The Profit Component

Business owners or investors, that is, stockholders in a public corporation primarily engage in this business activity to earn a return on their invested money. Other business owners seek a level of profit that generates a return at least equal to other options they have, and that is commensurate with the risk of the business. The usually accepted meaning of return is either return on equity (ROE) or return on investment (ROI).

The numerator of this widely accepted formula is directly affected by expenses incurred, and the denominator is primarily affected by new investments made into the business.

The following is an example of return on investment dealing with regulatory compliance:

Assume Firm A, on an ongoing basis has the following:

Revenues are $100 million.

Expenses are $80 million.

Profits are $20 million.

The investment in the business to date is $200 million.

So ongoing ROI = 20/200 = 10%

If this company is now required, for example, to install an electrostatic precipitator as a means to reduce sulfur dioxide emissions from its glass manufacturing operation, the firm's ROI would be affected as follows:

Assume incremental operating expenses of $1 million per year in utility, maintenance, and labor costs to run the equipment.

Assume an incremental upfront new equipment investment of $5 million.

Resulting ROI, all other things being equal declines from

20/200 = 10% to [20 - 1]/[200 + 5] = 9%

How many of the firm's stockholders would normally be enamored with such an investment if it in fact were discretionary? They could ask what the alternative would be, disregarding environmental damage or air pollution. This might involve added legal fees and fines, so once again the profit motive would show up as a cost avoidance to be added to the evaluation.

The profit piece of business sustainability requires taking on a longer term perspective.

U.S. senior managers, in particular, are driven to be short-term focused by the demands of the stock market and its typically large institutional investors. While this may drive short-term profits, a focus on short-term profitability can directly hurt longer term profitability. Just as delaying maintenance or advertising can have a short-term positive profitability impact, but will likely hurt the firm in the long run, so does delaying or ignoring action and investment in sustainability.

This triple bottom line profit component represents a longer term view. Say a firm has developed a product that is very profitable, but which happens to use up a scarce natural resource, like platinum in catalytic converters or cadmium in certain electronic devices. What will happen to longer term profits if this product line dominates the firm's revenues yet its limited supply diminishes?

Business sustainability would require that either this product's initial design should have been carefully reconsidered or that a cradle-to-grave recycling methodology should have been developed before the product was even launched.