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Can doing good be good for business?

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Businesses have often been regarded as exploiters of natural resources: agents interested in their own profit and growth. This, coupled with increasing severity of issues such as climate change, water and air pollution by industrial waste and byproducts, and excessive use of non-biodegradable single-use plastic products, has led to a global outcry against unsustainable business practices.

More than ever before, there is now societal pressure on business entities to improve their environmental practices and maintain a balance with the environment that they take from. Businesses are expected to revise their operation systems and incorporate initiatives that would make them greener and more sustainable.

However, many associate environmental sustainability to increased expenses and reduced profits. This is not ideal for any business premise, and it is logical if a company avoids involvement in greener initiatives for this reason. But what if being environmentally sustainable led to higher profits in the long run? Many businesses have tried incorporating greener policies and initiatives for some time now, and there are lessons to be learnt from their stories.

The white paper will take a look at some of the criticisms and benefits of aforementioned policies and initiatives and highlight some companies and what they are doing that allows them to enjoy reduced costs and increased profits.

The paper will also consider how Bangladesh is doing on this front, and briefly study the Ready-Made Garments and Textile sector that appears to be leading in terms of environmental sustainability.

Critiques of the Business Case for Environmental Sustainability

Appealing as it might be, the idea of environmental sustainability bringing businesses increased profits, is unrealistic to many. Throughout history, business managers responding to environmental issues and incorporating eco-friendly production or operating processes, has never been regarded as a business-friendly idea. Instead, it was more of a no-win proposition for managers[1].

There has always been the notion that helping the environment could irreparably harm one's business. Frances Cairncross, a renowned economist and journalist, once stated that "It was not surprising that stronger environmental standards impose higher costs on companies. Since the goal of such standards has always been to make polluters internalize the costs that were being inflicted on society[2], it followed logically that they would only lead to increased costs".

When a business decides to implement environmentally friendly initiatives, or set itself up as an eco-friendly business, it must consider the following costs and constraints of a green business[3]:

- Small costs: Changes in the office/business will lead to some initial costs, such as, employing efficient water, recycling pickups, and energy fittings.
- Long-term investment cost: Implementing bigger technological changes, such as solar panels.
- Certification costs: Auditing and certification for an eco-friendly business can be expensive, and it is therefore crucial to ensure cost transparency and the thoughtful selection of a certification company.
- Co-operation: In order to run a sustainable business, it is vital that there is co-operation and understanding of the greener policies and changes from the management to all levels of employees. Confusion must be eliminated and everyone should know their roles in the changes and be on the same page.
- Effort and dedication: Making a business environmentally sustainable takes serious effort and commitment.

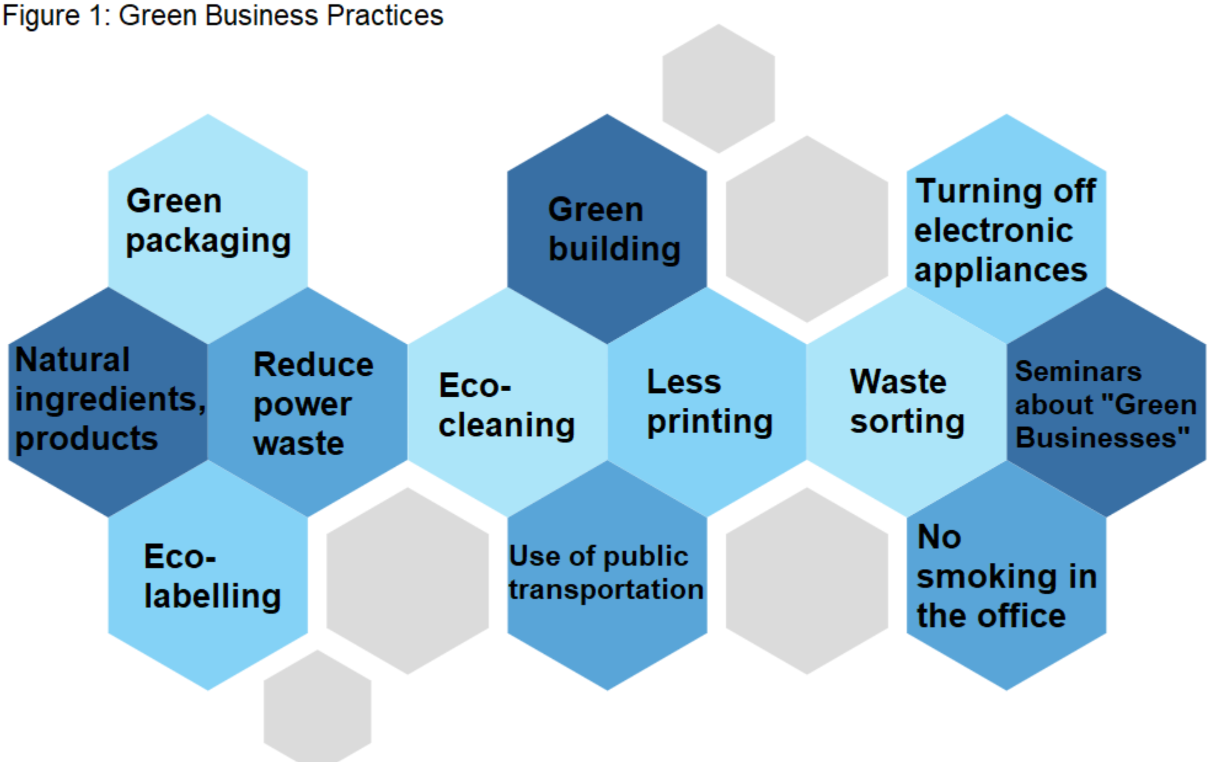
Given the myriad of costs necessitated by "going green", the opportunity for economic gain appears unlikely. Indeed, such practices are not yet universally accepted and applied by business entities on a global scale. Eco-friendly initiatives taken by businesses vary across countries, and this is because the "greening of business" is still largely believed to be an extra burden with heavier costs and losses in revenue. The necessity, implementation and costs also tend to differ country to country according to cultural, political, and economic differences[4].

Arguments for Environmental Sustainability being Beneficial for Businesses

The aforementioned critiques can, however, be challenged with examples of businesses from around world investing in environmental sustainability and benefiting from stronger financial returns. While it is true that setting up and implementing greener initiatives may be costly at the outset, there is potential return in the long run. Companies stand to benefit from reduced operation costs, PR, attracting more investors, increased productivity, a culture of innovation, attracting new customers, better retaining employees and achieving long-term financial success.

Becoming environmentally sustainable is a multifaceted process, and there are a variety of practices that may be applied to achieve that goal. An eco-friendly business should aim to take part in some form of reusing, reducing, recycling, and recovery[5]. *Figure 1* presents a non-exhaustive list of commonly implemented green business initiatives.

Figure 1: Green Business Practices



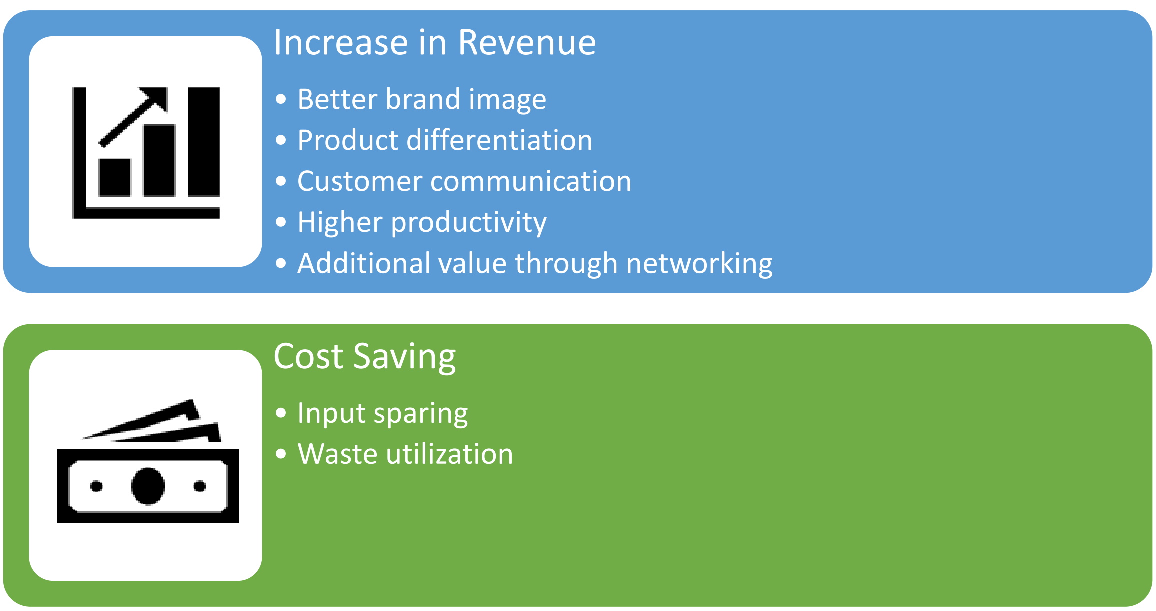
Source: "GREEN BUSINESS: CHALLENGES AND PRACTICES"[6][7]

An environmentally sustainable business-model can benefit an establishment in two major ways (as shown in *Figure 2*): one is through an increase in revenue, and the other is through cost-saving[8]. Revenues may rise because of the business enjoying better brand image and product differentiation, customer communication, higher productivity and additional value.

Environmentally sustainable businesses set themselves apart from others and achieve competitive advantage in the global market, and they appeal to customers who favor greener products and services. When customers are willing to spend more on greener products, it indicates that they see additional value in it. It is, however, crucial that the brand image be effectively communicated to the consumers for easy recognition. Green marketing can be used to promote the product, service or lifestyle to appeal to the customers' explicit or implicit willingness to pay more for eco-friendly items, and partake in environmentally-safe commerce.

On another note, employees who work for environmentally sustainable companies experience more work satisfaction and exhibit higher productivity. Additionally, eco-friendly companies can secure better future opportunities by networking with other green businesses that are willing to work with businesses with the same values. Cost-saving can be achieved through input sparing and waste utilization. Heat generation by waste incineration, utilizing electronic communication and reducing paper use, shutting down electronical appliances when not in use are all ways in which costs may be cut down. Additionally, healthier and safer workplaces can result from environmental sustainability initiatives, helping companies avoid the costs of employee illness.

Figure 2: How Environmental Sustainability Benefits Businesses



Source: "GREEN BUSINESS: CHALLENGES AND PRACTICES"[9]

Companies, both large and small, are all looking to attain a competitive edge and operate as sustainably as possible in order to survive in the global market. In growing numbers, businesses are understanding their role in the protection of the environment, and how, if conducted carefully, environmental sustainability will not only be beneficial for the planet but will also prove to be a game changer in increasing their profits.

One of the examples of such a business can be seen in DuPont, and the way it was an early adopter of environmental sustainability[10]. DuPont devoted itself to a 65% reduction in greenhouse gas emissions around 20 years earlier. By 2007, the company saved $2.2 billion/year through energy efficiency.

Wal-Mart has found ways in which it can save money by spending less while maintaining sales[11]. By installing small auxiliary power units to heat or cool the cab, the trucks' engines did not have to be kept running all night during the mandatory 10-hour rest stops. This reduced fuel costs by $26 million per year, and also eliminated carbon dioxide emissions equal to taking 18,300 passenger vehicles off the road.

When Wal-Mart started selling only concentrated liquid laundry detergents in North America, it reduced costs associated with packaging materials by 50%. Wal-Mart also saves money by purchasing from sustainably managed sources. After deciding to switch suppliers in 2006 because wild fisheries were being managed unsustainably, and the costs of Chilean sea bass and Atlantic tuna skyrocketed, it took Wal-Mart five years for all its purchases of fish to be certified as sustainable.

United Airlines Holdings Inc. has been making its aircrafts lighter, leading to lower fuel use and reduced costs. They changed to lighter paper stock, redesigned the bathrooms, ended duty-free sales and switched out beverage trolleys. These efforts allowed the company to save over $2 billion on fuel so far[12].

Businesses like Facebook, Google, and Amazon are some of the biggest energy consumers, but a large portion of that power is emission-free. The companies committed to attaining 100% of their power for their data centers from renewable resources (such as wind and solar energy). Exxon Mobil stated that it would source the energy for operations in Texas with solar and wind energy from 2020. Such sustainable green energy commitments will take off an estimated 10% from tech giants' enormous utility bills[13].

As more and more customers want to make responsible green purchases, brands may take this as an opportunity. They can profit by providing the products and services that are in high demand. For example, when Adidas partnered up with Parley for Oceans to produce 7,000 limited edition sneakers, made with plastic trash that was collected from the ocean, the sneakers sold out immediately. Following that, Adidas decided to make another production of five million pairs, which would set them up to earn a billion dollars[14].

On the website for DHL, the international shipping and courier service provider, the company has put up the bold statement that reads: ‘Good for the Environment, Good for Business’[15]. Here they discuss how they are aiming to achieve zero emissions by 2050 through their pioneering green logistics, and how they promise to use their expertise to make the customers’ logistics greener and more sustainable, thus helping them to attain a competitive edge, along with eradicating waste and retaining the value that goes into the products.

Some of the ways in which DHL provides solutions to customers’ problems are worth noting. While helping a UK airline with a plan to reduce waste to landfill, the logistics company installed food dryers that cut volume of food by 70%. Along with a 70% reduction in food waste transport cost, zero waste to landfill was attained and significant value was added from recovered waste, eliminating landfill taxes, and generating substantial recycling revenue.

In another case, DHL came up with a complex cartonization system that would help select a right-sized box on-demand for shipments. This increased the fill percentage and reduced the number of shipments. The results of this were a reduction in outbound trucks needed, shipping cost savings of over $350,000 dollars per year, and a 13% rise in customer feedback scores with zero complaints.

Another example of a business finding success with environmental sustainability may be found in the story of Unilever. According to the latest GlobeScan-SustainAbility survey, the company has been recognized in 2020 as the No. 1 corporate sustainability leader for the tenth year in a row[16]. Initiatives of Unilever would include increasing the amount of agricultural raw materials that are sustainably sourced from 14% to 62%, and their use of 100% renewable grid electricity in manufacturing operations worldwide. The company has also announced that they will halve their use of virgin plastic in packaging, and collect and process more plastic packaging than what is sold by 2025[17].

Ellen MacArthur, Founder of the Ellen MacArthur Foundation, urged others to follow the company’s lead, and said, "By eliminating unnecessary packaging through innovations such as refill, reuse and concentrates – while increasing their use of recycled plastic – Unilever is demonstrating how businesses can move away from virgin plastic.” Last year, Unilever stated that they are committing to net zero emissions from all their products by 2039, beginning from the sourcing of the materials, to the point of sales[18].

The company has set itself up to higher standards in order to protect high carbon ecosystems such as forests, peatlands and tropical rainforests, and they also said that they want to achieve a deforestation-free supply chain by 2023. Unilever brands will also jointly invest €1 billion in a Climate & Nature Fund, which will be used for meaningful and decisive initiatives. Alan Jope, CEO of Unilever, stated “The climate crisis is not only an environmental emergency; it also has a terrible impact on lives and livelihoods. We, therefore, have a responsibility to help tackle the crisis: as a business, and through direct action by our brands.”

The Progression of Bangladeshi Businesses in Environmental Sustainability

Bangladesh has seen exponential industrial and economic growth over the last few decades. However, such growth resulted in a great increase in water and air pollution, and the misuse and depletion of natural resources. This is a very important issue for a developing and low-lying country like Bangladesh, prone to many environmental calamities. Companies are implementing various environmental initiatives as Corporate Social Responsibility activities and are even gradually incorporating greener policies into their core values. This stems from a realization that environmental sustainability can be a driving force, and not a hindrance.

In the attempt to be greener, businesses and establishments have been seeking out certifications from the Leadership in Energy and Environmental Design (LEED) rating system in the U.S. Green Building Initiative (GBI). LEED is the most extensively used green building rating system in the world, and it is available for any type of building. The framework provided by LEED allows for exceedingly efficient, healthy and cost-saving green structures. The certification is a symbol of sustainability achievement and leadership, that is universally recognized[19].

Entrepreneurs in Bangladesh state that eco-friendly facilities generally cost 5-20% more than the conventional facilities, but the benefits enjoyed can be long term. Green facilities can reduce electricity consumption by 24-50%, water consumption by 40% and carbon emissions by 33-39%. Additionally, the employees also receive the opportunity to work in an improved environment[20].

To receive LEED certification, an establishment must ensure high standards over all stages from construction to production. Projects that pursue certification, can earn points for different green building approaches across several categories. Based on the number of points earned, an establishment can receive one of four LEED rating levels: Certified (40-49 points), Silver (50-59 points), Gold (60-79 points), and Platinum (above 80 points). As of 7th September 2020, a total of 144 facilities in Bangladesh have received LEED certificates. Out of these 144 facilities, 41 are qualified as Platinum, 87 Gold, 14 Silver and 2 Certified. These include commercial structures, shipyards, and shoe and electronic product manufacturers. However, it is noteworthy that 125 of those establishments are garments and textile factories[21]. *Figure 3 and 4* show the distribution of the types of certificates and kind of establishments receiving them in Bangladesh.

Figure 3: LEED Certified Establishments

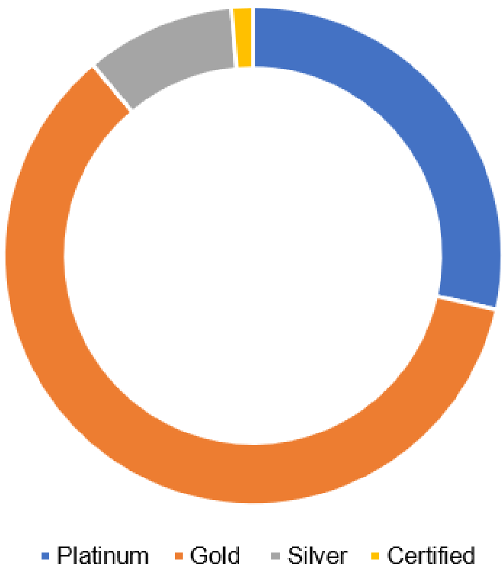
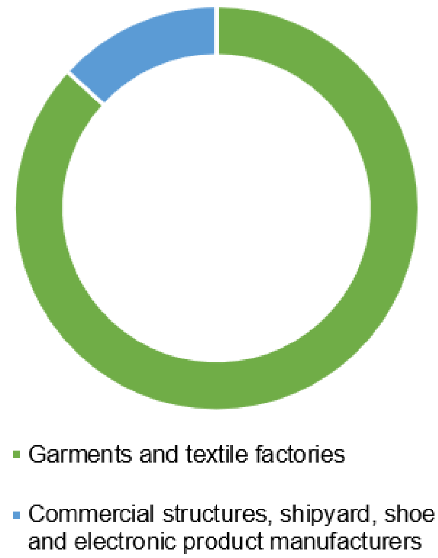


Figure 4: Distribution of certificates according to type of establishments



Source: "Eco-friendly factories are growing"[22]

The Managing Director of Snowtex Outerwear Ltd., Mr. SM Khaled, noted how low consumption of electricity and water at green factories would reduce the production cost, ultimately leading to sustainable businesses in the long run. He added that big brands and organizations are interested in investing in eco-friendly establishments, and this allows greener factories to attract such brands and lock in long term bookings from them[23].

Fazlul Haque, Managing Director of Plummy Fashions Ltd. said that other competitive countries do not match up to Bangladesh in terms of the number of eco-friendly facilities. He stated, "Branding the green factories as a whole would lift the status of the country's apparel industry and benefit the entire garment sector."[24]

The Ready-Made Garment (RMG) industry is perhaps the most iconic and advanced when it comes to environmental sustainability in the corporate world of Bangladesh (this is also supported by the amount of LEED certifications mentioned above). Over the past seven years, the industry's annual revenue has increased from \$19 billion to \$34 billion: a 79% rise. This makes Bangladesh the second-largest exporter of garments in the world, and the RMG sector accounts for 80% of the country's total export earnings[25]. Being the largest export-earning sector, and a considerable contributor to the country's GDP, the

RMG sector stands as the perfect example for other businesses to learn from in the incorporation of greener policies and initiatives.

Foreign buyers are now putting emphasis on eco-friendly methods of production. Taking such demand into account, owners of RMG factories are prioritizing eco-friendly guidelines for production. Their aim is now to operate sustainably through cleaner water and sanitation, clean energy, responsible consumption and production, and climate action. Factories are now going green to attract the growing number of eco-sensitive international retailers, which in turn will mean more work orders. Factory owners are opting for green buildings, and the increased construction of eco-friendly factories will raise the export growth of garment items from the country.

Such initiatives provide a competitive advantage in the outsourcing market, and help differentiate Bangladesh from major regional rivals like Vietnam, Cambodia and Indonesia. The Green Business Certification Inc. in the Asia Pacific and the Middle East Markets stated, “Sustainability is no more an option, it is a need, and it should be inclusive. In South Asia, Bangladesh has taken the lead in green initiatives”[26].

Compliant factories have been known to implement best practices like rainwater harvesting, reducing, reusing, and recycling water, cogeneration, condensate recovery boiler, using water efficient dyes and chemicals, using renewable energy, prismatic skylight, etc., to improve their sustainability and efficiency levels. Apart from external benefits such as improvements in clean water accessibility, decreased pollution levels in surrounding regions, improved living conditions for people living in the neighborhood, environmentally sustainable production is financially viable for decreasing costs for business by means of streamlined production processes. With better working environments, and improved workplace safety, the productivity of workers increases as well[27].

Worldwide recognition by esteemed organizations also shines a light on the commendable efforts put in by Bangladeshi companies to attain environmental sustainability. In 2020, the World Economic Forum (WEF) recognized Denim Expert’s sustainable business practices in its New Champion Awards[28]. The company received Honourable Mention in the ‘Excellence in Sustainability’ category. WEF stated that the Chittagong-based Denim Expert, has been actively working to implement and promote sustainability and inclusivity in the industry.

In the year 2019, the company set out to achieve sustainable goals and reduce the consumption of water and energy, waste generation and carbon dioxide emissions. “There is no alternative to sustainability and innovation for surviving in the global market,” said Mostafiz Uddin, Managing Director of Denim Expert. “The recognition by the WEF is a great achievement for Bangladesh as well as the apparel industry. This gives a message to the world that Bangladesh cares about the environment." He added that an acknowledgment such as this will benefit the country by attracting more buyers, turning Bangladesh into a hub for sourcing sustainable goods.

Effects of green technology on the profitability and solvency in the Bangladeshi textile industry

A research paper[29] published in 2020 in the Asian Business Review studied whether companies using green-technology (Group 1) had any financial benefit over companies not using green technology (Group 2). The study used data taken from 43 listed textile companies in the Dhaka Stock Exchange, and used financial performance measurement methods to find out the companies' financial state. The researchers calculated the profitability and solvency ratios to analyze the data. The highlights from the findings can be seen in *Table 1*.

Table 1: Findings showing the effects of green technology on profitability and solvency in the textile industry

	Group 1		**Group 2**	
	Highest	Lowest	Highest	Lowest
ROS	15.98%	1.09%	17.96%	-228.63%
ROA	7.45%	0.56%	8.49%	-7.97%
ROE	22.31%	0.58%	11.46%	-27.65%
Debt Asset Ratio	0.79	0.07	0.76	0.08
Debt Equity Ratio	3.97	0.05	3.17	0.09

Source: "Effects of Green Technology on Firm's Profitability and Solvency: Exhibit from the Textiles Industry of Bangladesh"[30]

Return on Sales (ROS): ROS is used to quantity the operational efficiency of a business by evaluating the portion of revenue that is converted into profit. The study showed that the highest ROS for Group 1 is 15.98% while the lowest ROS for Group 1 is 1.09%. The highest and lowest ROS for Group 2 is 17.96% and -228.63% consecutively. This shows that the businesses under Group 1 have positive incomes and steady revenues. However, in Group 2, only two companies have a positive income. This points to the fact that Group 1 has a higher ROS in comparison to Group 2.

Return on Assets (ROA): ROA evaluates the efficiency of assets and deals with the money invested in the business and the benefit realized on that investment. The researches find that the highest and lowest ROA for Group 1 is 7.45% and 0.56% respectively. Group 2's highest ROA is 8.49% and lowest ROA of -7.97%. The analysis pointed to how the businesses under Group 1 have a much more stable return, whereas the ROA for Group 2 varied more. Thus, it can be said that Group 1 has stronger ROA.

Return on Equity (ROE): ROE analyzes the ability of a business in generating returns on the money received from the shareholders. The ROE for Group 1 resulted in a maximum profit percentage of 22.31% and minimum profit of 0.58%. Varying drastically, the maximum and minimum profit percentage for Group 2 is 11.46% and -27.65% respectively. Therefore, it appears that Group 1 fares better in terms of ROE.

Debt Asset Ratio: This ratio evaluates the portion of assets that have been funded with debt. A high ratio means a high degree of leverage and financial risk, and a business with a high ratio would prove to be risky to invest in and provide loans to. For Group 1, the highest and lowest debt asset ratio is 0.79 and 0.07. Group 2 has the highest and lowest ratio of 0.76 and 0.08. This shows that both groups fare similar in terms of financial risk.

Debt Equity Ratio: This ratio quantifies the relative contribution of shareholders, creditors or owners in the capital employed in a venture. The ratio points to how much of the borrowed capital can be realized in the case of liquidation using shareholder contributions, and evaluates the financial soundness of a business. A high ratio means that the business has aggressively financed its growth with debt, and this can lead to unpredictable earnings following additional interest expenses. Group 1’s highest and lowest ratio is 3.97 and 0.05 respectively. However, most of the business ratios are above 0.5, meaning that most of the companies are financed with debt. This maybe because the companies have introduced green technology by taking institutional loans, and so this ratio will decrease in the future after loan repayments. The highest and lowest ratios in Group 2 are 3.17 and 0.09, with the majority falling below 0.5. Therefore, the companies in Group 2 appear to be less risky in terms of debt-equity ratio.

It can be concluded from the study that businesses that are using green technology differ drastically in terms of profitability (ROS, ROA, ROE) when compared to the businesses not using green technology. However, when it comes to solvency, both groups are in a similar position, and the difference that they do have will decrease as Group 1 repays the loans used to adopt green technology. In the end, the results of this study show positive results of implementing and using green technology and should be encouraging businesses that are considering adopting green technology.

Way Forward

The businesses that are investing in environmental sustainability in their operations and production processes are setting examples and paving paths for others. Seeing the benefits reaped by these companies, other businesses can learn from their mistakes and methods, and attempt to be more environmentally sustainable themselves. It is crucial that a business should observe and understand the environmental threats that it may be contributing to; determine how to prevent such negative outcomes; stay transparent with all stakeholders and employees about their plans and progress towards achieving environmental sustainability; and develop connections with customers, governments, environmental groups and other like-minded companies to increase the scope of staying up to date with eco-friendly matters, policy and technology. Increased profitability take some time; however, businesses must hold into account a trial and error period, and look toward long-term successes which can take them ahead of their competitors.

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