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Sustainability dilemmas in emerging economies

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Academic perspective

Increasing evidence of climate change is forcing businesses to play an active role in reducing sustainability burdens and preserving resources for future generations. Extant research on sustainability has an exclusive focus on developed countries with stringent environmental regulations and activist scrutiny. Emerging markets present interesting dilemmas since rapid mass urbanisation aimed at raising standards of living poses concomitant threats to environmental health. This round table aimed to uncover best practices in the Indian business context in order to draw some parallels to global sustainability best practices.

In general, emerging markets lag behind developed economies in environmental stewardship. However, resource depletion pressures, coupled with grass root movements to preserve environmental sanctity, opened up opportunities to innovate and leapfrog sustainability challenges in developing economies. Large industrial conglomerates in the Indian business world have taken up the challenge to innovate for sustainability. Mumbai-based Godrej and Boyce Company adheres to Good and Green goals that involve reducing the environmental impact of its operations, producing products that are environmentally superior, and providing training to one million people under 25 for skilled employment. Similarly, the Tata Group has a point system for sustainability that is built into existing components of leadership, strategic planning, and measurement. It is not only the industry behemoths such as the Tata and Godrej groups but small companies such as Kirloskar treat sustainability as a strategic priority by...
developing highly efficient pumps and offering energy audits to its customers (Wyeth, 2013). Sustainability managers in emerging markets are known to take a bootstrap approach by starting small and scaling up. For instance, Shree Cement in India started off with small changes to conserve electricity, a precious resource in India. Over time, these small changes added up to an impressive EBITDA margins of 39% in the mature cement industry (Haanaes, Michael, Jurgens, & Rangan, 2013).

The Indian business world shares common concerns with the Western world such as rising energy costs, water shortages, cost savings through waste reuse, and consumer demand. However, some unique Indian factors include maintenance of backup generators — due to frequent power outages — that increase carbon emissions, higher material costs that provide an incentive to avoid waste for a higher payoff, and supply chains that embrace economically vulnerable villages necessitating efforts to keep them viable by upgrading water supplies, education and providing better connection from farmer to market (Wyeth, 2013). Additionally, Indian government policies have turned up the pressure on business compliance through three new initiatives in recent years. In 2011, Ministry of Corporate Affairs issued National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business. The largest 100 companies in India are now required to publicly disclose their sustainability initiatives. Companies in the energy-intensive sectors are required to comply with an energy-efficiency cap and trade programme launched by the Bureau of Energy Efficiency. Finally, a recent overhaul of India’s corporate law requires large businesses to devote 2% of their profits to CSR.

How do Indian companies cope with the rapidly changing sustainability landscape that presents dilemmas of sustainability and financial performance? The sustainability performance debate spans diverse academic disciplines such as management, marketing, economics, accounting, tourism, operations, law and more. Although a synthesis of these diverse bodies of literature is beyond the scope of this academic note, we attempt to raise questions that are useful for practitioners and academicians in taking the sustainability debate forward.

The meaning of sustainability remains elusive, with some scholars equating it to environmental stewardship while others think of sustainability as analogous to corporate social responsibility. Business sustainability refers to the ability of firms to respond to their short term performance needs without compromising their future growth that requires the natural and human resources available in the external environment. Examined under the rubric of triple bottom line, a common theme among all sustainability studies, is the tenuous balance of economic, social, and economic objectives for sustainable development.

While acknowledging the importance of the diverse terms used to capture researchers’ interest in sustainable development, we use sustainability as a global term to capture the triple bottom line conception of firm responsibility towards its various stakeholders. For the purpose of this note, we adhere to the following definition of sustainability by drawing upon several definitions that have appeared in the literature: sustainability encompasses voluntary corporate strategies geared towards an integration of environmental, social, and economic objectives into the fabric of the organisational life (Quinn & Dalton, 2009). The environmental aspect of sustainability considers the impact of organisational activities on natural resource depletion, pollution and emission management, waste management, and energy and resource use among others. The social aspect of sustainability reflects on the social obligation of the organisation to the communities by managing issues such as poverty, income inequality, disease, access to health care, clean water, sanitation, education and broader societal problems that organisations are increasingly called upon to solve. Finally, the economic aspect of sustainability concerns the viability of the organisation to financially thrive in a competitive marketplace.

Although the three pillars of sustainability are presumed to work in harmony, in the real world there are often conflicts among the three. For example, managers wonder whether it pays to be green. In spite of numerous studies spanning three decades, this question is yet to be answered. For instance, several narrative reviews including two recent meta analyses point to a very small correlation between sustainability and financial performance (Etzion, 2007; Margolis & Walsh, 2003; Orlitzky, Schmidt, & Rynes, 2003) with researchers identifying a number of contingencies such as differentiation through innovation (Ambec & Lanoie, 2008), firm size, and industry type (Dixon-Fowler, Slater, Johnson, Eilstrand, & Romi, 2013).

In order to organise the burgeoning literature on this central question of managerial relevance and to motivate the debate on sustainability practices within the Indian business context, we propose a framework based on managerial choices within the three pillars of sustainability. Since managers often pitch environmental and social issues against financial returns from such practices, we plot strategies based on dilemmas among the two. Fig. 1 illustrates four sustainability related strategies that are grounded in the organisational practices pertaining to sustainability and financial returns on sustainability investments.

Visionaries integrate sustainability into their core organisational strategy and enjoy superior return on sustainability investments. The license to operate strategists view sustainability as a burden on their financial returns.
and often subordinate sustainability to economic viability. The social contract strategists consider sustainability as an obligation that needs to be paid forward. Finally, the suboptimal strategists do not excel at either sustainable performance or financial performance. The corporate world presents an interesting canvas of shades of green that the round table aspired to uncover. These four profiles are elaborated below.

The ingenious visionary

The ingenious visionary strategy attempts to reinforce financial returns through sustainability and finds no tension between the two goals. This strategy is exemplified by research that ties sustainability to innovation and operational efficiency (Starik & Marcus, 2000), competitive advantages (Aragon-Correa, 1998), reputational endowment (Hart, 1995), environmental impact assessment (Bruhn-Tysk & Eklund, 2002), differentiation (Hoffman, 2005), eco-design (Kats, 2003), and better human resource practices (Henriques & Sadorsky, 1999). The visionary strategy embeds sustainability into core organisational operations and is focussed on prevention at source (Aragon-Correa, 1998). Backed by top management, visionaries make environmental and employee management a priority in business analysis through product and process innovation, creative problem solving and stakeholder collaboration (Russo & Fouts, 1997).

Visionaries tap into their human resource (HR) function to play a crucial role in leading and facilitating their sustainability efforts. They plan and constantly modify their HR strategies such as recruiting, employee orientation, and training to align with their sustainability strategies and culture, one hire at a time (Sroufe, Liebowitz, & Sivasubramaniam, 2010). Top management considers engaged employees as an asset and encourages them to immerse themselves in innovative practices that catapult the organisation to unique sustainability related competencies. Employee incentives include community service hours such as planting trees and top management compensation is tied to environmental and social efforts in addition to financials. For instance, Florida Ice & Farm, a Costa Rica beverage bottler rewards its executives for helping to reduce the sugar content in their sodas (Haanaes et al., 2013).

Research documents how some companies struggle to gain employee compliance towards sustainable practices. Recent research points to cooperative and coercive tactics to gain compliance. Cooperative tactics were more influential leading to a nuanced persuasive style that includes “influence without authority.” Sustainability managers must convince other employees of their credibility in sustainability and then leverage this expertise by using rational persuasion through the use of facts and figures. Inter-industry variation with the potential tendency for rational persuasion would be more prevalent in manufacturing and engineering, whereas emotional appeals to the values of the company (e.g., health care, environmental organisations) would be more relevant for other audiences such as clinicians (Jayanti, Gallagher, & Porter, 2013).

These visionaries are more likely to have an explicit sustainability policy in place and strive towards developing a sustainability oriented culture in their organisations when compared to others. Research sounds a cautionary note by pointing out that in general firms’ financial performance declines as their sustainability performance increases unless they invent new products, processes, and business models. In order for the visionary strategy to work, companies need to focus on issues that are most relevant to their stakeholders and produce major innovations in both products and processes (Eccles & Serafeim, 2013).

Visionaries enjoy significant commitment and buy-in from their top management. However, resource constraints as well as cultural and institutional resistance to change behaviour at all levels are cited as barriers to a truly integrated sustainability strategy by visionaries who feel that sharing best practices can mitigate the problems (Sroufe et al., 2010).

The license to operate merchant

The license to operate strategy professes a tension between sustainability and financial performance. Managerial strategies prioritise financial performance over sustainability and prefer to deliver performance that meets the threshold of societal acceptance in order to gain legitimacy. Managers strive to fulfill societal expectations mainly through compliance. Top management involvement is generally negligible and employee training and buy-in are considered superfluous (Henriques & Sadorsky, 1999). The HR function is not integrated into sustainability strategy. This reactive stance to strategy views sustainability as an additional cost imposed on the firm which will ultimately erode their global competitiveness (Ambec & Lanoie, 2008). Focussed on corporate efficiency, license to operate strategists argue that transferring the societal costs to the firm hampers managerial focus on shareholder wealth maximisation. Examples of violations to license to operate abound. For instance, the right to use water is an extremely contentious issue between communities and bottling businesses. Companies like Nestle and Coca-Cola faced sustainability challenges with regard to water rights. Allegations about Nestle’s excess water withdrawals that affected private wells in Michigan prompted Nestle to develop a community commitment framework. Similarly, community activists blamed Coca-Cola for drought conditions in Kerala, India, that eventually lead the company to shut down its plant (Singh & Jayanti, 2004).

The social contract altruist

The social contracts strategy recognises that organisational activities impact the communities in the organisations’ external environment and moves the sustainability debate from social responsibility to social obligation. As such, social contract focuses on a forward looking idealism where investments in sustainability are perceived as social contracts for global human welfare. Managers recognise that organisational priorities need to align with larger systems through sustainable practices that create social capital which can be a source of future rents. Such an inclusive
The suboptimal merchant/altruist

The suboptimal strategy exhibits no discernable strength in either sustainability performance or in financial performance. Managerial practices reflect the stuck-in-the-middle generic strategy and lag behind the other three quadrants due to negligible top management involvement in sustainability efforts. As such, explicit goals and policies with regard to sustainability as well as employee awareness of sustainability obligations are absent.

The suboptimals cite widespread apathy and lack of commitment in their organisational culture and top management regarding sustainability initiatives. In addition, lack of resources, cultural and institutional pressures emanating from “business as usual” mental model act as barriers for pursuing a truly integrated strategy for suboptimals who cite education and communication as a solution to their apathy (Soufe et al., 2010). As a group, suboptimals have not attracted any research attention in the literature making it difficult to make any generalisations with regard to their strategy.

Going forward

Our framework does not lock in managers in iron cages but recognises that the dynamic nature of markets forces constant churn among strategies exemplified at any one point in time. In general, managers who exhibit exemplary sustainability performance adhere to strong forms of sustainability with the recognition that natural capital cannot be substituted by human capital and should be preserved in order to reap future rents. These are the visionaries and altruists in our framework. Weak forms of sustainability is the operating philosophy of license to operate merchants and suboptimal managers who believe that natural resources are inexhaustible and will always exist to be exploited for human benefit. How these differing philosophies manage sustainability for global welfare is an evolving debate.

Implementing a comprehensive sustainability strategy that delivers financial performance to the firm is all about initiating and managing change. Such an effort requires a long term focus on institutionalising sustainability within the firm. Management education in business schools plays a key role in raising awareness with regard to embedding sustainability within organisations. Providing critical insights into the success of sustainability strategies is still a work in progress, especially in emerging economies. We believe that the round table opens the door to an important dialogue among sustainability enthusiasts to bridge the gap between academic and managerial perspectives on best practices.
through membership in the Dow Jones Sustainability Index for three times and ranked # 2 in the Newsweek Global Green Companies rankings. Sachin Damle is Head of Sustainability Consulting at Infosys. He has facilitated development of Corporate Sustainability strategy for US based OEM manufacturer of power generation systems and has developed a business model for solar power plants in India to facilitate policy recommendations to the Ministry of New and Renewable Energy (MNRE). Sunita Purushottam is a Principal Consultant in the sustainability practice at Infosys. She is an active contributor to a wide variety of forums like GRI, GIZ, CDP, International Telecommunications Union, DESC, and Nasscom. Padmini Srinivasan teaches at IMIB, India and has served as consultant to many organisations in the areas of designing and implementation of management information systems, accounting systems and other corporate accounting practices. Sourav Mukherji also teaches at IMIB, India and he will focus on the social dimension or the inclusivity aspect of sustainability.

It is clear that ingenious visionaries harness significant entrepreneurship and/or cost reductions involving operational efficiencies to integrate sustainability with financial performance. However, most of this scholarship is from Western countries that face a stringent regulatory environment and intense scrutiny of operations. The first issue on the table is:

*What are the strategies adopted by ingenious visionaries in an Indian context?*

**Pradeep Bhargava**

The point I want to make is that it is not a choice between being lean and being green; being cost effective or being environment friendly. We could be both and it is possible for industry to be green and profitable. Here is my message to the industry: we in the industry need to recognise that it is our responsibility to be conscious of the environment. Many in the industry say, I will pay my taxes and leave the business of the environment to the government. But we have to own the problem of the environment. We are, in a manner of speaking, dream merchants. We ignite aspirations and create demand and we provide goods and services to fulfil them and which impact the environment, so we have to take responsibility. Further, environmental sensitivity is not only about caring about nature but it is also about using nature. It is not enough if you treat your effluents or discharge them safely, or save on power. In our factory, we used wind that was already present in nature, we used water through rain water harvesting; it was all there — we just had to use it. Finally, it is not a question of efficiency and productivity or environmental sensitivity. Businesses cannot look at the environment as just a compliance issue but need to recognise that we must include the environment holistically in our scheme.

**S. Raghupathy**

I will approach the issue of sustainability from the perspective of the green builders’ community. The key message of my presentation is that sustainability is an excellent route to profitability. *Green buildings are becoming a way of life.* The CII-Godrej Green Business Centre, Hyderabad was the first green building in India and achieved the prestigious platinum rating of the US Green Building Council. It paved the way for 2000 green buildings in 2013 with total area of about 1.39 billion square feet. What drove this movement? There are *tangible benefits to green buildings* with 30–40% of energy savings (when compared to a conventional building) and 40–50% of water savings, according to CII’s Indian Green Building Councils certified projects data. There are several *intangible benefits* in green buildings in the form of improved air quality, improved productivity, and enhanced daylight and they even outweigh energy savings. The green building is completely designed with daylight; it has a carbon-dioxide sensor which measures the carbon-dioxide and does not allow the carbon-dioxide level to cross 800 parts per million (ppm), pumping in more fresh air once the threshold is crossed. In fact, many IT companies have made it a policy that any new buildings that they build will be green buildings. The building standards followed are ASHRAE (American Society of Heating, Refrigerating and Air Conditioning Engineers) norms which are accepted as the minimum standards of building. The type of energy savings achieved in LEED rated buildings can be demonstrated through the case of the three LEED platinum buildings (Wipro, ITC, and CII Godrej GBC) which were monitored to validate tangible environmental benefits and it was found that the benefits far exceeded the initial estimates. Per million square feet, carbon dioxide reduction was to the tune of 12,000 tons, energy savings were 1500 MW hours, water savings were 45,000 KL, and 450 tons of construction waste were diverted from landfills (CII — IGBC certified green building projects data). Several environmentally sensitive products have been developed, which impact the market bringing about a *market transformation*. In India, high performance glass and waterless urinals are two success stories.

*Green hospitals* and *green cities* are other new developments. The intangible benefits of green hospitals are the healing benefits for patients; studies have recorded that they reduce patient recovery time. *Green cities* are also being planned and built with office areas and residential areas adjacent to each other, which would help in decongesting the city of traffic and save on valuable commuting time. Another trend is that of *companies going green*. The newly introduced Green Company Rating System by CII is a framework to define and assess performance on the green front, monitor and sustain green initiatives, and guide phased growth. It covers the manufacturing and the service sectors, with unit/facility level rating (http://www.greenco.in).

What are the *drivers for green* for a company? A green company ensures world class energy efficiency, it is water positive, it ensures greenhouse gas (GHG) mitigation and is carbon neutral, it works towards waste minimisation, low usage of raw material, a green supply chain which will reduce toxicity of a product, renewable energy, and product stewardship with no toxicity. An example of a gold rated green company is ITC-PSPD Bhadrachalam, a company which manufactures paper and boards. The company has achieved sustainable agro forestry, reduced deforestation...
and has taken care of the raw material security of the company. Their measures have benefitted the local farming community as well, increasing farm income and the number of crops cultivated per year. Their water consumption, one of the lowest in the country, is 30–35 m$^3$ of water as compared to the Indian average of 80–90 m$^3$. They have achieved this by recycling water at several points and in several aspects of the process. Similarly, ACC has taken the lead in co-processing of waste and in reducing coal consumption resulting in substantial savings.

**Sunita Purushottam**

We have achieved phenomenal success with respect to profitability of our environmental sustainability strategies. The *Infosys focus areas in the environmental dimension* are carbon, energy, waste, water, and biodiversity. In our *carbon management strategy*, we are marching towards our publicly declared goal of becoming carbon neutral by 2017. As a result of the work being done by the green initiatives team, we have been able to reduce per capita energy consumption by 50%. We aim to source all our energy needs from renewable resources, we have started a biogas plant for food waste management and we have embarked on a new generation of energy efficient buildings and through a combination of technologies have been able to demonstrate the savings achieved. We have reduced our carbon intensity by 26% by FY 2012 as compared to FY 2008 and we have an estimated savings of 300,000 metric tons of carbon emissions over the years, which is equivalent to planting 200,000 trees. We have an energy management strategy since energy is a significant part of our operational spends that contributes to about 50% of our carbon footprint. Our operational goal is to reduce our per capita electricity consumption by 50% by year 2017 and our organisational goal is to become carbon neutral in our India operations by year 2017. Our *energy efficiency projects* have yielded several results. We have been able to reduce our per capita energy consumption by 33% in 2012 as compared to 2008. We have saved 290 million units of electricity over the last four years resulting in projected savings of $32 million in operational spend. Our energy management strategy includes measuring, monitoring, and taking action. We also consistently monitor stakeholder engagement, sensitising employees about energy and water conservation and involving them in the journey, establishing short, medium, and long term goals and integrating this into the key performance indicators of all concerned stakeholders, integrating energy and water efficiency into the performance goals of service vendors, and including these efficiencies as a key performance criteria for all consultants and architects in new buildings.

Coming to *water management*, we have a voluntary goal to reduce fresh water consumption and to become water positive by recharging more rain water into the ground than the fresh water we consume. As part of our water management strategy, we have established a baseline for water consumption for different types of buildings, identified opportunities for water consumption reduction, and established governance structures for implementing water conservation projects.

As a result, we have reduced our per capita fresh water consumption by 23% in 2012 as compared to 2008, so the saving is about 1.36 billion litres over the last four years. Our new LEED certified platinum buildings are 40% more water efficient that our older buildings. All the waste water on our campuses is recycled through onsite sewage treatment plants and in FY 2012, 2.65 billion litres of waste water were recycled and reused for irrigation and flushing. In 2012, 17% of our annual fresh water requirement was met with harvested rain water.

*Our renewable energy programme* aims at making green power competitive. We have used 48 million units of green power in 2012, meeting 18% of our electricity requirements. We have one of the largest installations of solar water heaters in the country and we are installing onsite solar PV and micro wind plants. This is an important initiative where we are trying to influence regulators with respect to the sourcing of green power in India. Apart from onsite generation we are aiming to source green power from the grid, and working with the CII committee to take this initiative forward. As regards waste management, we are a zero waste company. With regard to biodiversity, we have planted several thousand species of trees on our campuses and several species of birds and butterflies have been documented. Our goal is to make our campuses biodiversity hotspots and to preserve local biodiversity.

**Audience**

*On one hand, industry is in the business of creating demand and boosting consumption and on the other, we speak of sustainability, green initiatives and so on. In the Indian context, with the large population, you are pushing people to consume products like air conditioners. Isn’t there a contradiction here?*

**Pradeep Bhargava**

You have to honour aspirations. Just because we are a large and poor country, we cannot expect people to forego their entitlements. It is not fair and sustainable. We should not check aspirations. We should check wasteful and inefficient consumption. Industry should offer energy (resource) efficient goods and services, and consumers should be made sensitive to their obligations towards the environment and conservation.

**Rama Jayanti**

*The license to operate strategy exemplifies the role of governance in sustainability. What insights can be drawn from the Indian context on governance including culture and embedded sustainability?*

**Padmini Srinivasan**

It is becoming clear that organisations exist within the boundaries of society and that focusing on shareholder value maximisation can create substantial externalities like
loss of jobs or environmental misuse etc, whose costs would have to be borne by the other stakeholders and society at large. While shareholder value maximisation perspective had been the predominant theme in the early and late 20th century, there has been a call for a more inclusive and sustainable perspective in the corporate governance debate that includes the interests of the employees, customers, suppliers, and creditors of the company and society at large. We argue that if corporations have to create value for the shareholders in the future, sustainability needs to be the key driver. Good governance is the foundation of sustainability and sustainable governance is the core of every business.

A survey of the academic literature and policy on corporate governance reveals a plethora of definitions. However a point of commonality across all these definitions is that corporate governance essentially involves a system of formal and informal institutions such as the legal framework and the culture and ethics that are required to meet the objectives of the corporation. The entire discussion on corporate governance has been largely framed under the legacy perspective, where the interest of the shareholder assumes primacy.

What are the challenges of sustainable governance? First, organisations are currently dealing with sustainability in silos. For e.g., there is a great deal of focus on environmental sustainability, but this is not integrated into the organisational strategy, as a driver of innovation and growth. Sustainable governance needs to integrate economic, social, and the environment agenda into the strategy of the firm. Towards this end, the tone at the top is critical. The board of directors needs to define the ambit of board responsibility in this space. Recent research notes that most boards today are not able to provide the kind of leadership that is needed to move major corporations toward sustainable effectiveness. Instead, many corporate boards are designed, staffed, and function in ways that are intended to maximise shareholder value — a goal that is singularly financial. As a result, when it comes to issues of corporate social responsibility and sustainability, boards sanction programmes, grants, and projects that add to the bottom line. They also endorse low-cost social and charitable programmes that improve the corporation’s image. What they are not comfortable with or knowledgeable about is how to manage, organise, and hold their organisations accountable for performance that is targeted at optimising a combination of financial, social, and environmental outcomes. Thus the biggest challenge for sustainable governance is convincing the board and the top management with the right perspectives.

Secondly, corporate boards have to make a trade-off between short term and long term goals to maintain the effectiveness of organisations. Making such trade-offs calls for a more inclusive and sustainable mindset which needs to be developed at the board level. Finally, the challenge in sustainable governance relates to the difficulty in measuring the value of sustainability initiatives and monitoring them.

Several sustainability initiatives come with financial and organisational consequences in the short run. Justifying such investments both in the short run and the long term requires alternate ways of framing the problem. The dominant role of the board historically is the fiduciary one pertaining to shareholders. Operating from a stakeholder perspective would require education and creating awareness among shareholders towards a longer term perspective. What does one overcome the challenges? First, organisations should build sustainability as a part of the strategy, and demonstrate long term value creation through sustainable development and innovation. Secondly, in terms of disclosure, while many companies have initiated sustainability as part of their operating initiatives, these are not disclosed anywhere. They are either unaware of the formats for disclosures or they are unwilling to disclose. There are several frameworks for disclosure used by companies. Triple bottom line reporting takes care of all these areas — reporting in terms of the environment, CSR activities, as well as the economic aspect. Companies can use the Global Reporting Initiative (GRI) guidelines or other formats for their reporting. Going forward, an important trend in investing is that of the green investors or investors who invest only in sustainable businesses. Sustainability should be integrated as part of every business school curriculum. Managers and future managers must develop and adopt integrated thinking (theirc.org) as a way to enhance business performance and to create long term sustainable business organizations.

Sunita Purushottam

At Infosys governance involves mapping the Infosys stakeholders. Our leadership commitment is reflected in the internal circle with the CEO as the head — we work with a top down strategy. The next circle consists of the core stakeholders and their responsibilities — the Green Initiatives team which handles new initiatives for infrastructure; Education and Research which handles sustainability education and sustainability reporting; the Sustainability Unit and Infosys Lab which are responsible for green innovation. The theme ownership lies with Infosys Lab, and the four core groups are responsible for direct implementation. In the next circle, we have the internal systems, our IT systems, our computer division, finance, facilities, HR, purchase and marketing. The next ring consists of the business verticals and the outermost ring consists of our external stakeholders.

As a result of this mapping exercise, we are trying to integrate our organisational sustainability goals into the Infosys Scaling of Performance framework which is a Business Excellence model based on Malcolm Balridge so that every business unit has sustainability goals on their goal sheet and that they are responsible for addressing the sustainability aspects with respect to services and products.

What are the difficulties that organisations face in adopting and embedding sustainability? Stakeholders generally believe that sustainability is not rocket science. Every person feels he knows the area. But when it comes to implementation, though it is not rocket science, it is very difficult to implement. So how do we circumvent this problem? We break it down into chunks or doable pieces. For example, with say carbon strategy, we say you have to deal with the reduction strategy, with reduction projects,
with off-sets, with projects and so on till you cover the entire gamut. So you have to break down carbon strategy to pieces, and then you deliver in pieces.

This field has too much information. So how do you funnel that information which is applicable and is going to be useful to you? That’s where subject matter expert knowledge comes in to provide clarity on what is relevant. So you tailor that information for your business and for your set of challenges. Another belief is that sustainability does not require investments. There is little thought given to people commitment and time commitment. But sustainability requires a lot of process documentation, and that requires investment in people and time. Further, you cannot ignore organisation culture. What works within the organisational culture determines how sustainability initiatives are implemented because employees are ultimately the biggest stakeholders who will make many of the initiatives successful.

Then there is the reactive strategy; today there are many different kinds of ranking systems or disclosures or management systems, and when we are given several different things to do, we just react to instructions. You put together a team, you react to things. How do you avoid doing that? Is it about getting a good rank or is it about having a strategy in place? The lack of stakeholder engagement within the organisation is a concern and the solution is education and then appeal to the heart. You have to engage, educate, and appeal to that person and then that person becomes the torch-bearer for the change you want to effect. Sustainability initiatives take a large amount of time. You need to overcome all the conflicts and the challenges within the organisation.

The final challenge lies with goals and commitments. You should have audacious goals and challenge yourself on them. With Infosys, we have publicly declared goals; we know what we have targeted and what we have to work with. These are some of the challenges that we have had and I hope that it resonates with every organisation.

Rama Jayanti

Let us turn to social contracts strategy. Two issues are of particular concern. First, according to a recent Economic Times report ("India’s New Rich," 2011), 455 million people—more than the entire population of United States—live on less than $1.25 a day. Second, widespread protests of the greed of business point to legitimacy breaches in the business world. Can you elaborate on the rationale and role of social contract strategy?

P.S. Narayan

Over the last several years, Wipro has seen significant advances in corporate engagement with sustainability. Wipro urges companies to go beyond the fence, that is to go beyond one’s organisational boundaries and its stakeholders and take a more normative approach towards sustainability since sustainability challenges are systemic and non-linear in nature and therefore any approach that does not recognise this is likely to be ineffective. Why is it necessary to engage with issues that lie beyond the organisational boundary? First, the government alone cannot engage with these issues. Second, business today has the power to make a difference and therefore it has the responsibility to make the difference. Third, shaping the trajectory of society in a certain direction can have several positive outcomes for business in the long run—a more superior quality workforce; access to new, wider, and deeper markets; a more stable and dynamic society; and from a narrower perspective of brand and reputation, the company gets a stronger societal license to operate.

At Wipro, we are acutely aware of the systemic interlinked nature of sustainability challenges. For instance, subsidised electricity can lead to high groundwater extraction which in turn can exacerbate water stress on account of climate change. Another example is that of the significant water requirements for coal and nuclear power generation. The third example is of how volatile oil prices can lead to food inflation. And the last such example is of how the appropriation of large tracts of land to grow biofuels for energy can also lead to shortages of food staples and to significant food inflation. These examples illustrate the systemic, non-linear nature of sustainability. Therefore the question that arises is that if sustainability issues are systemic and non-linear, can you restrict them within organisational boundaries?

We started the Responsible Water programme in 2011 with the purpose of tracing the social and ecological impact of water consumption in two of our large campuses in Bangalore and Chennai. Water poses a set of conundrums, especially in India. First is the issue of equity of access—From how far do we have to bring water? How much does it cost in terms of energy and money? Which other stakeholders does it affect? Are your consumption levels in line with your natural endowment based on rainfall? How is entitlement arrived at, a metric that is different from endowment? And then we have the issues of water as a public good—What are the models of governance and management? How are policies set? Is good quality data available? Are citizens part of the process? How is waste treated, reused, or discharged? How much does that cost in terms of energy and money? What are the social costs of poor treatment of water? How is the water priced? Does it reflect all true costs, ecological and social?

Our programme consists of two parts—a detailed assessment of water within the fence and an analytical perspective of the water trails outside the fence. We wanted to carry out a micro analysis of the water footprint of our campuses on the parameters of per capita and total usage, recycling levels, pipeline losses, and behavioural trends. The second part was a study of the ecological trail that looks at natural endowments, supply sources, and the concept of water debt. Some of the parameters and metrics that were a critical part of the assessment were: rainfall endowment, runoffs, groundwater recharge; supply sources—from both groundwater and municipal sources; consumption vs endowment and consumption vs entitlement; embodied energy of consumption; and hydrogeological study and aquifer mapping.

The water in our Sarjapura, Bangalore campus is completely sourced from groundwater in proximate areas from private suppliers. As an outcome, we came out with a
new set of metrics and measures. These included rainfall based entitlement, which is based on land area and average rainfall; overdraft and debt which is computed based on the groundwater use in excess of entitlement. Let me explain this with illustrative data and facts. For our campus in Bangalore we consume 148 ML of fresh water per year and we recycle about 61 ML of water. Our entitlement (which is based on the national norms of 45 L per day per person) is 172 ML per year. However, we are still under debt to the tune of 70-80% because our entitlement is only 63 ML. We also look at the embodied energy or the energy spent in getting water from source to use. Our aim is to maximise our entitlement, optimise our entitlement, and minimise overdraft, debt and embodied energy.

Going forward, our approach would incorporate the following: Make groundwater management and governance central to policy making; make the aquifer the unit of management; as part of public advocacy we will encourage multi stakeholder conversations and alignment with the 12th Plan approach on Water for Industry; and finally, we will internalise the responsible water framework (as detailed through our new metrics and measures) across large campuses and facilities.

School education is a conscious choice that we made in early 2000, out of our idea of good citizenship, because we hold the conviction that in a country like India, school education possibly has the strongest multiplier impact on other developmental outcomes. Being a relatively smaller entity that sought to work towards systemic change, we chose the approach of supporting and partnering with organisations working in education from the point of view of having sustainable impact. The Wipro Applying Thought in Schools (WATIS) is an initiative for creating capacity on the ground for systemic reform in primary and elementary education. This is our decade long programme and as part of this, we work with over 30 education partners across India. Over the last decade, our reach has extended to over 10,000 educators in about 2000 schools across 17 states (www.wiproapplyingthoughtinschools.com).

School education reform is complex in nature. In India several issues are intertwined, for example, the issue of education in rural India is linked to several other developmental factors, especially neo-natal health, nutrition, health care, availability of electricity, the health of the mother, socio-economic status and so on. Therefore “a one size fits all” approach does not work at all. An important element, for example, is the point of entry in an intervention. School education has multiple dimensions to it that are inter-linked — curriculum design, curricular material, pedagogy, assessment design, perspective on education, classroom and school management issues, school culture and so on. Choosing the right point of entry thus becomes important. At the same time multiple points of entry are needed to activate the interplay between these elements.

We work through our network of partners on three areas; organisation development; education materials and publishing to address the lack of good quality material for educators and children; and public advocacy to increase awareness on important issues within education and to influence public thinking. The selection of priority areas of work in schools is also based on the kind of effective partnerships that we are able to forge. Through our partner network of 30 of India’s foremost educational organisations, we are currently working on 65 projects with them.

From the year 2000 onwards we have worked with around 2000 schools and 10,500 educators across 17 states reaching around 800,000 students. Of the 2000 schools we have worked with, there are around 400 schools with whom we work on a longitudinal basis, on a longer time frame. Some of our key public advocacy outcomes include widely shared findings of our study on Student Learning in Metros, and the dissemination of Student Misconception videos. We also develop and disseminate key educational materials. We understand the crucial need to be a long term player in education and we support our idea of good education through our programmes. Another interesting, long running advocacy program of ours is the Wipro Partners’ Forum, a unique annual gathering of the educational community where key issues are discussed, new ideas emerge and our partners benefit from the cross-pollination of ideas.

Wipro wants to look at the right questions rather than the right answers. Work in areas like education or healthcare is by necessity slow and gradual, more so when systemic change is involved. Organisations must have the temperament to be there for the long haul. We must resist the tendency to quantify and measure everything. Changes in the social sector are effected through nudges and not through targetted direct approaches. One must be willing and able to look beyond the organisation, led by normative concerns rather than by instrumental benefits. Lastly, in social sector change, it is important to be a catalyst rather than a driver; and progress in sustainability depends on the coming together of the many.

We may make progress but becoming less unsustainable is not the same as becoming more sustainable. Efficiency cannot be the driver of sustainability. Even if the business of business has to be business, it is best served by a “binoculars” vision that sees the risks of the future up close — the risk of climate change, vanishing water, and a troubled society has serious implications for everybody.

Sunita Purushottam

Infosys social contracts initiative embraces a three pronged approach of Enable, Engage and Embed. Our goal is to educate each and every employee for building capacity, inspiring action and influencing change. Here our initiatives include programmes that provide continuous learning opportunities to enable leadership development, policies that enable work-life balance and promote community empathy — our sabbatical policy and Infosys Foundation work in this area, and employee career development through engagement in several activities including CSR initiatives.

We want to create leaders out of each and every person who is a part of our organisation, and we influence people to influence society, so that they become agents of change. We work actively through the Infosys Science Foundation and with the World Business Council for Sustainable Development (WBCSD) on projects to influence change. The Infosys Foundation was established in 1996 and has as its focus areas healthcare, education, culture, destitute care
and rural development. Infosys contributes 1% of its profit after tax to the Foundation every year.

We believe that sustainability is a transformational opportunity. It is an opportunity for us to take sustainability up as a service which we offer through our products and platforms and which we act on through our core values, risk mitigation, operational efficiency, and market opportunities. Apart from the opportunity to save costs within the organisation, we are helping our clients with sustainability across the value chain.

Sourav Mukherji

I want to focus on the people or the social dimension which we call inclusivity. In some sense what I am saying is, can organisations really do something about the poor? Of India’s billion plus population about 500–600 million people survive by consuming less than Rs. 20 a day. That is a very big issue that all of us need to grapple with. Businesses are now looking at the bottom of the pyramid which includes countries like India and China with huge potential for profits. The idea is that it is possible to be both profitable and serve the needs of the poor. (Re: “The Fortune at the Bottom of the Pyramid”, C. K. Prahalad, which came out in 2004 after starting off as a working paper in around 1997 or 1998.) The question I want to address is whether the needs of the poor can be managed in a financially sustainable manner.

Research by Prof. Karnani makes a distinction among three zones — zone of opportunity, zone of tradeoffs and zone of disaster. With certain goods and services, the profitability dimension of the organisation and the social benefit dimension are perfectly aligned and that would be the zone of opportunity for the organisation. One hears of scenarios where cell phone companies keep on reducing the price of handsets as a result of which a lot of poor people start using them. However, this is not an example of helping the poor because in this particular case helping the poor is just collateral or an incidental event. I think this principle can be applied to a lot of environmental discussions where green buildings have been put forth as examples of cost savings and of good business sense. The trade-off would be whether companies can do something which is environmentally conscious but which reduces their profitability. Prof. Karnani’s argument was that when there is a misalignment between corporate profitability and social development, corporates would choose profitability over growth. Since organisations need to maximise shareholders’ wealth, it is unrealistic to expect an organisation to think about society in the zone of trade-off. So the challenge before the organisation which perceives a trade-off between maximising social growth versus profitability is to see how it can push the situation to the zone of opportunity. Commercially profitable enterprises cannot be expected to do something for society if it adversely impacts their profitability — there has to be at least a marginal benefit. That is the fundamental difference between a commercial enterprise and a social enterprise.

Based on my field experience, I will try to pick up a few learnings which were not so apparent when Prof. Prahalad made his argument. Let us begin with pricing. One of Prof. Prahalad’s critical arguments was that the poor actually pay a poverty premium. Since a poor person typically buys in small quantities and it is more expensive to buy in smaller quantities, the problem here is one of cash flow and this presents an opportunity. However, in a recent study, the researchers measured and compared the prices that people paid in the slum of Dharavi and the upmarket Warden Road in the Indian city of Mumbai. They found that the poor were actually getting a huge discount. They were getting goods and services far cheaper — for instance rice cost 65% more in Warden Road and the services of a doctor 98% more than in Dharavi. Now what does that mean? It means that the poor are getting those low prices as a result of a complex set of factors and regular organisations will never be able to compete there. There is a cost-quality trade-off (local products are often inferior in quality and difficult to access), there are lower over-heads for these companies, a lesser need to follow regulations (many of them may be following illegal practices) and they often gain from the informal economy. Many of them may be operating from premises which probably are not safe and hence they are able to cut down cost drastically and supply at lower prices, whereas a commercial enterprise would not be able to do that and hence would not be able to create a viable business model.

The second aspect is the distribution problem. There have been several initiatives by large companies (such as PUR water purification powder by Proctor and Gamble and Shakti, a soya fortified snack from Hindustan Uniliver), where products were targeted at the BoP but they had to be withdrawn because they were not profitable. Either people were not buying at the given prices or the price resulted in losses for the companies. If at all they were to continue it, it would be more as a CSR initiative rather than a profitable business initiative. Why does this happen? This happens because of the peculiar nature of these markets, where there are clusters and there are huge geographical gaps between clusters. If you are running an ordinary business, you will find that the revenue goes up with the number of units sold because you get economy of scale; however, in BoP markets, apart from the fact that there is a higher initial cost, cost curves start moving up dramatically after a certain level. Imagine that you are selling solar lamps in a location in Karnataka to a cluster of a few villages and you want to go to another village but that village is several miles away. Suddenly your distribution costs shoot up and the cost curve goes up. So, customer dispersion creates diseconomies of scale.

The third interesting question is how big is the market for the poor? Till now we have talked about products being sold to the poor; the other way to look at it is, can you use the poor as producers? That is another important way of helping them. In our country we have two great examples of initiatives that have massively scaled using the poor as producer — Amul, associated with dairy products, and Fab India, associated with craft-based products. The third one is Reliance Fresh, an initiative by Reliance Industries to fix the back end supply chain of fruits and vegetables. But the big question is how big the market is? While there are several such initiatives, their problems arise when they want to scale. It took a long time to build the kind of brand that Amul and Fab India are and Reliance already has an existing brand. But it is very difficult to be done by somebody who is starting a new initiative. We discussed the
pricing issue and the distribution issue, now we come to the demand issue — that for certain kinds of products, we do not even know whether the demand exists or not. All of these obviously lead to a scaling issue. The interesting thing here is that when you start scaling, you start adopting management principles and as a result you become more profit oriented and dilute the social dimension — what is called “mission dilution”. The biggest example in our country of scaling ambitions leading to mission dilution is the micro finance industry. This is a success story gone awry. In this case the moment the “for profit” fund managers started coming in there was tremendous pressure to scale and as you start scaling, typically you go after lower hanging fruits. What happened in the micro finance industry was that multiple micro finance agencies started lending to the same poor person. So there were instances where one poor person was borrowing from six or seven micro finance agencies. Eventually, they would run out of options and they would go to the money lender. If you go after low hanging fruits for a long time, you switch over to being commercially oriented rather than socially oriented because at that point of time, the trade-off makes more economic sense. It is quite possible that other industries too would be hit by mission dilution.

The last issue I would like to discuss is that being a social enterprise has suddenly become a fad which in turn has led to a crisis of legitimacy. In many cases involvement in social enterprise has become a brand building exercise for commercial organisations. It has become a hedging strategy for “impact” investors to invest in companies that help the poor. Further, this has emerged as a new area of publica­tion for academics, of eyeballs for the media, and rhetoric for consultants. This has led to several apprehensions in the minds of policy makers, fund granting agencies and other stakeholders, particularly with regard to the genuineness of organisations and concerns. Key resource providers find that their evaluation and monitoring costs have become very high. Selection processes have become more difficult. There is a dearth of policies that address the needs of this new breed of enterprises makers. Policy makers and other stakeholders are constantly aware of the chances of exploitation from various quarters.

To summarise the concerns about organisations that address the needs of BoP, one would say that financial viability of business models that address the BoP are suspect. Other than pricing and distribution being problematic, the social dimension of organisations that involve BoP as producers is difficult to establish. Today no template has emerged on how to scale a social enterprise without subordinating its primary mission. Large commercial enterprises are yet to make an impact in this space—serving the needs of the BoP is either CSR or a collateral engagement. They are yet to create a viable business model to help the poor. Further, there is a need for academic research in the area of social enterprises rather than social entrepreneurship. Which means there has been too much of focus on entrepreneurship while we are still struggling to understand — what is a social enterprise? How do we grow this entrepreneurial venture into something which can be sustainable for a longer time? After 15 years, my assessment is that it is still an opportunity rather than a reality. Of course we are very hopeful but as of today, we do not see many examples that give us the confidence that we can indeed balance sustainability and profitability.

**Rama Jayanti**

*Companies have to communicate about their sustain­ability and financial performance since it cannot be assumed that stakeholders understand the linkage be­tween the two. Can you comment on how Infosys facilitates this important communications function?*

**Sachin Damle**

It is important for companies not just to have sustainable practices, but to communicate sustainability initiatives to the public. In today’s world there is a *need for sustainability brand and reputation management*. A 2009 P&G webinar reported that about 80% of consumers (from a survey to US, Europe, and Japan consumers) would switch to a green product if it was price competitive, while the 2012 Cone Communications report found that more than 80% consumers make purchasing decisions based on a firm’s CSR. On the contra side, a BBM Conscient Consumer study reported that 35% consumers avoided making a purchase from companies with unsustainable company practices. On the B2B front, a Carbon Disclosure Practice (CDP) report found that 62% buyers reward companies with good carbon management practices. From a corporate executive view, a BCG 2011 survey found that corporates feel sustainability most benefits corporations’ brand reputation. So, embedding sustainability into the core business leads to enhanced reputation and enhanced brand value. In the BCG Survey, the Cautious Adopters group sees benefits mostly in reduced costs due to energy and material efficiency and in risk mitigation. The Embracers see competitive advantage as a much more important advantage of sustainability than the Cautious Adopters, while both groups see brand reputation as the top advantage.

Two most important aspects of sustainability branding are *sustainability communication and sustainability adoption*. We believe that stakeholders perceive corporations to be in one of four quadrants — green washers (where the talk is much more than the actions/results), leaders, silent doers, and laggards. (As an interactive exercise, the audience was asked to place a few companies in any of the four quadrants — it was concluded that there were many shades of green). It is important for companies to *address various stakeholder groups*. One set would consist of Regulators, the Public, Investors, Employees, and the Environment. Applying Porter’s Five Forces analysis another set, closer to the company, would consist of Suppliers, Potential Entrants, Industry Rivals, Substitutes and Buyer power as exercised by customers. To tackle industry rivalry and gear up for competition, companies highlight environmental performance in their product literature. For example, the communication from Hitachi on their hydraulic excavators stresses that they take responsibility for the environment through the features of their machines — that they produce cleaner, quieter machines, which are also recyclable, and that their production facilities have ISO 14001 certification.
Similarly, Volvo stresses the environmental safety aspect of its machines, along with its safety, ease of operability, and its fuel efficiency. Likewise, Komatsu (for its hydraulic excavator) and John Deere (Timber jack slash bundler) stress environmental compliance aspects of their products in their communications. Sustainability leadership can influence buyers and customers considerably. Suppliers often wield power and influence to disrupt sustainability by boosting their own products and standing in way of alternatives, and often thwarting smaller competitor. Eco friendly substitutes often drive company strategy. Potential entrants into industry can cause disruptions through green alternatives.

While companies are bound by regulations and standards as put forth by their countries, awards and rankings go a long way in boosting the reputation of companies and exerting peer pressure on others. Government regulations most often specify the minimum requirements on environmental protection, air and water standards, safety measures when it comes to disposing of hazardous waste, and food and drug standards.

Companies have management systems in place to audit various aspects such as environmental management (the ISO 14001 family), occupational health and safety (OHSAS 18001), environmental, health and safety (EHS) management systems, social accountability management systems, energy management systems such as ISO 50001 and CSR management systems such as ISO 26001. There are several rankings and certification processes which recognise companies that maintain and exceed standards such as the LEED rankings and the Dow Jones Sustainability Indices which are signposts to peers about companies that do it right.

In conclusion:

- Sustainability communication and adoption are both equally important for sustainability branding
- The business imperative is not to just to do this for survival but for companies to embrace it in a true spirit to discover new possibilities
- Sustainability branding through adoption and communication is both an art and a science
- Think before you act and act by taking your heart into account

**Audience**

**Sourav, what I concluded out of your discussions was that BoP business model is not scalable. Is that so?**

**Sourav Mukherji**

What I am saying is I don’t see many examples. I would be happy to see a BoP business model scaling but I haven’t seen many.

**Audience**

**Sourav spoke about the three zones — the zone of opportunity, zone of tradeoffs and zone of disaster that companies are all looking only at profit and not the social dimension. However, Cipla Pharma recently developed an anti-HIV drug and they are selling it at about Rs. 8000 as against Rs. 200,000 by MNCs. Can you comment on that?**

**Sourav Mukherji**

They are making profits honestly. What Cipla is doing is fascinating for this country but the point is there is no trade-off with profit at this point of time. It would be worthwhile to see if they have invested any money to do the R & D. They have converted the patent business to a generics business. I don’t see any trade-off there. They are interested in generics drug at a lower price, so they heat up volumes. I don’t see any conflict there at all.

**Rama Jayanti**

*An important issue is how you embed your environmental effort into your core strategy. What are you doing about things like waste generation, for example?*

**Sunita Purushottam**

With respect to the e-waste that we are generating there is a process for inventorying it. After inventorying, we lay out our contracts to the e-waste vendors and we work with the chosen vendors and chosen geographies, and their processes are audited by us. The chosen e-waste vendor has to comply with the Government of India e-waste regulation, and we ensure that it is audited by us. According to government regulations, they are supposed to dispose of the waste in an environmentally responsible manner. The other thing that we have done is we have SEZ zones and we have the duty of de-bonding our assets. If we donate assets to a school, we pay that de-bonding charge and after the school has finished using that asset, we track it through the end of life. So we are going beyond what is required. We also ensure that the school is sending it to the e-waste vendor that we have selected; so it’s like closing the end of life and there is a reporting process and a tracking process in place.

**Audience**

*Have you been able to assess the impact you have had?*

**Sunita Purushottam**

We have no numbers as yet, but we try to assess our employee volunteering. We try to capture the impact of our social engagements outside as a unit. Our employees are committed to taking one day off every quarter to be part of one social initiative, either individually or as part of a group. On one of our projects, a well cleaning initiative in Pune, we are trying to work with some NGOs to do the impact calculation, to see whether our volunteering efforts are having an impact on society. While organisation-wide numbers have not yet been captured, there is a plan in our
3E framework to start capturing metrics around the impact that we are going to make due to our reach and the leadership that we are trying to demonstrate in our projects.

Rama Jayanti

Basically, what we heard today was that sustainability asks companies to deliver three wishes at the same time; companies have to be socially, economically, and environmentally responsible. Further, top management buy in is very important. We have a sustainability business center within the Monte Ahuja College of Business at Cleveland State University. However, top management controls the resources and we have to secure top management buy in. Our panel talked about opportunities for entrepreneurship in this space. We saw that change is difficult and is an incremental process rather than radical. Companies are faced with internal dilemmas and internal struggles and everybody wants to be powerful within the organisation. How do companies deal with that and still remain sustainable? Here an industry blueprint may make a difference. Perhaps there are certain ways of doing things, of bringing about mindset change which are in place in companies like Infosys. One more thing that struck me is that most of the companies being represented on our forum today are Visionaries and Altruists. How about Merchants and Laggards? Are they truly a minority or simply under-represented? Also, almost all the companies who shared the forum today are very profitable companies. How about a smaller company, how about people who are not profitable? Do they also think about being sustainable? It’s a very important question. Do you have to do well in order to do good?

There are several issues about stakeholders’ conceptions. How do we communicate our green shades to our customers and how do you make sure that they understand it exactly right, given that there is minimal awareness. Organised stakeholder pressure is very important. One of the big issues that everyone on the panel insisted on was talking the walk. It is not enough to talk about these things, you need to walk the talk and I think we have great examples of people here who have actually walked the talk and showed us best practices within the Indian context. Thank you all for your inputs and for such an informative and thought provoking discussion.

References


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