

Cradle to cradle circular economy model as the business strategy expected to link the financial performance to the environmental and social positive impact

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Abstract. The environmental, social and governance huge pressures that the world faces today, push also the business into a new phase, announcing a disruption as never seen before. While many companies still complain in a dangerous inertia, there are some taking the leadership towards an in-depth transformation to become sustainable. This transition is not simple, as companies have to find levers to address environmental and social issues, while remaining competitive and delivering good returns for their stakeholders. When truly committed to sustainability, companies know they have to reinvent themselves to make no compromise between a better world and the financial performance. Yet what business model could establish synergies among planet, people and profit, is there a winning strategy? Cradle to cradle model, based on circular economy maximises the reuse of resources, aiming to eliminate the concept of waste specific to the traditional linear model. Academic studies and field case studies show that, by applying cradle to cradle principles, a company could behave in a sustainable way and deliver growth. The transformation journey is a complex one. It requires vision, stakeholders engagement and courage to transform trade-offs into innovation opportunities.

Keywords: *circularity, economy, cradle to cradle, profitability, impact, synergy, trade-offs*

Introduction - Circularity as the new business pathway

Today's companies are at high pressures from economic, environmental and social angles. They are asked to constantly increase their return on investments, in a word moving with unprecedented dynamics in terms of population increasing and climate changes. Most of the recent academic and expert researches highlight that sustainability, while chosen as fundamental direction for the business, it will pay off accordingly or even surprisingly higher sometimes to shareholders expectations. Based on various academic evidences used in the Sustainability Leadership and Corporate Responsibility Programme of London Business School, today there is a solid business case for sustainability leadership. Academic researches results found that the sustainability driven business leaders perform better than their counterparts, regardless short-term or long-term approach and both for operational and stock market performance. On top of this, a study conducted by Harvard Business School, using the SASB (Sustainability Accounting Standards Board) materiality classification, concluded that companies with good performance on material ESG (Economic, Social, Governance) issues significantly outperform firms with poor performance on these issues. This means that focusing and investing in ESG topics would translate in higher value for the shareholders. There is clear evidence of sustainability enhancing business performance, next to reducing the impact on the environment and contributing to society, which stimulate companies to accelerate the transition before becoming too late.

In the framework of adopting sustainability as business strategy, the circular economy represents a central pillar. While under this concept there are several models, the cradle to cradle started to increasingly attract companies, probably due to its complexity and appliance in various phases of the business. While switching from so far a linear economy to a cyclic one, cradle to cradle involves waste free designed products, recyclable loops and biodegradable processes. Without entering now in all the aspects of the cradle to cradle model, exposed in the Fig 1 below mirroring its current linear model, the model reflects the circularity's benefits in terms of resources usage, stock management, process improvements – all this directly impacting the business' profitability.

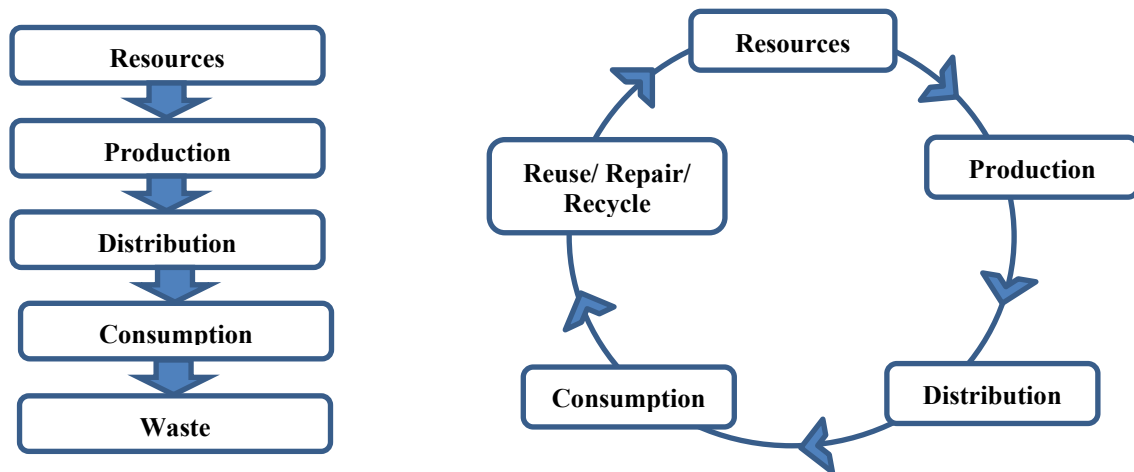


Figure 1. Linear economy model (left) vs circular economy (right)

High expectations to synergistically link returns, environmental and society

In a period when only in European Union are recorded more than 2 billion tons of waste every year, according to the official EU data, moving towards the circular economy is seen as the right solution to stop this destructive behavior. The analysts consider that (almost) closing the loop of the production and consumption processes through circularity is not only the way of reducing waste at minimum but will consequently create further value.

Adopting the circular economy should give business the opportunity to contribute to the environment and social welfare, while keeping their financial performance. That translates in reducing the greenhouse gas emissions (out of which industrial processes and product use are responsible for 9.10%) and lowering the raw materials dependency by reusing the same resources. From social point of view the optimist expectation is that the circular economy will be contributing to create more jobs, as a consequence of boosted innovation and increased competitiveness. Only in European Union, the estimation is that, thanks to this transition, around 700,000 jobs might appear by 2030. One of the main expectation from cradle to cradle model is to deliver financially sustainable business. While the environment and social, as main sustainability topics, keep getting higher among the priorities' list of investors agenda, the bottom line of profitability remains a very important criteria while selecting a company. This is the usual dilemma of companies, as they are looking for no compromise. A "brown" non sustainable product might be easily sold but will have negative impact on environment and society (due it's production processes and often the lack of biodiversity preservation and lack of care for the local communities). On the other hand, a "green" product, manufactured in the right conditions to protect the environment, will face higher challenges to be sold at the desired price to cover the costs and to remain profitable, so there a risk for what we call the financial sustainability. Circular economy, beyond its recognized environmental and social value, is perceived today as a viable business model for economic performance too. Multiple successful case studies started to be visible in the academic and professional landscapes, as clear evidences of applying cradle to cradle model in a way that makes possible to do business without compromise among economic, environmental and social dimensions.

Inevitable challenges and trade-offs on the way to cradle to cradle

1.From process and technologies to people

When a company truly commits to sustainability, everything is impacted in its activity phases: design, research, manufacturing, usage and end of life management. New processes have to be put in place, new technologies and systems to be adopted and learnt. This requires investments whose costs have to be covered by sales, which might generate a first point of internal tension concerning investments. Producing in a sustainable way impacts also the product lifecycle, which becomes longer.

This, aggregated to (hopefully) a reduced consumption appetite, will generate longer cycles for the business, meaning that a new profitability model might be needed, less based on volumes. The transition towards cradle to cradle, impacting every business steps, requires a full transformation. From sustainable raw materials, design, manufacturing and distribution to a new approach in selling the final product.

This obviously should translate in new processes and new technologies enhancing the circular economy within the companies, and the most important in a new people mind set. The transformation journey starts with people and is enabled by their proper beliefs and behaviors.

2.Onboarding the stakeholders

Employees, customers, suppliers and investors, as the key stakeholders, play a critical role for a successful transformation journey. Meeting their demands and expectations is one of the main challenges on the circularity switch, as this impacts in depth business' decision, like for example profitability's targets. As the endorsers of the right raw materials, suppliers influence company's costs, while customers need to be convinced of the final products' superior value, in order to pay the required price. Finding the right suppliers and the mechanisms to proof the value proposition in front of the customers, understanding their priorities and transforming the inevitable trade-offs in sources of inspiration to transform the organization, in ambitious targets – all this is the essence of moving further to become a truly circular company.

Employees commitment is the engine of this journey, and their resistance to change could represent one of the main barriers on this journey, based on real cases observations.

To onboard employees, companies need to go beyond just processes and to create an environment where people feel comfortable with the uncertainties that this journey entitles in terms of outputs and actions. It's the case for the investors too, as they will face important dilemma and trade-offs, mainly between immediate profit versus long term profitable investments. At global level there are visible movements in the capital markets, many investors becoming more and more aware and responsible of the impact of their decisions on the planet and people. Addressing and convincing the right investors represents one of the critical conditions that a company moving towards circularity should accomplish, for a successful transformations and long term growth.

Key success factors

Companies pursuing sustainability are expected to be dedicated to this, integrating environmental and social aspect genuinely in their business strategies. Any forms of greenwashing are much likely to have negative impact on long term business run, without counting the legal penalties. At European Union level the regulations keep getting stricter and a new directive concerning the green claims is in place, requiring companies to ensure that environmental claims are proven against a science-based & harmonized methodology. Truly embracing sustainability is a fundamental aspect to ensure long term positive impact for environment, people and return on investment. Having a clear vision of how your circular business looks like is equally essential to build the proper strategy. It requires fully onboard strong leaders, as they are key to inspire in uncertain times, to endorse the sustainability culture that the whole organization needs to embrace and to set ambitious goals in order to really succeed. Within this environment, a company is able to attract, retain and put the employees at the center of their approach integrating them in the business model. People commitment is key as they bring to life all the planned measures towards cradle to cradle.

As shown above, stakeholders engagement is critical for the new business processes. Cradle to cradle model pushes the companies beyond traditional boundaries, towards an opened cooperation and-co-creation to meet the circularity standards. Successful circular businesses show that partnership with cradle to cradle experts accelerate adopting the right measures during the transition.

All these key success factors are necessary to ensure probably the most important one, a critical driver in the transformation journey: the innovation. While going away of the traditional linear business model, truly invested companies have shown surprisingly creative potential. Driven by their vision of circularity, the creativity of minds got shape into new, innovative technologies, products, selling and investments ways. According to a survey on 78 global leaders across various industries conducted by WBCSD (World Business Council for Sustainable Development) and BCG consulting company, respondents said that “the circular economy drives innovation (97%) to help make the company more efficient and competitive in areas such as sourcing, product development and production processes”. Innovation is the real growth’s factor, to develop and expand business in a sustainable way, bringing answers and solutions to the trade-offs and conflicts that arose as part of the transition process. The innovation driven by sustainability – this represents the fundamental strategy to be integrated at the heart of the business model. To succeed, this strategy requires an working environment with tolerance to failure, in order to allow testing, failing, learning and scaling up. Extrapolating, the assumption is that the above mentioned success factors are corelated and should be addressed in an integrated way.

Conclusions - Doing well by doing good

Despite a certain inertia to push in-depth transformation of the business, sustainability will no longer be an option for the companies, due the increasing climate changes and social gaps. The remaining choice will be whether to frame sustainability as a thread or as an opportunity. According to the WBCSD, circular economy represents “the new way of looking at the relationships between markets, customers and natural resources” and is estimated to have a global economic growth potential of around 4.5 trillion US dollars. The main challenge for business environment is embracing the dynamic of fundamentally transforming its way of doing business and generating profitability. The business is today in the middle of two big forces: on one hand the environmental and social pressures impact on the costs, and on the other hands the increasing ROI (Return on Investment) required by shareholders. On top, authorities put in place stricter regulations to push for a more sustainable way of doing business.

Would it be possible to harmonize all these and if yes, how? is the natural questions. The circular economy business model comes with one of the best tested answer, at least so far. Studies and real examples showed that adopting the cradle to cradle model can deliver superior financial results and to have a positive environmental and social impact. The transition is complex and complicated, demanding vision, agility and capacity to see the trade-offs as opportunities for innovation. The businesses assuming this major disruption, as they took a genuine commitement to adress the biggest challenges of the word, will be the winning ones in long run, will build authentic and strong brands and will be able to achieve higher growth. And, the most important, driven by sustainability beyond business performance, they will behave as a force of good in the new global condititons.

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