When being green pays

Environmental issues are becoming increasingly hard to ignore these days. For many companies, it has become a licence to operate. Those who don't consider the environmental impact of their operations will find themselves at a disadvantage, not just because their competitors are doing it, but also because the public demands it.

As corporate environmentalism is no longer philanthropy, but an indispensable new approach to the business model, many companies will implement what they consider to be sustainability strategies, when they are, in fact, generic approaches to environmental management.

This can have serious implications on a company's bottom line, because if a firm's environmental strategies are not aligned with its overall business strategies, precious resources will be wasted.

Renato J. Orsato, Senior Research Fellow at INSEAD, has written ‘**Sustainability Strategies: When does it pay to be green?**’, as a practical guide to help companies obtain a competitive advantage out of their environmental investments; or in other words, how they can go about making green investments profitable.

Because the barrage of eco investments ranging from ISO 14001 certification, reduction of CO2 emissions to eco-branding can easily blind-sight managers, Orsato says it is important that the right choices be made.

“You need to be very specific in which type of eco-investment you want to invest and why. And the why would depend very much on the kind of pressure you’re having. If you are targetted by eco-activists, then maybe it’s not enough to be eco-efficient; it’s not enough to reduce your impact, you have to show it” he told INSEAD Knowledge.

A multi-pronged sustainability approach

To help managers optimise their economic return on investments and subsequently transform them into sources of competitive advantage in existing industries, Orsato offers four competitive environmental strategies (CES): (1) *eco-efficiency*, (2) *beyond compliance leadership*, (3) *eco-branding* , (4) *environmental cost leadership*. He further divides these strategies between those relating to organisational processes (strategies 1 & 2) and those that have to do with products and services (strategies 3 & 4).

The *eco-efficiency* strategy, he explains, is basically doing more with less and lower environmental impact. This can lead to breakthrough innovations and improvements in resource utilisation, because applying *Lean Thinking* to operations management, waste and by-products, can eventually be converted to new sources of income.

While *beyond compliance leadership* requires that companies go above and beyond what their competitors are doing, eco-branding involves finding a point of differentiation based on the ecological characteristics of certain products. Finally, *environmental cost leadership* entails selling products with good environmental performance but with an equally attractive price proposition.

According to Orsato, these four strategies can work independently of each other. For example, a company may be trying to follow the strategy *beyond compliance leadership* based on its processes, while its products or services may not present any clear environmental features, such as an eco-label. Conversely, a firm may decide to sell products with eco-labels, but does not make explicit the green credentials of its activity system.

Yet, some companies have been able to link the environmental qualities of their products with organisational processes, resulting in a corporate-wide eco-differentiation. Orsato singles out The Body Shop and Ben & Jerry’s among a few elite companies who have been able to establish close links between the ecological responsibility of organisational processes and the portfolio of products sold by them. For these firms, their green credentials are also the values on which they were founded, and which are so pervasive in whatever these companies do, that greening becomes an intrinsic attribute of their products. The history of these companies suggests that it is indeed possible to adopt corporate-wide differentiation, but only for those who have been founded on the basis ecological values.

Choose wisely

The type of eco-investment a company chooses should be both context- and competence-specific; it should also be in an area in which the firm can excel.

For example, Orsato says, if you are a supplier in the car industry and you have an ISO 14001, you are just doing what other car manufacturers are doing. So you need to understand that your level of competitive advantage from these types of eco-investments would be similar to others. Likewise, while differentiation may be pursued via eco-labelling, for many supermarkets in Scandinavia there is already price competition among eco-labelled products.

In his book, Orsato says that highly innovative organisations can even bypass competition altogether via the Blue Ocean Strategy thinking developed by INSEAD professors W. Chan Kim and Renee Maubourgne. He calls this fifth strategy Sustainable Value Innovation (SVI): the creation of differential value for costumers and contribution to society in both reduced costs and environmental impact.
Obviously, this strategy is by far the most difficult to be deployed. Nonetheless, companies that are able to develop a radically innovative approach to managing the lifecycle of their products can simultaneously generate public benefits and private profits, sustainably. In doing so, SVI strategies align shareholder pressure for profits with societal and environmental demands.

“For that, you have basically to think in a different way about your product, you have to pursue for instance what the academics call ‘dematerialisation’. Eventually you have to reduce your costs by substituting materials or eliminating them. Or you can use different ways of delivering your products or transforming them into services rather than products. So there are possibilities, but obviously it’s a bolder strategy. You need to be more aggressive in the innovation process inside the company.”

‘*Sustainability Strategies: When does it pay to be green?*’ by Renato J. Orsato is published by Palgrave Macmillan.

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