MANAGING SUSTAINABILITY RISKS AND OPPORTUNITIES IN FINANCE AND MARKETING

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-Abstract-

Sustainability is used to create a competitive advantage and to drive commercial success. Sustainable finance is frequently defined as addressing environmental, social, and governance impacts of financial services. However, sustainable finance is a relatively new concept that is fast becoming important as financial investments are increasingly required to prove sustainability credentials. Sustainability criteria are indicators and standards on specific sustainability issues, such as biodiversity, climate change, labour rights, human rights and social justice. On the other side, Marketing serves an important function in promoting economic development around the world, raising living standards in many countries. In the view of sustainable development, sustainable marketing myopia is a term used in referring to a distortion stemming from the overlooking of socio-environmental attributes of a sustainable product or service at the expenses of customer benefits and values. The purpose of this paper is to explain how to manage sustainability risks and opportunities in finance and marketing.

Key Words: Sustainability, Sustainable Finance, Sustainable Marketing

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1. INTRODUCTION

Sustainability is a popular phrase and definitions pertaining to sustainability abound. However, a widely used and one of the best-known definitions which should ideally capture the concept of sustainable finance is that given by the Bruntland Commission (WECD, 1987). It defines sustainable development as 'development that meets the needs of present generations without compromising the ability of future generations to meet their own needs'. The financial and economic crisis, combined with climatic and environmental changes, have all necessitated new marketing practices and innovative approaches, to create a better future. In the light of these market conditions, the financial services market has also been reshaped, requiring both inspiration and new knowledge in marketing (Straw, 2013: 177). Organizations must have sustainability activities to be successful such as formulating the sustainability strategy, developing plans and programs and designing appropriate structure and systems. Sustainable finance and sustainable marketing are very important for organizations to achive success I todays' competitive world.

2. SUSTAINABLE FINANCE

Sustainable finance is frequently defined as addressing environmental, social, and governance (ESG) impacts of financial services. In addition, the sustainability concept includes a longer term financial dimension and an ethical dimension. The concrete meaning of sustainability for the financial sector is an issue of controversial debate and continues to be evolving (Gerster, 2012: 2). The business case for sustainable finance is seen through a myriad of lenses that run the gamut of business interests, from that of cost-cutting and risk management to that of expanding portfolios and identifying new opportunities. The business case covers such issues as climate change, natural capital, human rights, poverty reduction, labor standards, social development, corruption, economic and social impact, as well as finance industry sectors such as asset management and investment, banking, microfinance, insurance, and re-insurance (Cherneva, 2012: 98). Sustainability actions can lead to cost reductions perhaps from material substitution or less packaging. Other cost reductions often include lower energy consumption during the production process, reduced material storage and handling costs and reduced waste disposal. These actions send a positive message to financial analysts and investors in terms of the company's manufacturing performance (Epstein and Roy, 2001: 598).

3. SUSTAINABILITY: A SPECIAL ROLE FOR BANKS

Sustainability is typically associated with the effective use of natural resources and its effect on profitability. However, sustainability as a core strategy extends well beyond energy-efficiency, green investing and reducing CO2 emissions. Sustainability in the banking sector is also about how we design, build and execute our banking businesses for the long run (Straw, 2013: 1). Sustainable Banking Summary is shown in Figure 1.

Figure 1: Sustainable Banking Summary

Reasons For Sustainable Banking	Shaping of Sustainable Banking
Market ✓ Customers ✓ Competitors ✓ Shareholders ✓ Suppliers	**Commerce** ✓ New Products and Advising ✓ New Markets ✓ 'Corporate governance' ✓ Requirements for suppliers
Image ✓ Involment ✓ Media	**Involvement** ✓ Sponsoring, donations, participation capital ✓ Networks (NGOs, government, business)
Government ✓ Legislation Regarding Customers ✓ Legislation Regarding Banks ✓ Other (eg. Research)	**Internal** ✓ Databanks, control lists ✓ Internal environmental care ✓ Policy/commitment from the top

Source: Jeucken, 2001: 78.

Sustainable development provides opportunities for banks. A bank can take advantage of the opportunities for new products and new financing markets depends on its level of knowledge, experience and creativity.

A bank needs to assess environmental risk in four stages (Jeucken, 2001: 119):

1) before the loan is granted;

2) during the term of the loan;

3) at the time of undertaking a financial workout with a defaulting borrower; and

4) at foreclosure and liquidation.

Financial stakeholders as a group are very heterogeneous. They have diverging individual or institutional goals, different fields of activities and responsibility as well as different areas of influence and possible courses of action. For example, banks and insurance companies can influence financial stakeholders indirectly by issuing favourable loans and insurance conditions for sustainable construction and refurbishment projects. In addition, they can influence other actors through their consultancy and advisory services (Lützkendorf et al., 2011: 485).

Banks had some common practices, as follows (Strandberg, 2005: 10):

• Financing and technical assistance to their business and non-profit clients

• Sustainability screens on their loan and investment portfolios

• Non-profit packages, support and assistance

• Sustainability seed capital funds

• Environmental risk management expertise

- Environmental commodity products/intermediation
- Financial education to businesses, students, non-profits, low income individuals and home buyers
- Financing tailored to affordable housing, small business development, social enterprises
- Creating secondary capital markets for high impact investments
- Smart growth, downtown revitalization and rural financing
- Community investment and conservation deposit products

4. SUSTAINABILITY AND MARKETING

Sustainability is one of the importart issues for companies and marketing scholars. Because sustainability creates and maintains the conditions under which humans and nature can exist in productive harmony, that permit fulfilling the social, economic and other requirements of present and future generations (www.epa.gov., 11.09.13). As a result of factors such as globalization, consumption patterns have changed and mindless consumption have raised sharply. Not only consumption patterns and also production methods became more dangerous for environmental sources. Therefore a growing number of companies such as Coca Cola, Nestle, Statoil, etc. are looking to recognize the role of sustainability as an integral component of their business strategy. But this business strategy is not a common strategy for short-run profits. For the long-term, firms can utilize to maximize the welfare and corporate reputation. Firms that produce superior quality products, use truthful advertising, act in a socially and environmentally responsible manner, and have a history of fulfilling their obligations to various stakeholder groups are able to create reputational advantage (Miles and Covin, 2000: 300). More specifically one of the most obvious links between marketing and sustainability is the way in which growing numbers of companies are looking to emphasize their commitment to sustainability in an attempt to help to differentiate themselves from their competitors and to enhance their corporate brand and reputation (Jones, et al., 2008: 126).

Strategies for Sustainability

Much of sustainable marketing focuses on the green activities because of the development ages of sustainability. During 1970s' marketing focused on green marketing which is mainly about topics such as air pollution, the deplation of oil reserves and so on. Second age was started about 1980s' and environmental marketing concept is mainly about clean technology and green consumers. And the third age is sustainable marketing.

According to Cronin, et.al. (2011:163) three main types of strategies are gleaned from the literature: (1) green innovation, (2) greening the organization, (3) green alliances. These strategies does not refer to an isolated strategy that helps organizations to address ecological issues in certain moments, but covers all those activities that mainly aim: to meet the customers' expectations for greener products and services and for a more sustainable and ethical company's behaviour: to reach the firm's economic goals; and, to minimize the environmental damage that stems from its industrial and commercial activities (Fraj, et al., 2011: 341). Green strategies which serves for sustainability are discussed below.

Green Innovation for Sustainability

Environmental concern is creating demands for new products (such as pollution control equipment) and for existing products to be reconsidered and in many cases redesigned, reformulated or produced differently (Baker, 2003:734). For example, recycling products, lesser water consumption during the production process or using more environmentally friendly raw materials are important issues for green consumers. Green innovation helps companies to develop more environmentally friendly goods and services. Chen and his collegues (2006: 333) defined 'green innovation' as hardware or software innovation that is related to green products or processes, including the innovation in technologies that are involved in energy-saving, pollution-prevention, waste recycling, green product designs, or corporate environmental management. For example the launch of online service platforms, such as Social media in bank marketing as e-banking enabled banks to connect with clients remotely in the online setting. The adoption of online technologies offered invaluable advantages for transactional services; it left little room for "deeper" interactions with customers (Mitic and Kapoulas, 2012: 670). This kind of e-services for banking, health, tourism or retailing industry are based on cost savings and full service offerings without time and location limitation. Besides customer solutions this tools are admitted more environmentally friendly service offerings.

Creating Sustainable Organization

One of the difficult tasks for a company is fully integrate green initiatives into all business activities. First of all to achieve this goal, company must have an individual or group of individuals to fulfill the sustainability program. Turning the organization to more sustainable and more green, needs to process innovation which leads to processes such as environmental management systems, standardization programs, lean production, total quality management and so on. According to Simpson and Power (2005:63) success of the lean manufacturing system relies heavily on integration of the supply chain and in sharing the gains from mutual investment in performance improvement between the customer and the supplier. Therefore supply chain is becoming an important issue both for the lean system and greening the organization. Green Supply Chain Management comprises from green design (marketing and engineering), green procurement practices (e.g. certifying suppliers, purchasing environmentally sound materials/products), total quality environmental management (internal performance measurement, pollution prevention), environmentally friendly packaging and transportation, to the various product end-of-life practices defined by the “Re’s” of reduction, reuse, remanufacturing, recycling (Hervani et al., 2005: 334). Hence, supply chains must be carefully managed in order to (1) ensure maximum profit, (2) comply with regulatory requirements (e.g., waste reduction and disposal laws), and (3) provide excellent customer service to consumers and suppliers alike (Cronin, et al., 2011: 167).

Sustainable Alliances

Alliances and partnerships are the key elements for implementing business strategies. Because firms need to do businesses with partnerships and alliances. Choosing the right partner is an opportunity for the sustainability. For example the goal of the Star Alliance is to share resources and minimize the resource allocation of each airline, they are in essence acting green (Cronin, et al., 2011:167). Another example is IKEA, in 2000 IKEA formed a partnership with UNICEF to work on a community programme in Northern India. The aim of the work was to prevent child labour by raising awareness and addressing the root causes (http://businesscasestudies.co.uk, 23.09.2013). Successful alliances and partnerships effects overall business strategy and enables sustainable competitive advantage.

5. MANAGING SUSTAINABILITY IN ORGANIZATIONS

Within organisations, working toward sustainability implies the need for changes in behaviour. Although these can come about autonomously, they will usually need to be organized. Communications are then extremely important. An essential element in the success of internal environmental care is that the environmental programme and the environmental policy be communicated to all departments within the organisation. Both internal and external communication can contribute to organisational change. Obviously, external communication can also be accompanied by commercial advantages. These forms of external communication can include PR activities, an environmental annual report, and the signing of international treaties (Jeucken, 2013: 3.) Managing corporate sustainability requires the examination of the impacts of social and environmental initiatives on overall corporate profitability. For example; human resource managers tend to focus on employee satisfaction and marketing managers focus on customer satisfaction – but neither examines the impacts on overall corporate profitability. Undoubtedly, in order to make effective decisions, managers must know the impact of company products, services, processes and other activities on either the external or internal environment (including all of the various corporate stakeholders) or on the company (Epstein and Roy, 2011: 587).

While green financial product and service opportunities vary across sectors and markets, a business case for these items is gradually taking shape. Tangible benefits to green product/service development may include: improved market share, increased profits, customer acquisition and loyalty, higher employee satisfaction and retention, reputational benefits (improved brand image), positive media attention, environmental awareness and benefits, improved license to operate, strengthened relationships and partnerships with external stakeholders (Straw, 2013: 1). Sustainability issues have business implications for companies are shown in Figure 2.

Figure 2: Sustainability issues have business implications for companies

Risk to companies	Opportunities for companies

- Penalties/fines as a result of breaches - Litigation - Waste Mangement - Loss of social/regulatory licence to operate - Reputational cost - Rising cost of energy - Increased competition for and cost of raw materials - Increased regulation	- Improved operational efficiency -Customer attraction and retention/increased market share -Increased revenues/profit from 'responsible' products/services - Improved risk management - Improved to access to capital - Increased and sustained shareholder value - Employee attraction and retention

Source: Case, 2012: 12.

6. CONCLUSION

Marketing paradigm has been changing since 1970's. The key challenge for mankind is to find more sustainable and equitable ways to produce, consume and live. Besides the cost of being more sustainable for companies are getting higher, environmental performance has been linked to greater financial performance. Not just financial performance but also competitive advantage and innovation benefits are gained by companies.

Some of the advantages of sustainability are;

- With the power of sustainability, companies provide competitive advantage and value creating strategy,
- Companies sustainable efforts have a positive effects on stock prices,
- Better relationships with society, stakeholders, company employees, customers, suppliers,
- Increased firm performance, and cost savings,
- Improved energy efficiency and waste reduction,
- Facilitates better transparency and effective public participation,

If companies do not consider or do not implement sustainability to overall business process, some of the risks that are companies must be faced;

- limited information and unavoidable uncertainties,
- Increased cost of raw materials and energy demand,
- Legistation problems,
- Corporate repution impact on company image and it effects firms market price,
- Pressure from society, non-governmental organisations,
- Insufficient competition ability and expensive technology solutions,
- Reduction in natural resources because of unconcious use of resources.

For implementing a successful sustainable program, companies also encountered barriers to change; the ways in which they overcame those barriers included:

- Initiating programmes of training to raise awareness and improve the competence of staff at all levels on sustainability issues (Holton vd. 2010:157).
- Sustainability efforts must be incorporated into the companies planning and management systems, thereby adopt a compliance approach to managing for sustainability.
- Especially stakeholders of the company should convinced to long term benefits of sustainability.
- Sustainability programmes should be implemented throughout all departments.

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