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# Just what kind of business is there in sustainability?



By Shellie Karabell

**Whether in energy, healthcare or micro-investing, is there a real business model in sustaining the world's resources and improving the quality of life for its inhabitants? INSEAD Knowledge attended the IESE Net Impact Doing Good and Doing Well conference in Barcelona recently, and found evidence that many companies and individuals are finding there are business models, if you are prepared to think creatively and be just a bit audacious.**

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“Today we see the world as a very different equation to solve,” says **Emmanuel Lagarrigue**, Senior Vice-President for Schneider Electric, a company that provides products and solutions to conserve energy for its three-pronged customer base of individuals, businesses and governments.

“We see the needs for energy are soaring -- IT centres use just as much energy as the airline industry -- yet we have to drastically reduce our CO2 emissions,” he says. “The problem is, basically today 75 per cent of the electricity is generated out of oil or gas or coal, and they’re not exactly CO2-friendly.”

Then there’s the developing world. “You have today 1.6 billion people who do not have good, reliable access to electricity and energy, and these people are living in countries that are developing fast: China, Brazil, India, Indonesia. These people deserve and will get their share of electricity,” predicts Lagarrigue.

One person intent on providing an energy source -- light -- to developing parts of the world is INSEAD alumnus and entrepreneur **Sameer Hajee** (MBA ‘04D), with whom INSEAD Knowledge spoke as he was just launching his project to provide single-unit rechargeable lighting to India and sub-Saharan Africa. Hajee spoke at the DGDW conference about scaling up social enterprises -- something he is actively doing in both of his chosen locations.



Hajee's Nuru Lighting sells battery-operated rechargeable lighting units and the bicycle-powered means of recharging them to local entrepreneurs who then sell on the lights and the recharging services. Once he'd deployed his goods on the ground, Hajee encountered unexpected circumstances.

“The areas in India where we were field-testing happened to have electricity,” he says. “For two hours a day, they’d be without power and they were happy to have the lights during this time, but they didn’t need the recharging unit -- they could recharge the light units during the day when they had power.” Undaunted, Hajee sold the lighting units without the charger in this location, thus finding a new market in the partially-served energy market, while the entrepreneurs still provide recharging services to off-grid areas “where our microfinance partners don’t even have a footprint,” he says.

But on a larger scale, alternative, renewable sources of energy are still not profitable. “This business, which is growing a lot, is just sustained by governments,” claims Schneider’s Lagarrigue. “Photovoltaic energy, for example, is not per se a sustainable business today, except in two places: California and Italy, because in these places the grid is a little bit messy and generating electricity there is so expensive it almost makes photovoltaic profitable.”

But this lack of profitability is temporary. Lagarrigue sees costs for solar farms coming down quite fast -- reaching affordability as soon as 2015. “Already in Africa you have companies saying ‘they have the sun and we have the means today for energy, so let’s generate energy from the sun in North Africa and bring it back to Western Europe.’” But while that sounds like a sunny future, Lagarrigue points to a dark side: “This world of energy without any outages -- that’s finished,” he says.

The environmental issue is also in danger of being put on the back-burner by politicians faced with the global economic crisis, according to **Kunihiko Shimada**, Principal International Policy Coordinator for the Global Environment Bureau at Japan’s Ministry of the Environment. “Job creation is one of the top issues for global leaders today,” he says. “But there must also be some support for the climate change issue because it affects not only the environment but the economy, national security and even food security. It raises many different issues for society.”

Healthcare and insurance have become an agenda items around the world but providing care and coverage in Africa is a different challenge, and one that has been taken up since 2006 by the Insurance Fund, founded with a 100 million euro grant from the Dutch government, a 60 million dollar grant from the World Bank, and a 20 million dollar grant from USAID. “Only 10 per

cent of healthcare costs in Africa are covered by any kind of health insurance mechanism,” says **Emma Coles**, Director of the Health Insurance Fund. “And at the moment 50 per cent of healthcare costs are paid out of pocket.”

The Health Insurance Fund partners with the 10-year-old Africa-based health group Farm Action, and was set up as a general health scheme to encourage any and all potential donors. “What we’re trying to do is gather data associated with healthcare in these (African) countries so that we will be able to price the cost of healthcare for a particular disease in low-income countries,” explains Coles.

Through her organisation, families can purchase health insurance for approximately \$25 per year. “The pricing at the moment shows the real cost is about \$60 per family, but as we pay a subsidy, the cost to the consumer is between 8 per cent and 15 per cent of that cost,” she explains.

“In Nigeria, the number one health problem is malaria,” she states, “and after that we have upper respiratory diseases, diarrhoea, and we also see cardio-vascular diseases such as hypertension. Non-communicable diseases are becoming more prevalent as countries develop.”

Coles is seeking to broaden the scope of the Health Insurance Fund’s work in the near future. “In Tanzania, where we will launch our health coverage next, we will also work with a microfinance organisation and coffee co-ops,” she says.

But it is not just the social service and microfinance organisations that are thinking about sustainability. Founded some 65 years ago, the Swedish home furnishings company IKEA claims to practise sustainability as a way of life. “Back then we didn’t think about the environment per se,” says Thomas Bergmark, Sustainability Manager and a 20-year veteran of the company. Bergmark was this year ranked number 13 on a list of the most influential people in business ethics by a US magazine.



“In 1956, we introduced the flat pack -- the first ‘knocked down’ table (IKEA’s signature do-it-yourself tables which are shipped in sections rather than assembled). That helped us to save fantastic amounts of CO2 emissions with more effective transportation,” he says. “And what has evolved over the years is a vision, a programme where we are able to integrate sustainability in all dimensions of the business, from production to management to the supply chain and then to our retail operations. Today, sustainability is one of the top four priorities for the IKEA Group going towards 2015.”

This does not come without time, attention and investment on the part of the company. “We have between 80 and 100 auditors that are employed by IKEA, auditing each and every factory, but also helping them to solve the issues that we identify by the audit; so it’s not about ‘policing’ -- it’s about development together. We find that when you are in compliance with your code, the factory is in much better order and productivity increases.”

IKEA is not afraid to impose its codes on its suppliers -- the majority of which are in China (20%; the rest of the top 5 are in Western Europe, according to the Bergmark). “Often there’s a very short payback on an initial investment (to meet IKEA’s codes),” he says. “But if a supplier has to build a new water treatment plant it’s a longer investment and a longer payback.”

Bergmark is involved in a European effort to develop a global code of conduct.

“Today the situation is that many big brands have their own individual code of conduct and we are all doing audits, so from a supplier’s perspective there are a lot of audits going on and a lot of visits going on and you have to prepare for them all individually.”

But does the customer appreciate all this effort? “I would say that IKEA’s consumers expect us to develop fair and good products at low prices with a good design, but also to care about the sustainability dimension,” Bergmark says. “But I don’t think there are many who are prepared to pay extra, and they should not have to, because if we work in a clever way throughout the whole value chain, we can work on sustainability issues and at the same time keep the price low.”

Besides a corporate vision, IKEA’s ability to succeed in this manner is also assisted by its lack of shareholders and the need to perform a financial card trick every 90 days. “We are in a fortunate position,” says Bergmark, “in that we are a foundation -- we are not listed on any stock exchange, so we can work long term, together with any business partner, including the suppliers, and in the long term this is beneficial, even from a financial perspective.”

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