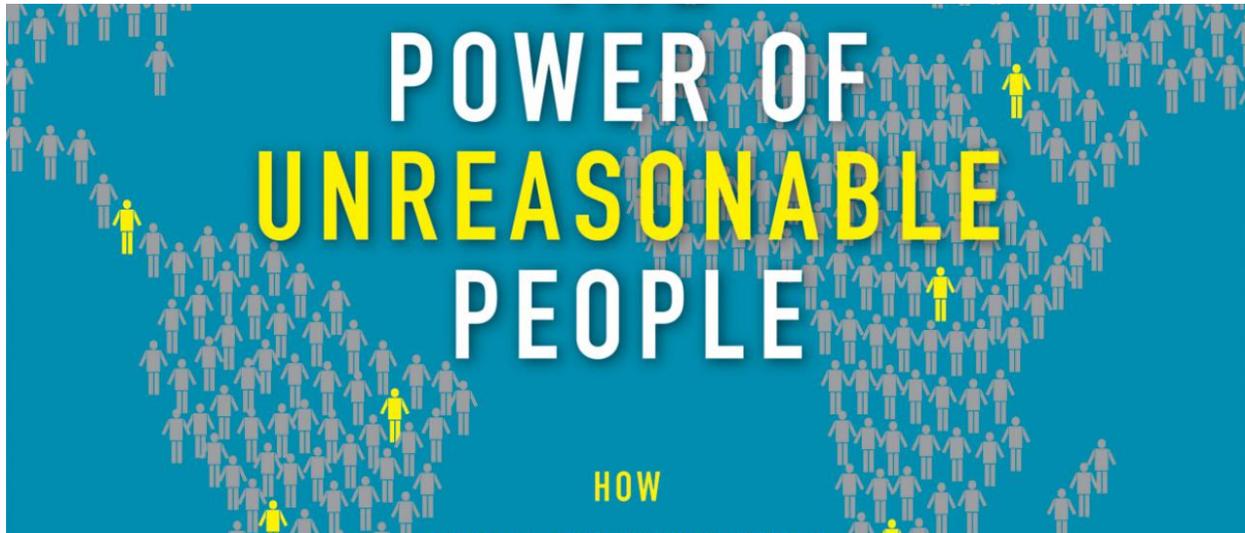
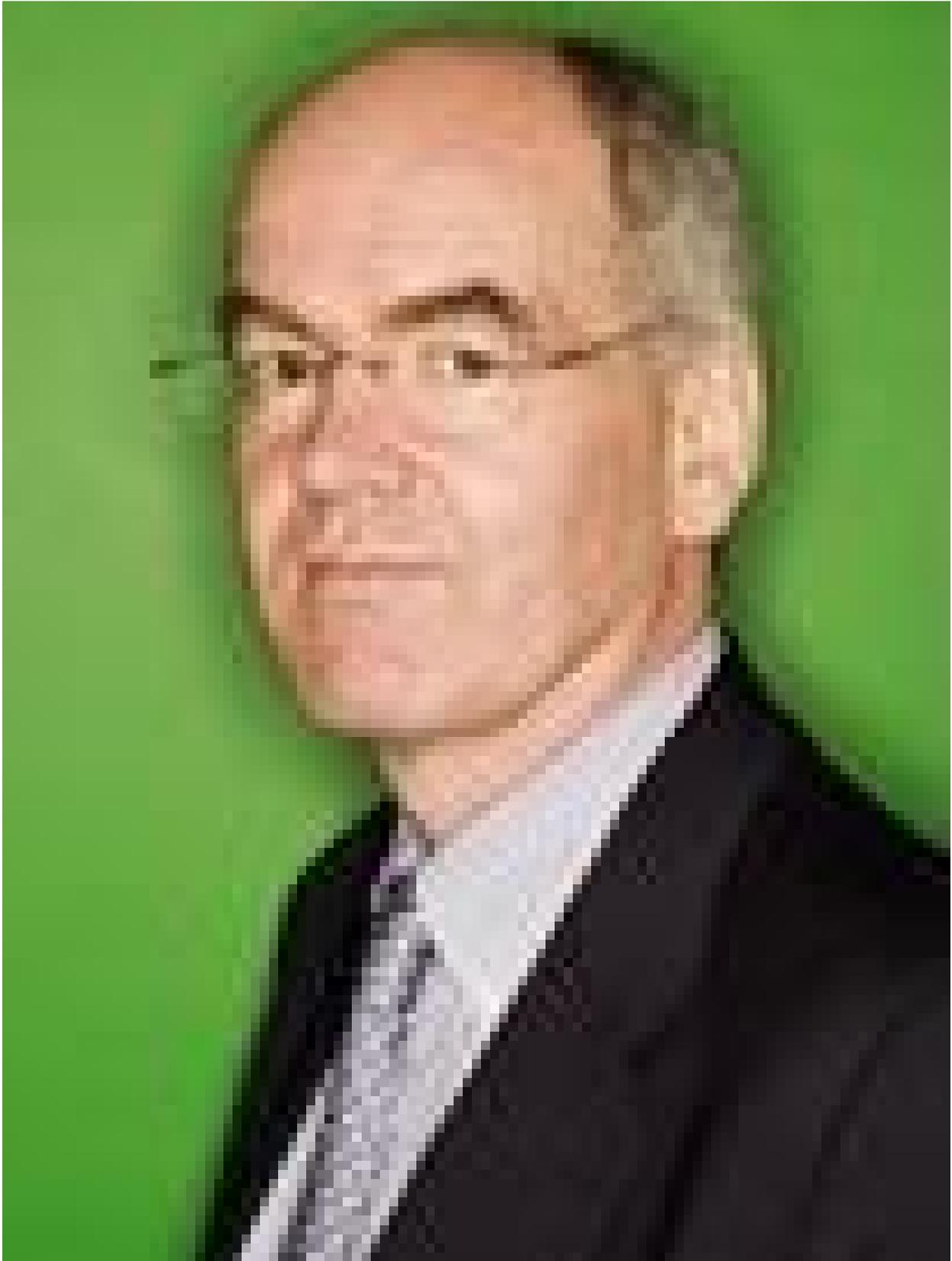

Putting the squeeze on sustainability spending



By Grace Segran

In an economic downturn, budgets get cut - whether they be for training, travel, marketing or PR activities. But these cuts go well beyond the normal discretionary items. Where companies had recently started spending money to promote and enhance their sustainability, they are now refocusing their attention on cost-cutting instead.



According to **John Elkington**, co-founder and director of Volans Ventures Ltd based in London, “the negative impact is potentially profound as the gathering economic downturn squeezes corporate safety, health,

environment and sustainability budgets.”

Volans Ventures is a sustainability consultancy which advises clients on the risks and opportunities associated with corporate responsibility and sustainable development.

Elkington says that although issues such as climate change and water availability are becoming increasingly urgent, the economic slowdown “both emphasises and detracts from a company’s focus on sustainability and their use of sustainability consulting.”

McKinsey recently reported on the findings of a survey which stated that business leaders are spending more time on governance issues – but less time on the environment. According to the survey, some companies are already cutting their sustainability budgets; while others are reassigning activities, that used to be centralised, to their business units.

“Over time, these priorities will need to be integrated into a company’s strategy, operations and, ultimately, business model. In the longer term that’s where we’re headed, but the next few years will be a bit of a roller-coaster,” says Elkington, the author of 'The Power of Unreasonable People: How Social Entrepreneurs Create Markets That Change the World'.

He says the impact from this shift in focus in terms of the environment will depend on the company’s size and visibility, how topical the issues raised by its operations are, as well as on the broader geo-political aspects of its markets. It will also depend on where the company sits in the value chain. “For example, if you are a supplier to Wal-Mart you are likely to come under significantly greater pressure on environmental issues than if you are a contractor to a company like Gazprom.”

The role of government

Volans Ventures recently launched 'The Phoenix Economy' at the Skoll World Forum. In the report, it asked several hundred social and environmental entrepreneurs worldwide to spotlight key trends and to help pick 50 organisations that model key aspects of what the private and public sectors, as well as individual citizens, will need to do in the coming years.

Interestingly, the Obama Administration featured very strongly in the results, underscoring the increasingly central role of government, Elkington told INSEAD Knowledge. But the entrepreneurs were very clear that what they want to see now is 'government-as-unusual,' with politicians and government agencies developing the necessary vision, targets and incentive structures – and then handing over much of their delivery to others.

Future landscapes

Elkington foresees sustainability as a massive growth sector over the coming decades, but expects a shake-out with closures, mergers and acquisitions. He sees bigger players moving into some of these markets, which would be a welcome trend, for a number of different reasons - the first being that competition will open up markets. “Secondly, many of these big firms have been part of the background noise that has stopped top executives from hearing the message – getting them onside either neutralises that interference effect or helps build the message,” he argues.

Some of these firms have much a greater geographical reach than the niche players. And while they are still struggling to work out how to do this, they will ultimately have to integrate sustainability thinking into everything they do, so a migration into this space represents an important first set of steps, he says.

Engaging the company's stakeholders

According to Elkington, stakeholders' demands have not really changed as a result of the crisis, “though some stakeholders – particularly NGOs – are likely to be distracted.”

Conditions like these also afford opportunities for new entrants, so he expects to see a proliferation of new campaigns, along with the emergence of start-up advocacy organisations and enterprises in this area.

“Remember, this isn't just about risks, it's also about emerging market drivers and opportunities,” he says.

When the tide goes out

Sustainability comes in many different forms, says Elkington. The tide that is going out at the moment is economic, so those exposed will be those with weak economic propositions.

As the economic tide recedes, social unrest may build up, leaving companies to nation states exposed. In the longer term, he says, the biggest tide will be environmental, adding that when that goes out, we are all going to be left naked.

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