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## Key Sustainability Tendencies That Will Concern Business Managers in the Next Decade

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### Abstract

The first decade of the 21st century finished in a note of global warming activism, introducing of digitization in all sectors, financial innovation, etc. During time, researchers studied the connection between human activity and ecosystem health. All governments' policies are on the way to be adapted to bring more positive changes into society. At local level, there are a rising number of politicians, CEOs, and consumers who are aware that few problems, from social and environmental area, become so big that almost cannot be controlled if we continuing our actual style of living. Being under the pressure to adapt to new realities, some companies saw an opportunity by transforming themselves and they chose to be proactive in changing their way of doing business. After the Covid-19 pandemic spreading all over the world, the reality change again and, despite the terrible negative effects, the situation will entail a series of opportunities in innovation, investment, finance which will have greater consequences on companies market share. Using descriptive and comparative analysis, we will try to identify what new tendencies in sustainable businesses are, taking in account a series of the uncertainties that medical urgency could bring. It is clear that in an extended and longer pandemic, the sustainability is shadowed by priority of saving lives and jobs, but we demonstrated why supporting new sustainable measures will bring huge opportunities for innovation and investment.

### Keywords

sustainable investments, responsibility, global warming.

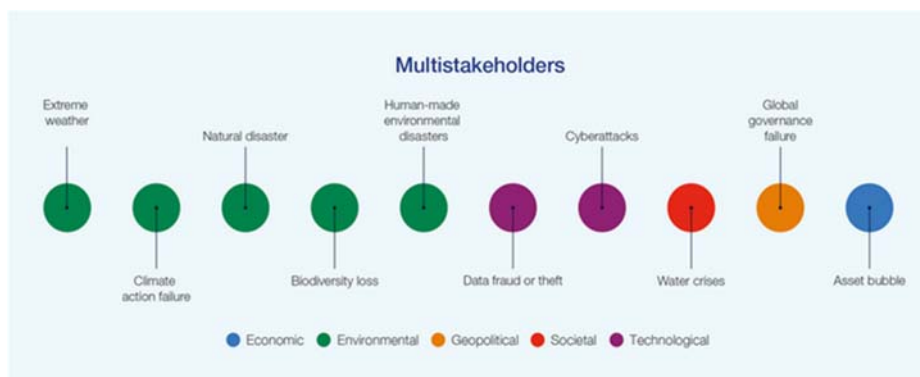
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### Introduction and status of knowledge in the field

We cannot talk about sustainability if we don't take into consideration the global warming problem. Climate change is directly linked to greenhouse gas emissions produced by human activity which is a real multiplier of biological threats. There is a direct link of human action against the nature and this aspect is highlighted by a number of researchers, even starting from the end of nineteenth century, who tried to explain in different models the connections between human and ecosystem health as well as their interrelationships.

The first one was Blum in 1974, followed by many others (Lu, et al., 2020 being the last one). Overall, among the highest risks scaled by World Economic Forum Global risks report 2020, the first 5 out of 10 risks are related to global warming. Maybe this is an explanation about the fact that people generally perceive the climate change danger but still they don't see it as being imminent and deadly – we know the risks and we start to get used the idea.



**Figure no. 1. Top 19 risks over the next 10 years. Long-Term Risk Outlook: Likelihood**  
 Source: WEF. Global Risk Report. 2020

In the following part, we will approach few ideas that we believe might concern not only managers but also simple people and consumers.

### Research methodology

Using descriptive and comparative analysis we tried to exemplify with real data what new tendencies in sustainable businesses are for the next decade. We started our paper work explaining why a sustainability strategy is important, will continue with ESG development, the important shift of China towards ecology, we'll have look on hoe family business can have a major impact on social and environmental issues and we'll fished by a short analyses of textile industry. We reviewed data from different sources to understand the causal contribution of different factors that can have a major contribution for sustainable development in the next decade.

#### *Transforming the sustainability strategy into a sound business model*

To deal with the impacts of global warming all companies must integrate sustainability into corporate strategy. Some steps are already done, at different levels.

For example, few companies started to consider their strategy by taking into account the consumer's awareness regarding the product's carbon footprint, which represents the value of total greenhouse gas emissions associated with the product/ service/ industry/ nation, etc. Because end consumers started to put more value in this aspect, producers were obliged to accept sustainability as a pillar of the economic strategy (Hristov and Chirico, 2019).

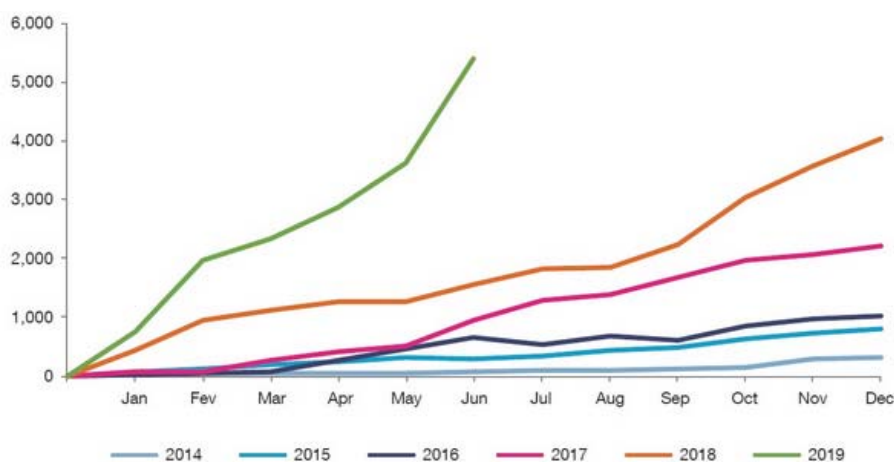
Other companies decided to be proactive and assume greater responsibilities in becoming a promoter of sustainability even though their strategic position on the market is dominant. One of the best examples is OCP Group of Morocco; a company which is the "custodian of 70% of the world's phosphate reserves" decided to assume the mission "to feed the soil to feed the world". OCP started as a simple mine in 1920 but today the strategy of the company is not only to increase the phosphate production to satisfy the growing demand but also to "understanding the different soil and crop requirements and supporting the farmers' sustainable use of fertilizer". It is probably one of the best chances for Africa to develop its huge agricultural potential. OCP also invests in new technologies to increase efficiency by using and reusing phosphate, conducting soil mapping and analysis to deliver performing products. They are fully dedicated to supporting sustainable development goals.

#### *Sustainable finance*

More and more investors around the world are becoming interested in using their financial resources in long-term and sustainable projects rather than short-term oriented, extractive, and polluting operations. Despite this fact, it is still very difficult for different private stakeholders to understand how

sustainable are in reality their investments and what the impact on the environment and society is (Cao and Zheng, 2016). During the time, in the financial sector, the criteria of the ESG sustainability rating (E - environment, S – social, G - governance) have become known as a key assessment indicator that could give more transparency in the investment decisions.

Bank of America Merrill Lynch estimates that assets under management in ESG equity funds based in Europe will rise by €1trn by 2030. The analysts predict also that one-third of European equity funds will invest in ESG by the end of the decade. According to the same paper, it is also important to mention that over the last two years, investments in ESG funds have increased by 8 times, while more than 1000 ESG funds are active in the financial market, which represents a 40 times increase in the last 10 years. EU is an example from this point of view, but even in the European Union, ESG funds represent only just 7% of total assets.



**Figure no. 2 Cumulative net new assets invested in ESG ETF (exchange traded funds) in Europe (€m, by year).**

*Source: Lyxor ETF, Bloomberg, data from 01/01/2014 to 30/06/2019*

We could see from the Bloomberg graphic above that in the last 5 years the number of investments in ESG assets is growing constantly. EU regulations are also part of the reasons since there is continuing pressure on funds to take ESG into account. Since 2017, more than 6000 EU companies were required by EU Non-Financial Reporting Directive to publish ESG data in their yearly reports.

The rise of ESG investments is steamed by other factors (Cornell, 2020) as follows:

- the growing of ecologist parties, during the last decade, at the national level and consequently with an increasing number of seats in the European Parliament;
- the structure of clients is changing, more and more young investors are entering into the financial markets and the since the advantages of ESG stocks have been tenaciously explained, it is somehow normal to see more and more people interested in these aspects;
- bringing ESG shares into portfolio could create a diversity of investment which finally will enable improved profitability and returns of companies, in every area of the economy; ultimately this will improve the quality and longevity of the businesses.

*China's political trend is shifting towards ecology*

There is no possible significant initiative in the near future without China. Neither U.S. (despite the new administration) nor E.U. could advance solely in fighting global warming. Some facts cannot be diminished when we talk about sustainability:

- The contribution of Chinese leadership in Amazon fires in Brazil. China is today the only country with a real influence on the internal policy of Brazil. A few decades ago, the U.S. and Europe had an important influence over Brazil, as “Paris Club” members, at some point, there were discussions about a swap of debt forgiveness in exchange for protecting the rain forest. Today, for Brazil, China became the most important partner of business. For China, Brazil became a market of 30 billion USD investments during the last decade. China is the largest buyer of agricultural exports, especially after the trade war with the US. In 2018, Brazil exports 75% (51 million tons) of Chinese soy purchases, and 44% of Brazil’s total beef exports.

- China has become the second-largest contributor to United Nations (12,005%) and is full beneficiary from United Nations Environmental Programme and, at the same time, is struggling to unite the forces of UNEP and Belt and Road initiative into an International Green Development Coalition. But the country is working hardly on the environmental effects by technocratic and market-based measures (Zhang, 2018).

- After economic effects due to the Covid pandemic, China results to be one of the less affected economies. With GDP positive growth of around 3% (according to various sources) China is the only major economy in the world to avoid a contraction last year, all the other countries suffering from containing the consequences. This situation will give more power of influence to the Chinese government.

Taking into account all these aspects we believe that the next year (if not years) the Chinese diplomacy will be an important partner. The question is if other countries will want to engage with China. The new administration of the U.S. seems to revert to better sentiments regarding the fight against global warming by returning to Paris Agreement, it remains to see how this situation will bring positive effects.

*The new generation of family business can have a better environmental impact*

Family businesses represent 2/3 of all companies from the entire world and contribute 70-90% of annual global GDP. According to Family Firm Institute, family businesses create 50 to 80% of all jobs worldwide. In the U.S, 1/3 of SandP 500 firms are owned/controlled, and/or managed by the founding family. Family businesses generate 89% of total tax returns and 64% of GDP; also, 62% of total employees are working for them.

In Europe, the situation is similar, according to Forbes, half of the businesses from Top 500 Family Businesses in the World are based in Western Europe, which makes family businesses a real economic power.

In India the economic landscape is also dominated by family businesses, with 111 publicly-listed family-owned businesses, the country is in the third position in the world, from this perspective. Despite its political organization (most of the companies are state-owned), China has 159 such companies followed by the US with 121.

These companies can play an important role in addressing some of the world’s most pressing challenges.

Currently, despite several positive examples that we already have mentioned before, there is a permanent focus on short-term results in the company’s management board of non-family businesses. Short-term vision, continuous growth, and profit and loss are the main indicators scrutinized by every director and this leads to a generalized situation of risk-averse. “Stay safe” seems to be these days the main preoccupation for individuals but also for most companies. At the same time, the family companies have enough resources to afford a long-term view and this allows them to have a larger perspective, they could look for long-term growth, margins, and returns.

This situation has various consequences for the owners of a family business. For example, there is a lower need for external funding since all the profit is reinvesting regularly into the business. Giving the conservative spirit of every family business, there is a permanent control of the company’s financial situation. They will rarely take advantage of leveraging or increasing their debts. The focus is rather protecting their loyal people or investing in RandD as a raincoat for bad weather. There is also an

important stock of knowledge, gathered from generation to generation. These people saw many financial crises and economic booms so they will never react harshly or speculate. There is an important experience built during decades or centuries and they know how important is to have a certain positive attitude to succeed.

Ineluctably there is a new generation inline to inherit the business but there is also a matter of personal pride to create a sound legacy for each of the future stakeholders. At some point, the question of growth and profit is less important. Once arrived at this point, we believe that family business managers could play a higher role in changing the business model by bringing more sustainability measures into the strategy.

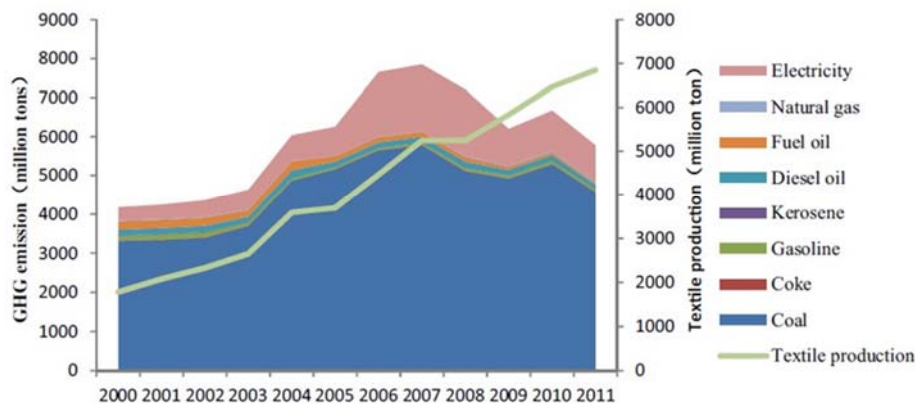
Corporate Social Responsibility and philanthropy are very important at all times but transforming the business model through a sustainability perspective is maybe most efficient because it will have a real impact on the people and the planet. Due to their direct connection to businesses, family owners and their enterprises are in a privileged situation to manage this challenge.

*Realignment of textile and luxury goods industry*

Some of the traditional industries will have to adapt the way they were working if they want to remain competitive in the eyes of clients. According to the United Nations Environment Programme, for each pair of jeans 3,781 t of water is necessary, along the entire production chain – starting from the production of the cotton until when the final product is waiting for the client, on a shelf of a store. The process is equivalent to the emission of around 33.4 kilograms of carbon in the atmosphere. Starting from this everybody could calculate the environmental impact of his wardrobe.

By comparison, the amount is higher than all international flights and maritime shipping combined, and the emission growing at a steady pace.

A research regarding the environmental impact of the textile industry in China (one of the big producers worldwide) came up with the conclusion that the fashion sector contributed 4 to 8 billion tons of GHG (for the considered period).



**Figure no. 3. GHG emissions from the fashion industry and other sources, in China.**

Source: Source: Huang, et al. (2016)

UNEP and the Ellen MacArthur Foundation came up with other data to realize the full environmental impact of the clothing industry:

- The entire consumption of water, each year, is around 93 billion cubic meters – this equivalent with to the need for consumption of five million people.
- The production operations of the fashion industry (for example dyeing and treatment) are responsible for 20 % of wastewater worldwide.

- 87% of the entire production of fibers used by the fashion industry is disposed of or buried in a landfill.

- 10% of annual greenhouse gas emission is generated by the fashion industry and if the rhythm of growth is maintained may rise by more than 50% by 2030. By comparison, the amount is higher than all international flights and maritime shipping combined.

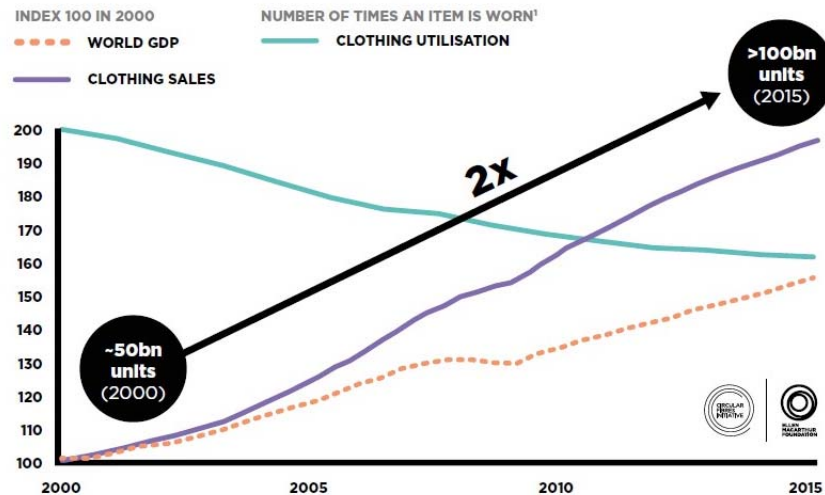


Figure no. 4. Growth of clothing sales and decline of utilisation since 2000.  
 Source: Euromonitor, (2017)

We can see that during 15 years, the production of clothes has almost doubled due to growing revenue per capita and consequently to a rise of middle-class population. As we speak of fast-food we can speak also about fast-fashion, phenomena characterized by a quicker shift of new styles so therefore a higher number of collections offered per year.

By comparison, the amount is higher than all international flights and maritime shipping combined, and the emission growing at a steady pace. The problem of this industry is huge and cannot remain without effects. For a larger and even growing number of end consumers, the environmental impact is no longer acceptable.

It is obvious that the time of a significant realignment of industry arrived and a few of the future measures or areas to search could be:

- a slowdown of the generalized production and focus to manufacture based on order, to avoid the waste;
- increasing the use of second-hand products, already many companies are present on the market with this type of business;
- the engagement of textile companies to reduce the carbon footprint;
- since e-commerce is more and more present in our way of doing shopping, it is time to analyze its impact from the climate change point of view.

In any case, the time of change has arrived for the fashion industry and shoppers who are on the way to change their behavior regarding environment impact will make them adapt.

**Conclusions**

The next decade will be critical because companies are already under pressure to realign to new standards imposed by environmental urgency. We just described a few of the new trends that we consider as being important but the reality could always be surprising. The pandemic almost stopped the economy and many businesses have to adapt to the realities.

The managers have to change the way their companies are doing business if they want to survive on the market by accepting, embracing, and implementing new methods of production; being more innovative but less polluting is the only chance to address the world's urgent challenges.

Undoubtedly supporting new sustainable measures will bring huge opportunities for innovation and investment but at the same time greater image and positive publicity and finally market share. Taking into consideration the urgency of the situation, trying to produce sufficiently with fewer damages to the planet is the only way of success.

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