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Role of businesses in a sustainable economy

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Abstract
Today the role of companies has grown beyond borders and some of them have grown greater than countries with greater revenues and workforce than GDPs and population. This, coupled with the changing paradigms of business like greater regulations and scrutiny, resource crunch, consumer awareness, and community pressure has led them to rethink the current business models. With this context, the paper talks about the new pressures and the business response to these pressures to remain sustainable in the long run. The paper also talks about some key companies (DuPont, GE, and Pentair Water) which have managed to evolve their business models on the triple bottom line principles to remain sustainable in the turbulent times. The paper would also throw some light on the Indian context of sustainability and how India Inc. and whether it views sustainability as a challenge or an opportunity. The paper would conclude with tackling the quintessential question of whether this response of businesses to sustainability remains an eye-wash or whether it is now an integral part of their core strategy.

Keywords: Business, sustainable, economy

1. Introduction

In 2008-09, the world witnessed the Global Financial Crisis which is often equated to the Great Depression of the 1930s. A crisis which started from the U.S. housing bubble burst led to a ripple effect engulfing the global economy. The crisis raised questions about how companies are governed and also on their risk management strategies. A similar effect was seen during the European sovereign debt crisis in 2011 which spread to the developed world by 2012 leading to greater uncertainties.

As the world gears up for this transitionary phase, it faces a range of choices which would determine the future of humanity. While on one hand it has the uphill task of restoring the global economy, on the other hand it has a range of developmental issues to tackle. According to the latest UN report, 768 million people do not have access to a safe, reliable source of water, 2.5 billion do not have decent sanitation and more than 1.3 billion do not have mains electricity [1]. Another report suggests that the richest0.5% of the world hold over 35% of the world's wealth while the over 68% of the world's population holds less than 5% of global wealth [2]. There are such multiple cases which relate to the skewed distribution of resources.

Today, 52 of the top 100 wealthiest economic entities are corporations as opposed to countries [3]. These MNCs function fundamentally work towards creating profits for a selected few people–the shareholders. However, there has been a school of thought amongst these Multi-National Corporations (MNC) which advocates sustainable value creation for all stakeholders as key to remain afloat in turbulent times. Corporations are becoming increasingly concerned about their impact on not only the direct stakeholders but all others affected along the value chain. Aspects related to environmental impacts, employee health and safety, community development, good governance, ethical behavior and other such facets are becoming increasingly important. Certain companies have gone to the extent of assigning monetary values to its environmental impact, an aspect which was once considered as intangible.

If one is to relate the ripple effects of global financial crisis and growth of MNCs, a common factor which emerges is that of globalization. Economies are no longer insulated by how other economies are governed. Growth of businesses across borders in form of international investment and trade has promoted growth and competition. Companies, today, leverage competitive advantage of not only one region but those across continents. At a macro level, this has not only promoted better quality of products and services but has directly contributed towards raising the quality of life and providing more opportunities to the lesser

developed and in turn contributing to greater development. However, this development has come at a cost of social and environmental exploitation.
Considering a historical perspective, world's first MNCs like the East India Company and the Dutch East India Company came from far west to trade with the east. These companies were often based on the theory of gaining monopolistic control over the resources, market domination, speculative excess and evasion of justice. Adam Smith cited the example of the East India Company in The Wealth of Nation (1776) to show how the Company undermined both liberty and justice, and how the shareholder centric management approach of corporations leads to "negligence, profusion and malvernsation" [4]. Yet nothing of Smith's skepticism of corporations, his criticism of their pursuit of monopoly and of their faulty system of governance, enters the speeches of today's free-market advocates.
Over the years, businesses have learnt from the past and have matured to adopt themselves with the evolving times. Some of the skepticism and criticism of pursuit of monopoly and faulty governance shown by Adam Smith has entered into Board's agenda. The companies today realize that they need to operate with greater inclusivity to sustain them. This evolution has come from a variety of factors such as political changes, growing regulatory pressures, ecological degradation, resource crunch, emergence of the responsible investor, consumer awareness etc.
Another perspective, primarily of those supporting private players, is that which highlights the role of private sector in an emerging or growing economy. Businesses help in creating jobs and entrepreneurial opportunities, create inter-firm linkages,
enable technology transfer, build human capital and physical infrastructure, generate public revenue for governments, and offer a variety of products and services to consumers and other businesses [5], including those operating at the "Bottom of the pyramid" [6]. These impacts, together, lead to a magnifying effect on the economic and social development of a country.

2. Changing Paradigms of Business

India has witnessed a changing regulatory and social framework which has evolved from the time of independence. However, the emphasis on environmental and social inclusivity has remained ever since. In 1972, at the United Nations Conference on Human Development at Stockholm where for the first time environment was taken up as the core issue, India was the only nation to be represented by its Head of State. This reflected the country's concern towards its environment and was also in line with its fourth five year plan (1969-1974) which emphasized on "harmonious development" on the basis of comprehensive appraisal of evolving environmental issues. This five year plan set pace for the regulations in the coming years.
Though sustainability as a practice had earlier remained focused primarily towards environmental issues, it adopted a much broader scope after the formal definition of sustainable development was coined by the Brundtland Commission in 1987, where it defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". Since then the scope of the concept broadened to engulf issues such as corporate governance, worker safety, employee and community welfare, collective bargaining, forced and compulsory labor, child labor etc.
The era also witnessed the growth of the stakeholder model where the focus shifted from merely investors to a whole gamut of new stakeholders of the business. These included internal stakeholders such as employees and external stakeholders such as community, regulatory agencies, industry associations, suppliers / vendors, customers, media, NGOs etc. This was a direct result of the strengthening and empowerment of the stakeholders through various awareness media.
This new era had forced business to rethink their old business ideologies and rethink the business models. Today, life of a company is much less than that of a human. In 1957, the average life-expectancy of a company in the S&P 500 index was 75 years. Today, it's just 15 years. A decade and a half from now, most of the companies in the S&P 500 will be ones we have never heard of [7].

3. Some Sustainable Companies

In the above context it would be interesting to analyze the journey of some of those companies which have managed to stretch themselves way beyond the barriers. What is to be noted as the commonality between these companies is that they continued to transform their business models with the expectations of the changing times. Their respective journeys have been discussed below.

3.1 Du Pont

DuPont positions itself as the market leader in science and engineering through innovative products, materials and services. The Company has claimed to introduce thousands of new products and patent applications every year, serving markets as diverse as agriculture, nutrition, electronics and communications, safety and protection, home and construction, transportation and apparel [8].
To bring in a sustainability context to its present offerings, the Company has integrated sustainability related products and services as a critical part of its portfolio. DuPont partners with some of the key stakeholders to tackle the unprecedented challenges in food, energy and protection now facing our world. With global population expected to approach nine billion by 2050, DuPont is working with customers, governments, NGOs and thought leaders to discover solutions to today's toughest challenges [9].
DuPont's believes that it "can provide enough healthy food for people everywhere, decrease dependence on fossil fuels, and protect people and the environment for generations to come" [10].
However, DuPont was not always very appreciative of the sustainability challenges as it is not. In 1802, it started as a gunpowder manufacturer [11] and supplied gunpowder to the United States military during the American Civil War [12]. Gunpowder and explosives remained its key business until the end of the century, after which it diversified into a chemical company [13]. During this time, Company found new applications to dynamite and developed and marketed new products like cellophane [14], Duco Paint (which was used in automobiles and other applications [15] and Rayon (which was he world's first man-made fiber) [16]. The era from 1927-40, the Company faced a tough time with the Great depression setting in and sunk some of the world majors. According to the Company it was able to survive this period only because of the commitment to basic

research in synthetic fiber and textiles (like neoprene [17] and nylon) [18] which yielded results for the Company. This was Company's first transformation where it consciously realigned its business with the tagline–"Better things, Better living, Through chemistry" [19]. It was the pioneer to test its products for safety with respect to toxicology [20]. During this time the Company also invented Freon [21] which continues to be used as an effective refrigerant. After World War II, the Company widened its product offerings but struggled to deal with the anti-trust charges and larger social and economic challenges [22] During the 1970s and 1980s, the Company took a stock of the rising environmental and energy crisis and entered the energy business and expanded its presence in the electronics and pharmaceuticals [23]. However, it was during the 1990s when the Company underwent the second and the most important transformation.

This was a complete transformation to prepare itself for the future with divestment in energy business and focus on biotechnology [24]. The Company has three key sustainability areas on its radar–food, energy and protection [25]. DuPont today has invested USD 879 million invested in R&D for products with direct, quantifiable environmental benefits for our customers and consumers [26]. It has introduced 1661 products or services that help make people safer globally [27]. More importantly, these investments, in sustainable products, have not come at the cost of Company's profitability. Its revenue from products that create energy efficiency and / or significantly reduce greenhouse gas emissions has swelled to USD 2 billion [28]. The Company estimates these products will contribute at least 40 million tons of additional CO2 equivalent reductions by its customers and consumers [29].

3.2 GE

Another such company which has existed for over a century and has restructured its business to the current sustainability challenges is GE.

GE, a multinational conglomerate, was once a focused electric products and technology company which was formed in 1892 as a result of merger of Edison General Electric Company of Schenectady, New York, and Thomson-Houston Electric Company of Lynn, Massachusetts, with the help of Drexel, Morgan & Co. [30]. GE's key strength was innovation which fuelled it to develop the first X-Ray machine [31], first voice radio broadcast [32], first U.S. jet engine [33], discover water desalination, and seeding of clouds to make rain [34], and invent LEDs and lasers [35].

GE's sustainability strategy was a reaction to the growing pressure on the Company with respect to environmental pollution. In 1983, a case was filed against the Company which claimed that more than 100,000 tons of chemicals had been dumped by one of their plant [36]. In 1999, the Company paid USD 250 million in a settlement to the claims that it polluted a river and nearby sites with hazardous substances [37]. According to Environmental Protection Agency (EPA), US's apex environment protection body, "during a 30-year period ending in 1977, when EPA banned the production of PCBs, it is estimated that approximately 1.3 million pounds of PCBs were discharged into the Hudson River from two General Electric (GE) capacitor manufacturing plants located in the towns of Fort Edward and Hudson Falls, New York" [38].

In 2005, GE launched the Ecomagination program which was intended to develop tomorrow's solutions. Solar energy, hybrid locomotives, fuel cells, lower-emission aircraft engines, lighter and stronger durable materials, efficient lighting, and water purification technology were some of the key components to this program. GE came under some criticism for its Ecomagination program which was a contradiction to not owning up to the environmental damage due to its operations. Ecomagination R&D investments in 2012 totaled USD 1.4 billion. These investments yielded revenue of USD 25 billion for the same year [39]. The Company expects to get a major chunk of its revenue from this service line which is bound to increase in the coming years.

3.3 Pentair water

Pentair is one of those companies which have transformed their core business with time. Some of the businesses acquired by Pentair and their products have a rich history that dates back more than 150 years. Initially focused on creating one of the best flow management and heat solution products in the industry [40], Pentair was founded in 1966 [40] with the purpose of manufacturing high-altitude research balloons [42]. After about two years the Company was struggling with its product offerings and financials. It was then that the Company acquired a manufacturer of absorbent tissue paper, Peavey Paper Mills which became its first wholly owned subsidiary. It was this acquisition that also marked the entry of the Company into paper industry which became its core business for the next decade or so. By the end of 1970s, Pentair was doing fairly well and was looking at avenues to diversify its portfolio. Another acquisition led to another transformation of its core business–this time the Company acquired its first non-paper business–a manufacturer of portable electric power tools– Porter-Cable. From 1981 to 2004 Pentair's core business was manufacturing tools [41] and the Company also vaulted itself into the Fortune 500 list [41]. The 1990s marked the exit of the Company from paper business and greater focus on technology, enclosures and entry in water and fluid management business. The last and the most important transformation took place in 2004 when the Pentair moved out of the tools business and expanded further in water with the acquisition of Wicor Industries. This marked its transition from Pentair to Pentair Water. Today, water business gets about 50% of its business, other half being from valves and controls and technical solutions.

4. Indian Context

While we have discussed some of the global examples who have managed to keep up with some of the sustainability challenges, it is even more interesting to study some of the Indian companies which have tried to build a business case around sustainability and have made profits out of it.

If we are to study these companies, it would be important to understand that India supports about 17% of the world population on about 2% of the world's land with 3% of renewable water resources. On expanding the scope beyond environment to social aspects, we would realize that the country has about a third of its population living below poverty line [42] and just over a third of its population with access to improved sanitation facilities [43]. India ranks 136 out of a total 186 countries way below China (at 101), Brazil (at 85), Russia (at 55) and South Africa (at 121) [44].

Though, on the face, these issues may come across as challenges some of Indian companies and entrepreneurs have been brave enough to build a business case around them. One of them is Selco India which works with the rural poor who are devoid of electricity supply. It provides these people with a service of decentralized electricity through solar power. This solar power is used by the consumers to replace costly, highly polluting kerosene lamps of low luminosity. The organization charges a small fee in return of the service provided which the consumers are happy to pay for the extended working hours during the evenings and quality service.

Another such case is LifeSpring Hospital which is a network of maternity and childcare hospitals that provide quality and low cost maternal services to low income women.

These are tomorrow's businesses which not only provide answers to some of the most baffling questions encountered by businesses, governments, and public at large but also know how to remain profitable.

5. Conclusion

It is evident that with the changing times, sustainability will have utmost importance in most corporate agenda. Sustainability is already getting recognition as not only a risk aversion strategy but a tool to build competitive advantage. This competitive advantage will be developed by those organizations who would view sustainability as an opportunity rather than a challenge. These opportunities will come in form of new sources of revenues (created through sustainability in form of new products / services), innovation, sustainable value chain, easier access to funds, improved brand reputation and value, efficient internal processes to reduce costs, and managing stakeholder needs. Sustainability can also ensure longevity of companies by adapting their raw material demand, processes, supply chain, and waste management according to the new world dynamics.

The key would, however, lie in integrating sustainable development in the economy. Sustainability can no longer be treated as a subject to be dealt in a silo but would have to be embedded in decision making for overall development. Though a few companies have already begun their sustainability journey, sustainable development still remains a topic that is more often talked about rather than being practiced.

From the above presented cases, it can be noted that there is a common action which is followed by these companies for integrating sustainability in their business. This involves analyzing the significant factors, absorbing sustainability, integrating it and finally innovating new products and services through the culture of sustainability built as a result of integration. This model may well be easily replicated by other growing companies to develop new and innovative products and services which hold key to solving tomorrow's problems.

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