature concerning the drivers of sustainability for businesses, followed by an analysis of the changes captured by the forces of competitiveness that mirror the focus on sustainable development.

1. Literature review

Competitiveness is a complex notion that expresses the influence of numerous factors within specific context. It could be considered a goal or a driver of business sustainability, but in order better understand this influence most of the authors approached and analytical manner. Hence, research in this direction focus on identifying what determine managers to integrate sustainability in their businesses and/or on assessing the intensity of each drivers influence. Sustainable business is concept that is still debated although a general meaning can be easily inferred from the general understanding of the sustainable development concept. The business that accepts more perspectives in value definition, meaning the creation of social and environmental value along with economic value (Mustață et al., 2013) is a sustainable business. Further, it is claimed that such a business should be resilient against the economic, social and environmental challenges (Moore and Manring, 2009). Fact is sustainable business are assuming commitments that consider the goals of sustainable development such as social protection, eco-efficiency, nature conservation, using the triple bottom line (people, planet, profit) or other frameworks for assessing their progress.

Beyond business, the literature also reveals the concept of sustainable organization. Its content and relation among components is presented in fig.1

Enterprises are more and more interested in becoming sustainable in order to address the expectations of consumers, communities, institutions, partners, and other stakeholders, and to create for their own a competitive advantage (Caloian, 2013).



Source: Epstein et al. (2010), cited by Paraschiv et al. (2012)

Fig. 1 The model of sustainable organization

According to the model of sustainable organization (fig.1), drivers are grouped in four categories: external context, comprising natural conditions, national regulations etc.), internal context, consisting in corporate value mission, strategy, organizational structure etc.; business environment, influences arising from characteristics of the economic sector, customers, and products; and resources, expressed as human resources and financial resources.

The configuration of these drivers creates a more or less powerful motivation for company management to establish a strategy regarding sustainability. This strategy's ultimate goal is not different from the one of any other business strategy, consisting in long-term corporate financial performance. The difference is not about "where" to go, but about "how" to reach where, the way to be chosen to accomplish the goal.

The business sustainability drivers are supposed to influence the way and were assessed in various research frameworks. Since the focus on the economic underpinning of sustainability is the most important to build a strong business case in this field, we will present the main research results regarding the relation between businesses' financial performance (FP) and sustainability performance (SP).

This relation was approached from both theoretical and empirical studies, the first contributing with hypothesis regarding the direction and type of the causal relation, while the second providing evidence on various business frameworks.

In table 1 there are synthesized the results of the theoretical approaches that are built on the premise that between FP and SP there is a linear type of causal relation.

Table 1 The relation between financial performance (FP) and sustainability performance (SP)

Causal relation	Type of relation	Description	Sources
SP leads to FP	Positive	The social impact hypothesis. Addressing the needs of stakeholders, others than owners/shareholders, leads the improved FP. Failing to address these needs creates worries that increase the risk associated with the company and reduce FP. The costs associated SP are low compared with the benefits	Pava and Krausz, 1996; Preston and O Bannon, 1997
	Neutral	The theory of demand and supply. Companies provide a certain level of SP that allow them to maximize profit.	Aupperle et al., 1985; Freedman and Jaggi, 1985
	Negative	The trade-off hypothesis. Mirrors the neoclassic reasoning of Friedman that enterprises have an unique social responsibility – increasing profit. SP generates costs that reduce the profitability of the enterprise.	Vance, 1975
FP leads to SP	Positive	The hypothesis of available funds. Superior FP allow enterprises to grant more resources for SP.	Kraft and Hage, 1990; Moore, 2001

Causal relation	Type of relation	Description	Sources
	Negative	The hypothesis of managerial opportunities. Managers will cut costs for SP than FP is high in order to increase their personal rewards that are related to short term FP.	Alkhafaji, 1989; Posner and Schmidt, 1992
FP and SP are synergetic	Positive (virtuous circle)	Simultaneous relation that could be explained using the theory of demand and supply, combined with the one of quality management. Quality management allow a high level for both FP and SP. If quality management means SP then relations with stakeholders are considered important and this reflects in going beyond philanthropy.	Preston and O'Bannon, 1997; Stanwick and Stanwick, 1998
	Negative (vicious circle)	Simultaneous relation that could be explained combining the hypothesis of trade off and the one of managerial opportunity.	Preston and O'Bannon, 1997

Source: Salzmann et al. (2005).

Other studies supposed that the relation between FP and SP is not a linear relation, but a relation described by an inverted U shape curve (Lankoski, 2000; Salzmann, 2008). These studies suggest that there is an optimal level of FP in relation with SP. In other words, increasing SP above a certain level will have a negative impact on the FP.

Empirical studies provide evidence that is more or less conclusive, their relevance being hindered by the quality of the data and the sector specific aspects of the research (Salzmann et al., 2005). Consultancy in sustainability management provides some quantitative snapshots, stating that one dollar invested in sustainability leads to 1.5-2.0 dollar earnings for the companies (KPMG International, 2011).

2. Porter's model of competitive forces

The analytical approach of competitiveness for both business and research purposes is currently dominated by the model proposed by Porter some decades ago. This is the so called diamond model, the disentangle competitiveness in five forces:

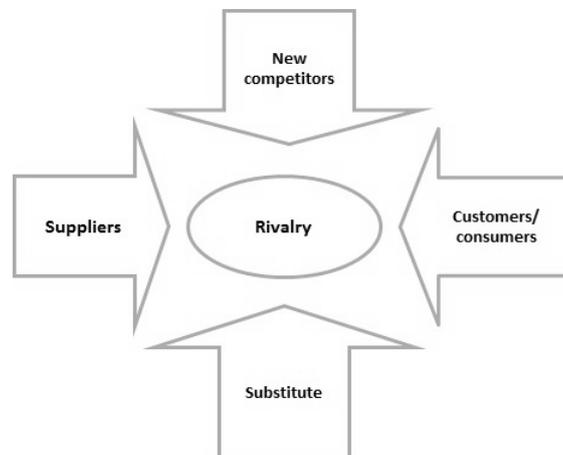
- New competitors;
- Suppliers, that influence production;
- Customers/consumers, that influence the selling of products/services;
- Businesses that produce similar products/service that could substitute the one in focus;
- Rivalry commercial among competitors.

These five forces are represented as the diamond model in fig. 2.

The diamond model was proposed by Michael E. Porter in 1979 and since then the strategic management is building on its use. The model is used not only for businesses, but also for regional and national analysis of the competitiveness.

The model revealed that there are significant differences from one sector to another. For instance, on the market of aircrafts the most important forces are rivalry among competitors

and the bargaining power of customers. Unlike this on the market of cultural products, such as movies or shows, the most important force is coming from the substitutes that could be provided by unauthorised reproduction on a variety of technological means. Finding which the most powerful force is will shape the strategy of each industry and of the companies acting within it.



Source: Mauboussin and Callahan (2013).

Fig. 2 The five competitive forces model (Porter's diamond model)

At what extent this is true for sustainability or which of the forces will contribute most to the integration of sustainability in businesses by sectors is a question that is still open. The current findings indicate the possibility for using this model in the analysis, although sector specific details are still to be revealed.

3. Impact of competitive forces on businesses' sustainability performance

3.1 Bargaining power of suppliers

Suppliers could drive sustainability performance of businesses as long as they are facing raising prices due to more difficult access to some resources. The higher prices will force the users to find and implement measures that increase efficiency of materials. This could be only a postponing of the price increase effect, although it also could create incentives to change the way of producing that good.

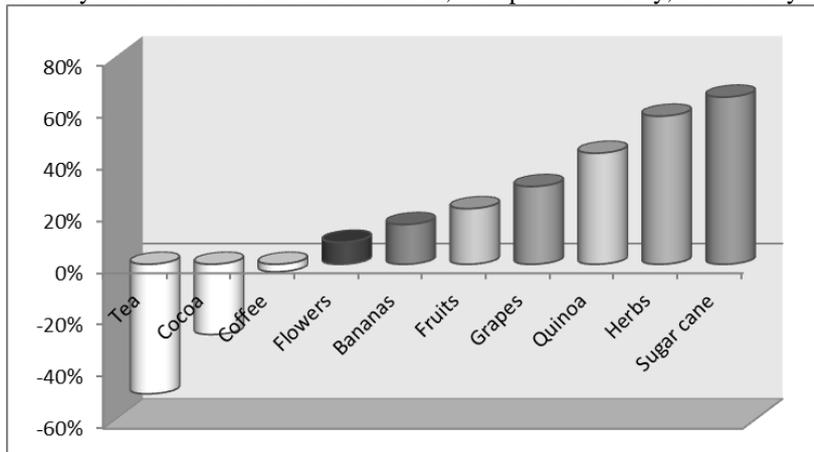
Another influence of suppliers is by the negotiation costs. Thus suppliers could implement environmental or other management systems that improve their sustainability performance and certify them according to specific standards. In this way the supplier could readily provide prove of its performance in sustainability that reduces the effort of selecting it among others.

This effect was documented for the beverage industry. The suppliers of this industry face in many areas increasing costs for raw material and water because of the climate change related effects and consequently they increase the prices. The issue was addressed by designing strategies and building partnerships that allow the industry to reduce de exposure to price, but also to foster the diffusion of technologies that improve efficiency in upstream activities such as agriculture.

One frequently cited example is the Beverage Industry Environmental Roundtable that was established in 2006 with the goal to create positive change in environmental issues such as climate change, energy efficiency, recycling of cans and other recipients, sustainable agriculture and ecosystem services. The association comprises twenty three members that include world leaders like Coca Cola, Pepsi Co, Carlsberg, Bacardi and others.

3.2 Bargaining power of customers/consumers

Customers influence on sustainability is occurring by the mechanism of supply chain management. There is a wide range of technical and managerial solutions to address sustainability within the supply chain. Some of them are already certified as management systems, while others are refined by each company in order to reduce external risks that could affect their products. Certification of management systems should be made using the standards agreed by the customer, although there are a number of standards that gained world or at least regional recognition. This is the case for the ISO standards that cover a wide range of sustainability relevant issues like environment, occupational safety, food safety etc.



Source: Fair Trade International data

Fig. 3 Changes in Fair Trade products sales in 2013 compared with 2012

As long as consumers are regarded it could be stated that they are less well prepared to pay for sustainability, although they claim this on the behalf of the companies. Stated preference is quite different from the expressed preference in buying decisions, especially then sustainable products are more expensive. For instance, a study made in Europe, shows that 75% of the consumers stated that they would change their consumption behaviour according to social and environmental criteria, but only 3% made this change (Vogel, 2007).

Consumers that are concerned with sustainability represent around 10% out of the total, but there is an upward trend (Schwartz and Gibb, 1999). This trend is confirmed by the size and dynamic of the fair trade products. Hence, in 2013, the total value of transactions was of 5.5 billion euro, increasing with 15% compared with the previous year (Fair Trade International, 2014). By category of fair trade products, the variations are presented in fig. 3. Excepting tea and coffee the other categories of products record increasing volumes for sales.

Consumers concern regarding sustainability of the companies is not always expressed as an increase in the volume of sales. That does not mean that were is no relevant positive effects for the company. This could be shaped as improved reputation, willingness to pay more,

loyalty and others. Consumers tend to assume a civic role of influencing companies by their purchasing decisions.

3.3 Substitutes

In customer relations (business to business markets), sustainability gains ground. Thus producers of sustainable substitutes could have an advantage. As long as consumers are regarded (business to consumer market) although there are some important successes, it is still too early to state a massive preference of sustainable substitutes.

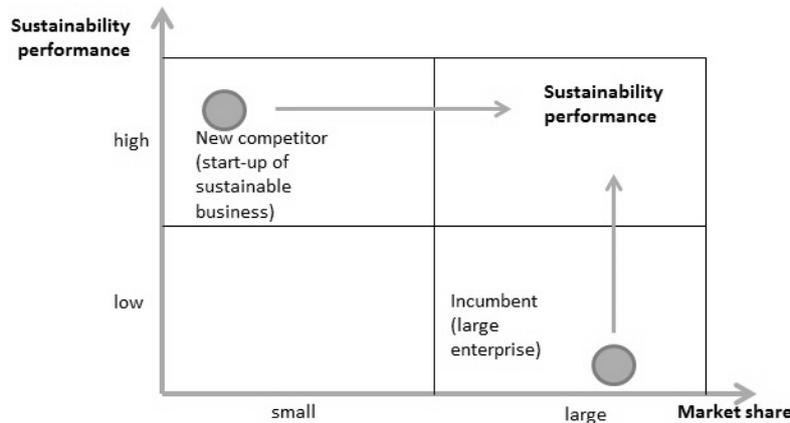
Among the examples that illustrate how sustainable substitutes gained ground there are cited the electric automobile *Prius*, by Toyota, the bio-plastic bottles used by Coca-Cola. In both cases, the substitute products involve a high level of innovation generated by the company on its own or acquired from specialized organizations.

3.4 New competitors

Sustainability is often employed by new competitors as a strategy for entering certain markets. Nonetheless the market shares they manage to gain remain modest. The interesting fact is that these new products, that are more sustainable than the one supplied by the incumbents, create a major pressure toward sustainability. For instance, Nissan and General Motors allocated billion dollar budgets to support a project for an electric automobile. This project was approved then a new concurrent, Tesla, entered the market supplying such type of automobile.

The sustainability standards imposed by various standards are, generally, easier to be met by incumbents. This is because the certification comes with a certain cost that could be supported only by companies having a production capacity that exceed certain thresholds.

The influence of new competitors on sustainability performance of business could be explained using a conceptual model designed to highlight the influence of company's size, building on the premise that new competitors are smaller enterprises than the incumbents.



Source: Hockerts and Wustenhagen (2010).

Fig. 4 Co-evolution of business start-ups and incumbents toward sustainability performance

According to the model proposed by Hockerts and Wustenhagen (2010) (fig.4) in the initial phases new competitors are idealistic regarding sustainability. Further, some of the incumbents imitate the initiatives of the new competitors and attempt to promote products

and services that are sustainable. The market share of sustainable start-up should increase, while the sustainability of the incumbent should also rise. Such evolution is confirmed by companies like Wholefoods and Vestas (sustainable start-ups) and Walmart and Toyota (incumbents).

The model highlights that sustainability would not be a concern for incumbents and it cannot be supported by start-ups but their co-existence allow its integration in both cases.

3.5 Rivalry

As long as rivalry is regarded, sustainability brought in interesting changes among competitors. Thus the notion of rivalry is challenged by a new type of relation, coined in literature as cooptation. Although such relation is not new in businesses, in the pursuit of sustainability it came out as a good opportunity. For instance, competing companies could collaborate in order to design a sustainability standard that could be applied to their product. Nonetheless Lindgren and Holgersson (2012) warn us that such relations should be considered carefully because the cooperation component could be less strong than the competition one. That is why they propose a three stage process for designing a cooptation relation for vertical standard development in the transportation sector. Such experience revealed, among others, that it is very important to have the technical, in this case IT&C, resources for enabling such relations.

Conclusions

Competitiveness and sustainability are goals that could conflict, especially in context that involve cost reduction. Nevertheless, for both businesses and society it is important to have a good understanding of this relation in order to identify ways of transforming it in a synergetic interaction able to shape favourable future trends.

According to the literature review, financial performance could be both driver and outcome of sustainability performance and more empiric evidence is needed to prove a positive relation. Although theoretically a synergetic relation could be inferred, its occurrence in practice is sparse. Applying the five forces competitiveness model for examining the sustainability performance of businesses it resulted that all the five forces could drive sustainability. The most intriguing effect is the new competitors' effect by providing more sustainable products. This created a pressure large enough to mobilize billion dollar budgets toward sustainability.

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