Microeconomic Perspective of Sustainability: What influences businesses to adopt sustainable practices?

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Abstract

Sustainability first appeared in 1987 in the Brundtland commission report published by the United Nations. It means satisfying "the needs of the present without compromising the ability of future generations to meet their own needs" (*Brundtland Report,* 1987). The framework which helps achieve the needs of the present and protect the needs of the future, is the three pillars of sustainable development which is described to be "economic development, social development and environmental protection" (*2005 World Summit Outcome Document,* 2005).

Businesses engage in buying and selling which affects the economy, society, and the environment. In recent years, businesses have tried to emulate similar sustainable development frameworks despite the added costs of researching sustainable alternatives. Unfortunately, they have ignored their moral responsibility of protecting society and the environment by going against the sustainability framework and prioritizing economic development over social development and environmental protection. This research attempts to understand what drives businesses to go against the sustainable development framework by analyzing how it makes economic decisions. The research also attempts to study why businesses must adopt sustainable alternatives in their production process. Qualitative analysis is conducted to understand the framework used by businesses in making decisions.

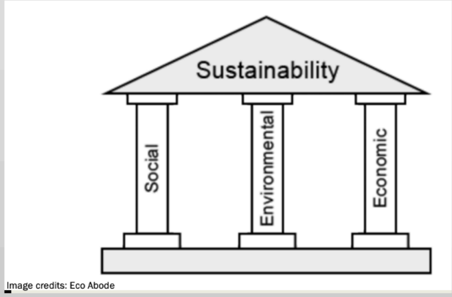

Figure 1 – Brundtland commission definition of sustainability
This definition of sustainability requires that progress in any of these pillars should not reverse the development of the other pillars. This means that progress in all three sectors is equally important in achieving sustainability

Profit driven sustainability models

Neoclassical economics suggests that businesses make their decisions solely with the end goal of maximizing their profits.
Figure 2 shows the point at which profits are maximized.

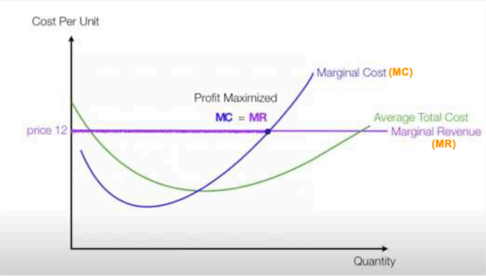

Figure 2 – Graph depicting profit maximization for businesses operating in perfectly competitive markets.

Theories like the Porter's hypothesis reveal that investing resources in researching sustainable alternatives can increase future profits. This provides businesses an incentive to adopt sustainability.

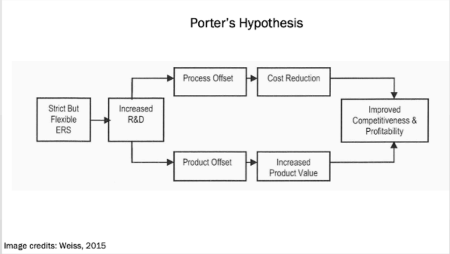

Figure 3 – Flowchart showcasing the positive impact of enforcing Ethics, Responsibility and Sustainability (ERS)

This approach uses scores like Environmental, Social and Governance (ESG) to gauge the performance of businesses in the field of sustainability. Higher ESG scores, attract more investors that facilitate expansion of businesses.

Greenwashing

To achieve the benefits of adopting sustainable practices, companies engage in greenwashing, which is an unethical practice where customers and investors are intentionally misguided to appear sustainable and reap the benefits of having high ESG scores. Once businesses are found guilty of greenwashing, their sales decline.

Example of Greenwashing

For example, Volkswagen's emissions cheating scandal had caused its sales to drop by 2%, which was the first time in 13 years (Houston, 2016)

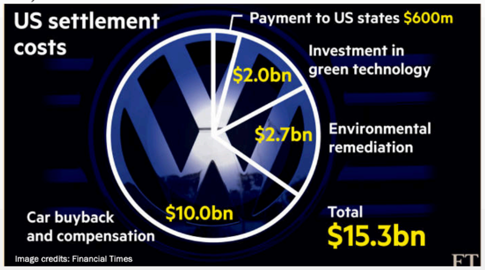

Figure 4 – Volkswagen settlement costs

Strong sustainability

Evaluating sustainable practices by learning how each component of sustainable development is prioritized, provides better analysis than using vague sustainability scores.
When businesses adopt sustainability to maximize their accounting profits, they are showcasing weak sustainability as they are prioritizing economic growth over social development and environmental protection. For a business to manifest strong sustainability, they should prioritize nature, society and the economy, in that order (Farias et al, 2020).

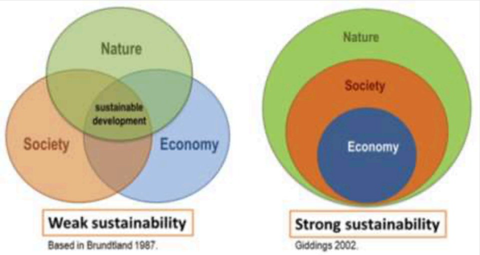

Figure 5 – Comparison between weak and strong sustainability models
Using a hierarchy which puts nature and society first integrates businesses with the environment. This allows them to practice "wholeness rather than fragmentation." Strong sustainability embodies this wholeness and uses an hierarchy system as opposed to weak sustainability models which separate businesses from nature.

Interface Inc.

The ideology of maximizing legitimate profits helps businesses practice strong sustainability and sustain their businesses.
One such business that demonstrates strong sustainability is Interface Inc., which is a global commercial floor covering company founded by the late Ray C. Anderson in 1973. The late Anderson, who was the founder and CEO of one of the world's largest manufacturers of carpet tiles, had started implementing sustainable practices in his business before the invention of ESG scores.

Framework for Strong Sustainability

Figure 6 – Sustainable development goals framework

Frameworks of strong sustainability include the Sustainable Development Goals (SDGs) proposed by United Nations. SDGs are 17 global goals which provide a "blueprint for peace and prosperity for people and the planet, now and into the future" (United Nations, n.d.).

Conclusion

Most businesses practice weak sustainability as they focus on maximizing accounting profits. Models that incentivize businesses with accounting profits, can cause businesses to greenwash. This means they will spend resources on appearing sustainable instead of practicing sustainability. Profit-driven models of sustainability are ineffective as they detach businesses from nature and the environment. To restore ties with nature and society, businesses must focus on legitimate profits instead of accounting profits. This would help them to practice strong sustainability.
For a business to have a strong sustainability framework, it must follow a hierarchy which prioritizes nature, society and the economy, in that order. A business may also practice strong sustainability by adopting the SDGs and biomimicry models to eradicate the negative externalities and to retain the ability of future generations to meet their goals.
In essence, businesses must not get encouraged to adopt sustainable practices in order to increase their accounting profits, instead they must focus on maximizing the wellbeing of the planet and society at large by increasing their economic profits.

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