



Cost Reduction and Sustainable Business Practices; A conceptual approach

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Abstract

An excellent reputation earned by initiating and practicing sustainable business practices has additional benefits, of which are reducing environmental incidents and an improvement in operational efficiency as this has the potential to help firms improve on productivity and bring down operating costs. Taken further, with ever-increasing socially and environmentally-conscious investors and the public alike, this act of natural resources management could have a significant implication on market value and income of the practicing firms.

The above proposition has been supported by sustainable business practices literature that is continuously conversing and deliberating upon the impact of efficient resource deployment and sustainable business practices. This paper aims to add value and contribute by offering inferences on cost reduction possibilities through improved natural resources management. Therefore it is an entirely conceptual level approach that provided potentially efficient tools for business sustainability and profitability

Keywords: cost reduction, sustainable business, profitability, environment, sustainability, GRI

1. Introduction

The idea of sustainability reporting is gaining and maintains sustained efforts from both researchers and practitioners. This growing academic and public attention is attracting greater debate and opening up new frontiers upon which this concept is being looked at. Over the last few years many researchers have documented paradigm shift from financial reporting to integrated reporting (Calace & Markota Vukić, 2017; De Villiers & Maroun, 2018; Green, 2017; Ito, 2018; Stolowy & Paugam, 2018) Moreover, at about the same period, coupled with renewed global effort in fighting climate change, firms are embracing an appreciable degree of social and environmental consciousness in their practices. The attendant benefit of this incorporation is that shareholders and managers have come to appreciate that their main target which remains financial performance is inadvertently affected by their social and environmental performance. Many empirical studies have provided evidence to that effect, where relationships were measured between the impact of sustainability reporting and financial performances (Ahmed, Zakaree, & Olugbenga Kolawole, 2016; Carnevale & Mazzuca, 2014; Gangi, Mustilli, Varrone, & Daniele, 2018; Hasan, Kobeissi, Liu, & Wang, 2018; Nwobu, 2015; Rodriguez-Fernandez, 2016; Uwuigbe et al., 2018)

Sustainable practices by firms could be viewed from a business strategy perspective as that, which propels long-term corporate growth and profitability. To achieve those is to succumb to the fact that inclusion of environmental, social issues and other related issues in business models is unavoidably mandatory-mandatory not in its real legal ramification. Therefore it should be appreciated that the intricacy of the business world has led to emergent requirement demanded of companies regarding financial and non-financial information provided on their performance, and this has led firms to rethink their strategies (Cooper, 2014; Frias-Aceituno, Rodríguez-Ariza, & García-Sánchez, 2014). Even in the midst of extensive criticism of the negative social and environmental business practices has on the planet, it must be noted that business sustainability performance was not designed or intended to take away from value addition. Rather, the advocating is that they complement each other, going along together. This is evident in that business sustainability does not automatically imply more costs or a reduced amount of income. On the contrary, it means, as well as meeting up with definite financial goals, it would do no harm for them to set and strive for social and environmental goals at the same time (Niță & Ștefea, 2014)

Moreover, a sustainable business strategy could be said to include an array of strategic statements that encapsulate how a firm will attain its goals through meeting shareholders and other stakeholders' expectations, thereby improving its competitive advantage. Therefore, a sustainable strategy is essential to any organization since it is the determinant to the direction of the business and what it will look like in the future (Mansor, Abu, Abashah, & Mohd Kassim, 2018)

Therefore, it follows from the above that the main thrust of this paper is to offer a conceptual literary approach between reducing operating costs, sustainable business practices through improved natural resource management and sustainability reporting. It would, besides, make an effort to explain how this efficient tool of cost control could be of immense importance to firms' sustainability through the careful positioning of firm and environmental goals.

2. What makes Cost reduction distinctive?

Cost reduction involves a carefully laid down procedures that are capable of identifying and eliminating unnecessary costs to improve firms' profitability. In essence, the main function of cost reduction is to identify and explain variances in terms of costs and revenues and implement strategies that would help firms achieve efficiency in optimum resource utilization. Above is sufficient to provide a basis for appreciating that cost reduction as a strategy and a technique is geared towards toning down costs incurred by firms without lowering the quality of their operations (Mansor et al., 2018). Then again, the idea of cost reduction could well be extended further and indirectly imply strategies of decreasing bad image (and its associated cost) in the eyes of the investing and patronizing public and at the same time increasing the firms' overall goodwill through sustainable practices. Therefore cost reduction should have more function than the age-old implication of identifying and explaining variances in terms of costs and revenues and implementation of such measures as to take corrective action.

3. Features of cost reduction and its implication on firms' sustainability

Sustainability issues have forced firms to be concerned with how to reduce their environmental impacts. However, such cost reduction procedures are expected to be pulled off exclusive of impacting either on profitability or reducing firms' ability to accomplish long - term goals. Along these lines, the existent concern is how to cautiously trim away superfluous costs and at the same time preserving a dynamic corporation. The following section will look at those cost reduction strategies that could translate into going green and going to the bank.

3.1. Effluents and waste reduction

GRI 306 specifically sets out reporting necessities on the area of effluents and waste. Accordingly, this Standard can be used by an organization of any size, type, sector or geographic location that wants to report on its impacts related to this topic (Gallego-Álvarez, Lozano, & Rodríguez-Rosa, 2018)

The advent of sustainability reporting, which in part, advocate for the promotion of excellent environmental management by firms in conducting their operations, brought with it increased pressure on businesses (Mahmood, Kouser, & Masud, 2019). This sustained pressure is constantly demanding the adoption of standardized methods to look after the environment. This development has seen tremendous support for environmental management which in turn results in growing awareness towards environmental issues and at the same highlighting impending crisis from worsening environmental conditions (Marazzi, 2017). For this study, waste reduction is herein referred to as deliberate and strategic effort to lessen the inessential usage of materials which could potentially improve the efficiency of the firm operational processes.

As explained earlier one of the focal points of cost reduction is seen as a relentless, vigorous and ground-breaking effort to minimize operational costs. It is so because the effort is on searching and implementing such measures to reduce costs. This has the potential to help firms maintain materials usage within premeditated quantity which also has inference on waste reduction, as it portrays how suitably consumables are being put to use in firms' daily operations, and again it propels workers to be proactive in the efficiency drive their firm is engaged in.

Admittedly, it takes an enviable combination of natural assets, funds and energy in the production and ultimately arriving at firms' end products; talk less of transporting the finished products to desired locations. Arguably it cost as much or a little less to dispose of the same (Muralikrishna & Manickam, 2017). Any additional waste that goes into the ground releases corresponding amount of methane gas (well known notorious contributor to climate change), leachate, a (noxious mud that can exterminate animals and plants alike plants and pollute water supplies) (Environment and Climate Change Canada, 2019; Foo & Hameed, 2009; Ruppel & Kessler, 2017)

In a modest position, waste trigger greenhouse gasses, play a role in climate change and throw away unnecessary energy. Therefore, it follows that any amount of conscious and strategic effort firms care to make can make an influential difference to the environment, population and even profitability (Ameer & Othman, 2012; Gangi et al., 2018; Javied, Esfandyari, & Franke, 2017)

Lindsey (2011) opined that specifically communities and countries, in general, are better off in terms of sustainability if individuals and firms are less wasteful. He further observed that wastefulness could potentially interfere with the ability of current and future generations to accomplish their complete entrepreneurial capabilities. Niță & Ștefea (2014) asserted that firms' drive towards cost reduction lies in the fact that waste reduction is the most important goal in pursuing such a strategy.

Besides, watchful and attentive materials consumption is deemed as a crucial recipe that could propel firms' sustainability. The above strategy does not in any way prevent firms from operating to optimum capacity, it, arguably enhances it. Similarly, the explained scenario easily brings to our imagination the impact of waste reduction, to a firm that wants to implement sustainable policies, given that resources are always portrayed to be scarce.

Then again, the above scenario has confirmed that, as observed by Niță & Ștefea (2014), financial and sustainability goals are perfectly aligned. Similarly, it is recommended that companies at the forefront of fighting waste reduction and improved efficiency of resources to publicize as this could help them gain an even better public image (Martí-Ballester, 2017)

3.2. Energy consumption and alternative energy usage

Incessant demand in energy and ceaseless economic activities are undoubtedly interconnected. This interconnection has brought a huge increase in energy consumption. With this comes apprehension about global warming and climate change which translates into the pursuit of renewable energy measures with the purpose to reduce greenhouse emission and minimize its impact on the environment (Moreau & Vuille, 2018). The Sum of CO₂ reduction resulting from nonrenewable energy consumption could be reduced through conservation and efficiency initiatives in sustainable pursuits (Global Reporting Initiative, 2016)

Therefore, the process of searching and implementing proficient methods to be used and utilized in energy consumption as well as generating the same from renewable sources should be a cost reduction strategy for firms to seriously consider. In this perspective, the energy consumption and alternative energy usage should be at the forefront of firms' concern on their impacts on our entire ecosystems. Firms, as part of a strategic cost reduction initiative, should address their energy needs, consumption, and generation. It has been documented that firms' energy consumption can take any form, ranging from powering heavy machinery to such small items as lighting, heating, cooling. In powering both heavy and small items, firms could, either self-generate (wind, hydro or solar) or purchases from external sources that use unsustainable nonrenewable sources (Khare, Nema, & Baredar, 2016)(Hussain, Arif, & Aslam, 2017)

Firms' energy usage in an environmentally-aware perspective and of course their decision to go for renewable energy sources is both central for a contribution towards fighting climate change, drop down in their general environmental footprint and could ultimately translate into cost reduction (Ameer & Othman, 2012; Rodriguez-Fernandez, 2016)

According to Global Reporting Initiative (2016) firm's energy generation and usage do not always end up at their premises, it can have such far-reaching consequences throughout the upstream and downstream activities associated with the firms' undertakings. An illustration of this can include consumers' use of products the organization sells and the end-of-life treatment of these products (degradability of materials used in products).

No one can take away the fact that procuring and installing renewable energy generation systems require high initials cost outlay, which explains investors often lack interest in the purchase and installation of renewable energy generation systems. However, the running costs of renewable energy systems are much less than running and maintaining the same using traditional systems (Hussain et al., 2017; Luthra, Kumar, Garg, & Haleem, 2015). Radziszewska-Zielina & Rumin (2016) opined that unconventional energy systems are devoid of fears relating to unsteady market circumstances concerning the rising prices of fossil fuels as they mostly make use of free energy. As earlier mentioned, that initial cost outlay in the systems that use fossil fuels are much lower than those of renewable energy sources, however, cost reductions are, arguably obtainable to install and run renewable energy generation systems (Mathe, 2015).

3.3 Renewable materials and recycling

Changing the way a single firm sees and uses its everyday materials is fantastic. Even more fantastic is changing the same usage by several other firms. The unlimited sustainability potential is phenomenal if, for instance, materials are used from resources that can be replenished with relative ease by natural ecological cycles. How fantastic if firms could use resources in such a way that they are not in danger of extinction and continue to be available for the next generation.

The number of global inhabitants is projected to record a significant rise and as such, it is put to be in a region between 9.4 to 10.2 billion by 2050 (United Nations, 2019). The prospect of this worrying amplification in the global population, from the current status, is posing an immense challenge in terms of two important aspects, namely; production and consumption. As firms are more industrialized and businesses go in for relentless economic expansion, issues in sustainability like dreadful conditions of environments and climate change are evaluated in favor of more sustainable future (Huang, Chiu, Chao, & Wang, 2019; United Nations, 2019)

Making an inference from GRI 301(1, 2, and 3) there is an avenue where firms could explore potential for cost-cutting and making the environment better for the upcoming generations. Firms should be looking more than merely conforming or adhering to these standards, but rather looking at contemporary ways to profit from implementation as well. Under this standard, some issues were raised, which are recycled input materials used and reclaimed products and their packaging materials.

Using recycled materials is advantageous to the environment and cost-cutting initiatives. Cucchiella et al (2016) identified the presence of profitability within the recovery process of the waste printed circuit. It is apparent that rising amount of electronic waste is substantially harmful, however recycling these materials could help reduce environmental impacts and translates into economic gains (de Oliveira Neto, de Jesus Cardoso Correia, & Schroeder, 2017)

Moreover, de Oliveira Neto et al (2017) observed that the road industry could use renewable materials (i.e. bio-materials not subjected to depletion) in partial replacement of bitumen. Not only does this reduce carbon footprint and stops their disposal in landfills, but it also helps save costs from using traditional petroleum-based products.

3.4 water and effluents

There is absolutely no questioning how vital water is to life and its sustenance. It has been revealed by experts in the next decade global demand for water will surpass its availability by as much as forty percent. This has been caused in part by the world's population consuming more water-intensive food, electricity and consumer goods, putting increasing pressure on water resources. This depiction has made it incumbent on the world to develop, preserve and most importantly ensure that water resources are sustainably used (Connor, 2015).

Identification of water footprints could immensely facilitate firms to monitor and document their water usage in all steps taken towards manufacturing and producing goods and services. This concept also helps to account for water contamination in the build-up and to the end of firms' manufacturing and production activities. Besides, with the rigorous campaign by both the United Nations and GRI, firms are turning out to be gradually more responsive in appreciating that they contribute in many ways to imminent water shortage which forms a risk they must be held accountable for (Hoekstra, 2015).

Firms' water consumption and pollution during the production or manufacturing process are described as its water footprint. This concept of determining the product water footprint informs us how much strain it has on freshwater resources. Various measures are available for this concept including meters of water per tonne, liters per kilogram and gallons. Water resources crises are adjudged to be the highest impact risk the world is facing at the moment. This massive shift in the way water is viewed and treated as an absolute free raw material, to a holistic view that it is not absolutely free as the cost of its imminent dry-up will bring the world and its business activities to an abrupt halt. Therefore, business are beginning to appreciate that unsustainable water usage could tarnish the image of their brand, their hard-earned credibility, their ability to access credit facilities and ultimately rating insurance costs (Weber et al., 2016)(Ruini, Marino, Pignatelli, Laio, & Ridolfi, 2013)(Aldaya, 2012).

According to Rexhäuser & Rammer, (2014) firms that engage in innovations that are environmental friendly reduces their costs and ultimately increases profitability. In this regard, the immediate financial benefit of efficient and sustainable water usage may not be seen or have an impact on firms in the immediate sense, however, the cost (environmental and economical) would be hugely unbearable if actions and innovations are not taken now.

5. Conclusion

As a conclusion, it has been explained that there are potentially numerous benefits firms stand to reap by promoting a better public image. Some of the benefits include, but not limited to market trust and better value creation (Niță & Ștefea, 2014). With the advent of GRI standards and sustained promotion of sustainability reporting, firms would do well to be sustainability compliant as it would enhance their image and add more value to the business. The effort to initiate and of course implement procedures that reduce cost, via its several functions, can lead to business sustainability by reducing non-renewable materials usage, inefficiency in energy consumption, water and effluents, biodiversity impact and emissions.

Finally, firms could see their efforts yield positive results financially when they appreciate that they could take a strategically long view. Investing, in initially more-expensive methods of sustainable operation could, in the end, led to noticeably lower costs and higher yields. Alternatively, they could start implementing minor alterations that potentially generate an appreciable degree of cost-saving opportunity. From then on they could utilize the savings to fund advanced technologies that could make the firms' activities even more efficient. Admittedly, as mentioned earlier, firms naturally see sustainable practices as expensive and a likely encroachment on their profit-making ability, however,

preliminary investments made in pricey sustainable efforts could potentially lead to larger cost reduction eventually. Firms need not rely heavily on conservative business practices of focusing on reducing unit cost but by focusing on the whole system (Haanaes, Michael, Jurgens, & Rangan, 2013).

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