Chapter 13

Financial Sustainability of Innovative Technology in Retailing

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ABSTRACT

The main purpose of this chapter is to address two important areas for successfully managing retail businesses—financial sustainability and innovative technology—in order to find out in which ways they affect each other. In order to clarify the financial sustainability of innovative technologies and the ways innovative technologies contribute in achieving financial sustainability in a retail company as a whole, it has been explored in grocery retailing in the Republic of Croatia. The results of a study among the top retail companies operating in the Croatian market suggest that innovative technology has the highest priority in their strategic and financial planning as one of the four fundamental pillars of financial sustainability. However, the results also indicated a long payback period after the implementation of new technological solutions.

INTRODUCTION

The reporting of sustainability matters has progressed as stakeholders are increasingly seeking disclosures, not just on companies’ financial matters but also on environmental and social practices (Milne & Gray, 2007). Cremers (2013) points out that sustainability-related issues, such as financial sustainability or energy efficiency, can be part of the board’s strategic planning tasks. The issue of sustainability is multifaceted, because it involves the avoidance of imposing an excessive burden on future generations and ensuring the country’s capacity to appropriately adjust budgetary policy in the medium and long run (European Commission, 2006).

The word ‘sustainable’ has gained common usage in a variety of areas since the 1990’s (LGA, 2012), and it is most often used in the context of environmental management in seeking alternative
renewable energy resources, along with energy-saving practices and technologies, to try to make energy consumption practices sustainable. Financial sustainability is a similar concept relating to the capacity to cover all expenses with revenues.

This quest for sustainability has already started to transform the retail environment, and forced companies to change the way they think about customers, competitors, products, technologies, processes, etc. Retailers place an emphasis on activities designed to cut costs, to make shopping more exciting for their consumers, and to manage their environmental and social responsibility as well. Among them, innovative technologies play an important role in improving the sustainability of retail businesses. They improve services to customers, management operations and reduce retailer’s distribution costs. However, investments in technologies do not always provide the expected returns. If the implementation of new technologies allows retailers to offer their products and services to the market at prices that cover their expenses and generate a profit, as well as improve their communication with suppliers and other members of the supply chain, then we can say that financial sustainability has been achieved.

The objective of this chapter is to identify the determining factors of financial sustainability in retailing. However, induced by a suggestion in the literature that a retailer’s ability to build and defend competitive position on the market depends, to a large extent, on the willingness and capacity of the company to invest in and use technology, we aimed to investigate whether innovative technology could help retailers secure their long term sustainability.

The fact is that there is an interaction between sustainability and innovative technology in retailing. Retailers have become more than passive intermediaries between producers and manufacturers on the one hand and customers on the other. They have to be involved in the implementation of innovative business practices provided by technological innovations as retailing technologies are constantly emerging.

Following this introduction, the chapter begins with the theoretical background and the definition of the term financial sustainability, basic principles and key elements of financial sustainability, etc. As there is a vast body of literature that is not harmonized regarding the benefits and limitations of new technologies, the main purpose of next chapter is to shed light on the opportunities of innovative technologies in retailing. In order to clarify the financial sustainability of innovative technologies and the ways how innovative technologies contribute in achieving financial sustainability of the retail company as a whole, it has been explored in grocery retailing in the Republic of Croatia. The chapter concludes with a summary of the major findings of the study, where managerial implications are also discussed.

THEORETICAL BACKGROUND

To understand the connection between financial sustainability and innovative technology for retailers, it is first important to define the terminology that will be used. As there is no literature with an extant definition for financial sustainability, this chapter will draw upon broad literature within sustainability, sustainable development, financial management, etc.

The literature mostly deals with sustainability and sustainable development, as a measure or a process of change in which the resources consumed are not depleted to the extent that they cannot be replicated (Renko, 2008). Hasna (2007) considers it as a process which tells of the development of all aspects of human life affecting sustenance. “It means resolving the conflict between various competing goals, and involves the simultaneous pursuit of economic prosperity, environmental quality and social equity famously known as the three dimensions with the resultant vector being technology….” The way some companies are defining the term sustainability has cast doubt on their commitment to protecting the planet for future generations (Adams & Larrinaga-González, 2007, p. 337).